# The 8th CERF Cavalcade
# Wednesday 5th May 2021, 2.30 pm, online via Zoom

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| 14.30-<br>14.40 | **Welcome and Introductions - A word from the CERF Director Bart Lambrecht** |
| 14.40-<br>14.55 | ***Industry Dynamics and Capital Structure (Non)Commitment***<br>*Shiqi Chen (Cambridge Judge Business School), CERF Research Associate*<br><br>Abstract: We develop a competitive equilibrium model of leverage and industry dynamics absent of equity holders' commitment to future debt levels. Shareholders determine the debt adjustment together with production, entry and exit decisions in response to firm-specific technology shocks. Non-commitment gives rise to debt issuance, which increases the cost of debt financing. Consequently, the entry barrier is raised, hindering entries into the market. Meanwhile, the resultant higher output price alleviates debt- equity conflicts for firms already in the industry. More importantly, non-commitment increases the mass of high-leverage firms, reshaping the distribution of the firm universe and escalating industry turnover and leverage. The results are aligned with empirical distribution features, suggesting debt-equity conflicts at the firm level can have a profound influence on industry dynamics. |
| 14.55-<br>15.10 | ***Climate Change and Equity Returns: Do Environmentally Friendly Stocks Outperform?***<br>*Mehrshad Motahari (Cambridge Judge Business School), CERF Research Associate*<br><br>Abstract: Our study explores whether the stocks of environmentally friendly (green) firms outperform those of environmentally unfriendly (brown) firms and, if so, when and why. Specifically, we investigate the presence of this outperformance during times of crisis including the Global Financial Crisis and the recent Covid-19 pandemic period. Our conjecture is that environmentally friendly stocks show resilience to adverse shocks because of the robust excess demand for their stocks generated by socially responsible investors. This resilience is expected to be stronger for stocks that are more likely to attract socially responsible investors such as those headquartered in regions where residents are more concerned about climate change. |
| 15.10-<br>15.25 | ***Ad-venture capitalism – ethical experimentations in the wild west of venture capital investing***<br>*Johannes Lenhard (Department of Social Anthropology), CERF Grant holder*<br><br>Abstract: Venture capitalists who exchange capital for equity of start-up tech companies have been filtering what our digital economy looks like for five decades. On the one hand they are financial investors who manage their limited partners' (LPs) money, from pension funds and university endowments to foundations and family offices. They are hence bound by fiduciary duty to work towards financial returns for their LPs. What I call their 'triple north star' is also influenced by their own monetary motivation as well as the goal to achieve the survival of the fund. On the other hand, however, the VC industry lacks institutional structures and agreed upon rules of professional conduct. Decision-making is driven not mainly by quantitative data, but mostly by relationships and networks and by what Keynes calls 'animal spirits', from excitement to gut feeling. Decision-making happens in an arena of ethical experimentation. Based on ethnographic fieldwork and interviews with VCs between Silicon Valley, London and Berlin, in this paper, I focus in the first part of the paper on painting a more nuanced picture of the ethical horizon of VCs beyond the profit motive. In the second part, I describe decision making in the 'wild west' of venture capital – how do they work towards reaching their ethical goals. Understanding how venture capitalists experiment and decide between ethical goals, which include but are not limited to achieving outsized returns, is crucial for unravelling how the economy of tomorrow comes into being. |

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**15.25-15.40**

***Auditor University Education: Does it matter?***

*Jenny Chu, (Cambridge Judge Business School), CERF Grant holder*

Abstract: We examine the implications of auditor education for audit quality and audit pricing. We exploit a novel institutional setting in the UK, where auditors major in many different degrees at university and signing auditors are identifiable. Using hand-collected data for a large sample of signing auditors, we establish two main findings. First, auditors whose degrees have a quantitative orientation are associated with higher accruals quality and higher audit fees than those with more qualitative degrees. Second, auditors with degrees directly relevant to accounting are also associated with higher accruals quality and increased audit fees relative to auditors with unrelated university degrees in qualitative subjects. Overall, our study provides evidence that heterogeneity in auditor education is associated with divergent audit outcomes.

**15.40-15.55**

***Up the Hill and Down Again: Dual-Class Stock and the UK Listing Review***

*Bobby V Reddy, (Faculty of Law), CERF Fellow*

Abstract: The final recommendations of Jonathan Hill's UK Listing Review were published on 3 March 2021. The headline recommendation was that dual-class stock should be permitted on the premium-tier of the London Stock Exchange. The aspiration is to encourage more high-quality UK equity listings, particularly of high-growth tech-companies, for which dual-class stock is especially beneficial. Dual-class stock allows founders to list their firms, and retain majority-control, while holding significantly less of the cash-flow rights in the company. However, in an attempt to protect and placate institutional shareholders, who are generally sceptical of dual-class stock, various conditions have been recommended. This article finds that those conditions comprise a curious mix, some of which are too relaxed and do not substantially protect public shareholders, and some of which are too severe and could deter the very firms the proposals are intended to attract, resulting in dual-class stock in name but not substance.

**15.55-16.10**

***Social networks, confirmation bias and shock elections***

*Edoardo Gallo, (Faculty of Economics), CERF Fellow*

Abstract: In recent years online social networks have become increasingly prominent in political campaigns and, concurrently, several countries have experienced shock election outcomes. This paper proposes a model that links these two phenomena. In our set-up, the process of learning from others on a network is influenced by confirmation bias, i.e. the tendency to ignore contrary evidence and interpret it as consistent with one's own belief. When agents pay enough attention to themselves, confirmation bias leads to slower learning in any symmetric network, and it increases polarization in society. We identify a subset of agents that become more/less influential with confirmation bias. The socially optimal network structure depends critically on the information available to the social planner. When she cannot observe agents' beliefs, the optimal network is symmetric, vertex-transitive and has no self-loops. We explore the implications of these results for electoral outcomes and media markets. Confirmation bias increases the likelihood of shock elections, and it pushes fringe media to take a more extreme ideology.

**16.10-16.25**

**Questions and Closing of the Cavalcade**