The CERF Cavalcade
Wednesday 10th May 2023, 2.30 pm Room W201 CJBS

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14.30-14.40	**Welcome and Introductions - A word from the CERF Director Bart Lambrecht**
14.40-14.55	***Intervening against the Fed*** *Naoki Yago, CERF Scholar, Faculty of Economics* By identifying unexpected foreign exchange intervention (FXI) through deviations from estimated FXI rules, we study the interaction between US monetary policy surprises and FXI for exchange rates and stock prices across firms. We find that, without intervention, an unexpected Fed funds rate hike depreciates local currencies and decreases the stock price of firms, especially those whose debt is disproportionately denominated in US Dollars, consistent with the Global Financial Cycle literature. However, if central banks counteract by selling the US Dollar, the US monetary shock has a limited effect on the exchange rate and stock prices even for firms with US Dollar debt. These results suggest that FXI is a successful tool in muting the impact of the Global Financial Cycle.
14.55-15.10	***Why Do Investment Companies Abandon Sustainability?*** *Yuxia Zou, CERF Research Associate* This study examines an international sample of mutual fund companies that delisted themselves from United Nations-supported Principles for Responsible Investment (PRI) but continued to operate. I find that companies delist earlier when they do not realize their expected benefits in improving financial performance and portfolio sustainability scores, especially after they are mandated to provide standardized sustainability disclosures. Companies also delist earlier when they have fewer internal resources and less external support for sustainable investment. Based on companies' standardized sustainability disclosures, I find that companies are more likely to delist when they implement weaker management control systems. Collectively, these results suggest that only companies with internal and external business conditions to "do well by doing good" can afford to commit publicly to sustainable investment in the long term.
15.10-15.25	***Limited Liability and Investment*** *Xinyu Hou, CERF research Associate, CJBS* Does limited liability on damages improve social efficiency? I show that the efficient liability rule is determined by the tradeoff between damages to the tort claimants and benefits to the outside stakeholders (consumers, employees, suppliers, communities, governments, etc). Full liability induces efficient care but also increases marginal costs, inducing less-than-efficient scale. Limited liability improves scale but reduces care, which tends to be more efficient if the benefit from scale covers the damages from care, i.e. when the outside stakeholders have a larger potential value. As this potential value drops, full liability converges to first best and becomes more efficient. This result explains liability protection for firms and occupations that have natural monopoly power and is against liability protection for industries that have low market barrier. Since limited liability is not one-size-fits-all, it also opens up possibilities of other rules, for example requiring insurance for some activities, to adjust for cross-firm differences.
15.25-15.40	***Currency Derivative Instruments and Foreign Reserves Management: Evidence from Emerging Markets*** *Hormoz Ramian, CERF Alumni, University of Glasgow* We develop a causal framework to show that, first, currency derivatives volume increases when the future currency volatility is most predictable. Conversely, when future volatility exhibits extreme behaviour, companies' reliance on currency derivative instruments decline. Second, we re-examine this finding by measuring the risk premium associated with the derivative contracts and show that exogenous currency shocks to the risk premia drive the volume variations. Lastly, we present an empirical identification of the market equilibrium to investigate the implications of the extensive margins to explain the currency derivative volumes.

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15.40-15.55	***Returns to Education with Earnings Uncertainty and Employment Risk over the Life Cycle*** *Kai Liu, CERF Fellow, Faculty of Economics* The trade-off between risk and return plays a central role in empirical work on investment in physical capital. In contrast, this trade-off has received little attention in the empirical literature on investment in human capital. To date, there is little causal evidence on how education affects life-cycle earnings profiles, earnings uncertainty, and unemployment risk. Yet theory suggests these factors could be important both to accurately measure the returns to education, to explain the decision to invest or not in education, and to understand the observed earnings dynamics and inequality over the life-cycle. The primary contribution of our paper is to incorporate earnings uncertainty and employment risk in the empirical measurement of the returns to education. To do so, we first characterize the causal relationship between schooling and earnings over the life-cycle, following the same individuals across their working lifespan. This relationship allows us to draw conclusions about how additional schooling affects the level and dispersion of earnings over the life cycle. To try to disentangle uncertainty from heterogeneity, we next model the underlying earnings process, targeting the estimated causal relationship between schooling and earnings over the life-cycle. We then fit a life-cycle model with precautionary saving motive to the estimated earnings process and observed consumption profiles. The estimated model allows us to quantify how earnings uncertainty and employment risk affect the incentives to invest in education, and to examine the extent to which the progressive tax-transfer system distorts these incentives.
15.55-16.10	***IPO Price Formation and Board Gender Diversity*** *Raghu Rau, CERF manager and grant holder, CJBS* We study the relation between board gender diversity and initial public offering (IPO) price formation. We find that IPOs experience significantly greater underpricing when the firm's board has at least one female director on it, relative to when no women sit on the board. The underpricing effect is not attributable to differences in profitability, growth opportunities, CSR scores, CEO gender, director experience, or other firm, director, or underwriter characteristics. Instead, the underpricing effect appears to be driven by increased non-pecuniary institutional investor demand for board gender diversity over the most recent decade. Board gender diversity does not impact the initial file price of the IPO or the offer price adjustment, suggesting that institutional investors who are not invited to participate in the IPO book-building process are likely driving the underpricing effect. We find that the underpricing effect is attenuated for IPOs with underwriters that have relatively greater network centrality.
16.10-16.25	**Questions and Closing of the Cavalcade**