The 2nd CERF Cavalcade and The 28th CERF Managers Meeting

Wednesday 20th May 2014

Room W2.02	
11.00-11.15	**Welcome and Introductions - A word from the CERF Director** **Professor Bart Lambrecht**
11.15-11.30	**Nonparametric State Price Density Estimation using High Frequency Data** ***Mr. Jeroen Dalderop (Faculty of Economics)*** The state-price density (SPD) implicit in option prices can be estimated using nonparametric time series regression, as first done by Ait-Sahalia and Lo (1998). In this paper we exploit high frequency data to avoid the assumption of a time-invariant regression function, and instead estimate the SPD using a kernel regression locally around the time point of interest. Consistency and asymptotic normality are achieved using infill asymptotics, where we assume the traded strike prices to follow a mixing, locally stationary time series. To allow for random and possibly endogenous trading times, we generalize the results in Vogt (2012) towards sampling times described by point processes. We investigate a data driven choice of the sampling windows that automatically adapts to the speed of information flow in the market. In an application to S&P 500 E-mini European call and put options we discuss some stylized facts of the local-in-time cross-validated bandwidths.
11.30-11.45	**Do Compensation Consultants Enable Higher CEO Pay? New Evidence from Recent Disclosure Rule Changes** ***Dr. Jenny Chu (CJBS)*** In July 2009, the SEC announced additional disclosure rules requiring firms that purchase other services from their compensation consultants to disclose fees paid for both compensation consulting and other services. This exogenous requirement dramatically increased both the turnover of compensation consultants and the number of specialist firms. After the rule change, client firms that switched to specialist consultants paid their chief executive officers (CEOs) 7.4% more in median total compensation than a matched sample of firms that remained with multi-service consultants. Compensation consultants retained solely by the board are associated with 15.1% lower median pay levels than a propensity-score matched sample of firms with management-retained consultants. Moreover, firms where CEOs enjoy a greater increase in pay this year are less likely to turn over consultants the following year. Overall, our study finds strong empirical evidence for the hiring of compensation consultants as a justification device for higher executive pay.
11.45-12.00	**A Theory of Income Smoothing when Insiders Know More than Outsiders** ***Professor Bart Lambrecht (CERF & CJBS)*** We develop a theory of income and payout smoothing by firms when insiders know more about income than outside shareholders, but property rights ensure that outsiders can enforce a fair payout. Insiders set payout to meet outsiders' expectations and underproduce to manage future expectations downward. The observed income and payout process are smooth and adjust partially and over time in response to economic shocks. The smaller the inside ownership, the more severe underproduction is, resulting in an “outside equity Laffer curve."

12.00-12.15	**Capital Structure and REIT Firm Value** ***Dr Eva Steiner, (Department of Land Economy)*** We analyse the empirical relationships between corporate capital structure choices and REIT firm value. Our study differs from prior work in two major ways. First, we examine capital structure as a multi-dimensional choice problem that considers not only the amount of debt but a range of other characteristics as well. Secondly, in order to distinguish capital productivity from the cost of financial capital, we introduce a method for disentangling the effects of the real and financial sides of capital management. This method enables us to better analyse those capital structure factors that, separately and together, influence firm value through the firm's cost of financial capital. In an unconditional, multivariate analysis we find that maintaining low levels of debt makes the single most significant and robust contribution to REIT value. However, a prudent financing strategy that is additionally committed to managing interest rate risk through fixed-rate debt, and preserving debt capacity through unsecured borrowing, improves firm value further, reflecting the complementarity of the different dimensions of capital structure choices. Our subsequent conditional analysis shows that the relationship between secured debt, the amount of total leverage in place, and REIT value is more complex than has been documented to date. Here, we find novel evidence that secured debt may serve as a means to mitigate agency costs of underinvestment in high-growth firms.
12.15-12.30	**Does Bank Scope Improve Monitoring Incentives in Syndicated Lending?** ***Dr Farzad Saidi (CJBS)*** We propose a model to study the provision of monitoring incentives in loan syndicates when banks differ in scope. Because bank scope increases a bank's total exposure to firm performance beyond its loan share, banks of wide scope have incentives to monitor the firm even when they receive small loan shares. As such, they are more likely to be chosen as lead arrangers, yet receive comparatively small lead shares. We confirm these predictions empirically by exploiting the repeal of the Glass-Steagall Act. Our findings suggest that the observed increases in syndicated-loan volumes and simultaneous decreases in lead shares over the last two decades are not associated with losses in monitoring efficiency.
12.30 – 12.45	**An investigation into Multivariate Variance Ratio Statistics and their application to Stock Market Predictability** ***Professor Oliver Linton (INET)*** *with Seok Young Hong and Hui Jun Zhang* We propose several multivariate variance ratio statistics. We derive the large sample distribution of the statistics under the null hypothesis that returns are unpredictable after a constant mean adjustment (i.e., under the weak form Efficient Market Hypothesis). We do not impose the no leverage assumption of Lo and MacKinlay (1988) but our standard errors are relatively simple and in particular do not require the selection of a bandwidth parameter. We extend the framework to allow for a time varying risk premium through common systematic factors. We show the limiting behaviour of the statistic under a multivariate fads model and under a moderately explosive bubble process: these alternative hypotheses give opposite predictions with regards to the long run value of the statistics. We apply the methodology to weekly returns for CRSP size-sorted portfolios from 1962 to 2013 in three subperiods. We find evidence of a reduction of linear predictability in the most recent period, for small and medium cap stocks, but we still reject the multivariate null hypothesis in the most recent period. The main findings are not substantially affected by allowing for a common factor time varying risk premium.
12.45-13.00	**Questions and Closing of the Cavalcade**

Room W4.03	
13.00 – 14.00	**Lunch for the CERF Managers**
14.00 – 16.00	**CERF Managers Meeting**