

Report Type

Mid Term Award Report

Full Name

Dr. Jisok Kang

Your E-Mail Address

[j.kang@jbs.cam.ac.uk](mailto:j.kang@jbs.cam.ac.uk)

Faculty/Department

Cambridge Endowment for Research in Finance

Project Title

Research in International Finance

Project Start Date

Sep 05, 2016

Project End Date

Aug 31, 2018

Amount Awarded

0

Project Abstract

I study various finance-related (mostly corporate finance) issues in international settings. With a paper titled as "Does the Stock Market Benefit the Economy?" I examine whether and how concentrated stock markets dominated by a small number of large firms affect economic growth. In another paper, "Nominal Stock Price Anchors: A Global Phenomenon?" I investigate a curious pattern of nominal stock price fixation around the world. I am also working on two additional papers of which main topics are: 1. pay gap between public and private firm executives, and 2. stock market volatility and concentration.

Activities and Achievement

1. Does the Stock Market Benefit the Economy?

This paper has been presented at academic conferences and submitted to a journal and is now being under review.

This paper shows that an effectively functioning stock market allocates capital efficiently and provides sufficient funds to emerging, productive firms, which in turn breeds competition and innovation, ultimately fueling economic growth. This finding is important in terms of policy on stock market because it suggests evidence that stock market development is important for economic growth which has not yet well established in the literature.

2. Nominal Stock Price Anchors: A Global Phenomenon?

This paper has been presented at a academic conference and is being prepared for a journal publication.

I show that nominal prices of most stocks around the world tend to revert to their initial public offer (IPO) prices, using a large data set from 38 countries. I demonstrate that corporate actions, such as large dividend pay-outs and (reverse) stock splits, maintain these nominal stock price fixation. This paper may provide an answer on why nominal stock prices have been quite stable over a long period of time.

Dissemination

1. Does the Stock Market Benefit the Economy?

This paper is being under review at a finance journal.

Conference presentations: FMA Asia Pacific (July 2016), A Joint Conference for Academy of Entrepreneur Finance and Behaviour Finance (March 2017), International Conference of the Financial Engineering and Banking Society (June

2017, Scheduled), FMA Europe (June 2017, Scheduled).

This paper may influence policy makers and academics on the idea of how to develop stock markets to stimulate the economy and real economic sector.

## 2. Nominal Stock Price Anchors: A Global Phenomenon?

This paper is being prepared for a journal publication.

Conference presentations: Northern Finance Association (Sep. 2015), EFMA (June 2017, Scheduled).

This paper helps understand the stock price movements and an incentive for managers to execute corporate actions around the world.

### Outputs

#### 1. Does the Stock Market Benefit the Economy?

Abstract: An effectively functioning stock market allocates capital efficiently and provides sufficient funds to emerging, productive firms, which in turn breeds competition and innovation, ultimately fueling economic growth. In this paper, we show that concentrated stock markets dominated by a small number of large firms are functionally inefficient. Using data from 47 countries during 1989–2013, we find that capital is allocated inefficiently in countries with concentrated stock markets, which results in sluggish IPO activity, innovation, and economic growth.

web link: it is not available at this moment by a request from co-author.

#### 2. Nominal Stock Price Anchors: A Global Phenomenon?

Abstract: Weld, Michaely, Thaler, and Benartzi (2009) find that the average nominal stock price on the New York Stock Exchange and the American Stock Exchange has been approximately \$25 since the Great Depression. They report that this “nominal price fixation is primarily a U.S. or North American phenomenon.” Using a larger data set from 38 countries, we show that nominal prices of most stocks tend to revert to their initial public offer (IPO) prices. IPO prices are natural anchors because they are the first public prices observed by investors. We demonstrate that corporate actions maintain these nominal stock price anchors.

web link: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2583954](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2583954)

### Major Difficulties and Any Other Issues

None.

### Web Links

#### 1. Does the Stock Market Benefit the Economy?

web link: it is not available at this moment by a request from co-author.

#### 2. Nominal Stock Price Anchors: A Global Phenomenon?

web link: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2583954](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2583954)

### Additional Information

#### Declaration

This award has not yet produced any relevant outputs, but details of any future publications will be submitted to the CERF database as soon as they become available.

### Signature - Main Award Holder

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