

Progress Report

Shiqi Chen

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In the first two terms of this year, I was working on the first draft of the first research project, which is a joint work with my supervisor Professor Bart Lambrecht. The paper's title is Financial Policies and Internal Governance with Heterogeneous Risk Preferences. The paper focuses on how heterogeneous in risk attitudes could potentially affect the corporate policies and the implication for internal governance. We consider a group of investors with heterogeneous risk preferences that determines a firm's investment policy, and each investor's compensation function. The optimal investment policy is a time-varying weighted average of investors' optimal policies and converges to the policy of the least (most) risk averse investor in booms (busts), reconciling the diversification of opinions hypothesis and the group shift hypothesis. The most (least) risk averse investor has a strictly concave (convex) claim on the firm's net worth. For intermediate risk preferences investors' claim is S-shaped, resembling preferred stock. We derive investors' utility weights absent wealth distribution and under social optimization.

We finished the first version of the paper and started to present it in seminars. We did presentations in Leeds Business School, University of Essex Business School and also CERF research lunch. We also started to submit the paper for conferences, and the paper has been accepted to the Real Option Conference that will take place in the upcoming June in London. The paper is also available on SSRN now.

Now I start to narrow down ideas for the second projects and hopefully that the topic could be finalized by the end of this month. My initial idea is to focus on how liquidity constraints could lead to different corporate behaviour when the decision is made by a group of investors instead of a representative agent. More work has to be done in order to finalize the topic.

Project Outputs

Title: Financial Policies and Internal Governance with Heterogeneous Risk Preferences

Authors: Shiqi Chen, Bart Lambrecht

Abstract: We consider a group of investors with heterogeneous risk preferences that determines a firm's investment policy, and each investor's compensation function. The optimal investment policy is a time-varying weighted average of investors' optimal policies and converges to the policy of the least (most) risk averse investor in booms (busts), reconciling the diversification of opinions hypothesis and the group shift hypothesis. The most (least) risk averse investor has a strictly concave (convex) claim on the firm's net worth. For intermediate risk preferences investors' claim is S-shaped, resembling preferred stock. We derive investors' utility weights absent wealth distribution and under social optimization.

SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3351802

Seminar Presentation: Leeds Business School (Feb 2019), Essex University Business School (Feb 2019), CERF research lunch seminar (March 2019)