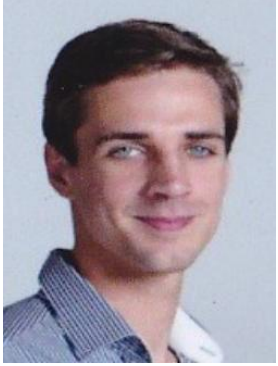|	
14.30-14.40	**Welcome and Introductions - A word from the CERF Fellow** **Dr Chryssi Giannitsarou**
14.40-14.55	***Estimating Policy Functions Implicit in Asset Prices*** Jeroen Dalderop (Faculty of Economics), CERF PhD Scholar 2013-2016 I propose a semiparametric asset pricing model to measure how consumption and dividend policy depends on unobserved state variables, such as economic uncertainty and risk aversion. Under a flexible specification of the stochastic discount factor, the state variables are recovered from cross-sections of asset prices and volatility proxies, and the shape of the policy functions is identified from the pricing functions. The model leads to closed-form price-dividend ratios under polynomial approximations of the unknown functions and affine state variable dynamics. In the empirical application uncertainty and risk aversion are separately identified from the heterogeneous impact of uncertainty on dividend policy across small and large firms. I find an asymmetric and convex response in consumption (-) and dividend growth (+) towards uncertainty shocks, which together with moderate uncertainty aversion, can generate large leverage effects and divergence between macroeconomic and stock market volatility.
14.55-15.10	***Public Firm CEO Pay Premium: International Evidence*** Jisok Kang (CJBS), CERF Research Associate We investigate the CEO pay gap between public and private firms for 30 countries. We, first, document that Public firm CEOs are paid more than private firm CEOs. We then test two competing hypotheses on public firm CEO compensation using private firm CEO pays as a benchmark and governance reform events as a natural experiment setting. The entrenchment hypothesis predicts that the CEO pay gap will decrease after the governance reforms since the reforms enforces stronger controls and checks on CEOs. The optimal contracting hypothesis, on the contrary, expects the opposite since the reforms will put more risks and responsibilities on CEOs. We find the pay gap has been widened after the reforms, which supports the optimal contracting view.

The 5th CERF Cavalcade
Wednesday 23rd May 2018, 2.30 pm, Room W2.02, Cambridge Judge Business School

15.10-15.25	***Currency regime and the Carry Trade*** Jason Cen (University of Essex, formerly CJBS) Co-authors: Olivier Accominotti, LSE; David Chambers, University of Cambridge; Ian W. Marsh, City, University of London Carry trade returns vary across fixed and floating currency regimes. Over the last century, outsized carry returns occur exclusively in the floating regime, being zero in the fixed regime. The absence of skewness in floating carry returns rules out a skewness-based explanation for this result. Fixed-to-floating regime shifts deliver negative return shocks to the floating carry strategy, even when controlling for volatility risk. Our results provide a novel explanation for the average excess returns to the unconditional carry trade over the long-run.	
15.25 – 15.40	***Observing the Unobservable: Unique Assets, Quality Uncertainty and Noisy Prices*** Thies Lindenthal (Department of Land Economy, CERF Fellow) This research suggest a machine learning (ML) approach to estimate a property's "uniqueness" and the associated uncertainty about the assets quality that market participants are facing. The main argument is: for buildings with many unique attributes, buyers and sellers have less information to base any bids or ask prices on since there are fewer sales of comparable buildings. Thus, asset uniqueness leads to noisy prices and increases the emergence of simplistic price heuristics and behavioural biases. The transaction level noise permeates into price indices estimated for thin markets, impairing the reliability of aggregate benchmarks.	

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15.40-15.55	*Government Debt Management: the long and the short of it* Elisa Faraglia (Faculty of Economics), CERF Fellow The optimal Debt Management (DM) literature concludes that the covariance of long bond prices with fiscal deficits justifies a dominant role for long bonds and that when long and short bond positions are time varying they are negatively correlated. An important, but unheralded, assumption in this literature is that each period governments repurchase all outstanding long bonds and immediately reissue (r/r) new long bonds. We show that all these features are in sharp contrast to basic features of observed DM in the US where the share of short bonds is large and persistent, short and long bond positions are positively correlated and r/r operations have been very rare. From the DM literature one could derive the normative implications that governments should issue fewer short bonds and they should engage in r/r operations but these implications would only be valid if they are robust to reasonable variations in market settings. To investigate this we systematically examine optimal DM under various reasonable market frictions. We find that under incomplete markets and small transaction costs, calibrated to observed data, there is no role for repurchases and the share of short bonds should be significant and stable. Under no buyback long bonds introduce volatility of cash payments whilst short bonds are desirable as they smooth cash flows. We find a robust result that optimal DM under no buyback resembles the data much more closely than the conventional modelling assuming r/r. Solving incomplete market models with large dimensional state spaces is challenging so we introduce a computational method that enables the efficient global solution of optimal portfolio models under incomplete markets with multiple assets.
15.55-16.10	*High-dimensional cointegration* Alexey Onatskiy (Cambridge-INET) We study cointegration in panels with comparable cross-sectional and temporal dimensions. The large cross-sectional dimension yields previously unknown analytic relationships between main components of the likelihood based tests for cointegration. We use these relationships to: i) propose a simple graphical device for cointegration detection in high dimensions, ii) explain theoretically the failure of the classical tests for cointegration, iii) derive new correction formulae for the classical tests.
16.10-16.30	**Questions and Closing of the Cavalcade**