



The 3rd CERF Cavalcade

Thursday 19th May 2016 2.30 pm – 5 pm, W4.03

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Room W4.03	
14.30-14.45	Welcome and Introductions - A word from the CERF Director Professor Bart Lambrecht
14.45-15.00	LOCAL BIAS AND EVANGELICAL INVESTORS <i>Raghu Rau (Cambridge Judge Business School)</i> <p>Prior research has documented that the distance to local firms significantly affects investment. We document the presence of evangelical investors, investors who buy more securities, attend firm events and invest more frequently. The distance to these investors is a stronger determinant to invested amounts than simply the distance to the firm.</p>
15.00-15.15	TESTING KEY VALUATION BENCHMARKS FOR 'IRRATIONALITY' DURING THE GLOBAL FINANCIAL CRISIS <i>Rasheed Saleuddin (Faculty of History)</i> <p>During the depths of the global financial crisis of 2008-2009, many holders of subprime mortgage securitizations and derivatives were forced to mark their investments to fair values based on observable prices in index credit default swap markets. Recent research has claimed that crisis pricing of such 'ABX' indices referencing subprime securities can not be explained by a fundamental analysis of the underlying markets, often concluding that marking portfolios to such 'irrational' benchmarks may have contributed to severe distress in the financial sector. By modelling investor expectations, this paper shows that ABX prices reflected a significant 'rational' fundamental component throughout the crisis, and this effect is present irrespective of the fundamental model used, while also being robust to parameter variability. As such, it is difficult to conclude that ABX prices were not based on fundamentals, except perhaps during the absolute depths of the markets, and even then only with hindsight. I therefore suggest that such benchmarks must be considered reasonable, though imperfect, guides for determining fair value. If fact,</p>





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	leverage provided to, and capital charges attracted by, subprime investments relied on instantaneous liquidity at prices close to current market values. As such, fair value accounting in these situations is far from an inappropriate approach	
15.15-15.30	<p>NOISY RATIONAL BUBBLES</p> <p><i>Qiusha Peng (CERF, Cambridge Judge Business School)</i></p> <p>This paper develops a theory of asset price dynamics during bubble-like episodes. In the model, noise trading breaks the winner's curse and leads to overpricing. Over time, investors gradually learn and asset prices tend to fall toward the fundamentals. Importantly, however, investors also update their expectation about the average precision of new information. This mechanism works to drive prices farther away from the intrinsic value. Finally, the model also allows for gradual investor inflows greatly amplifying predicted price movements. Numerical simulations show the model can produce various bubble-like events.</p>	
15.30-15.45	<p>OPTIMAL SAVINGS SCHEMES</p> <p><i>Christopher Harris (Cambridge – INET, Faculty of Economics)</i></p>	

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15.45-16.00	<p>INFORMATIVE SOCIAL INTERACTIONS</p> <p><i>Chryssi Giannitsarou (Faculty of Economics)</i></p> <p>We design, field and exploit novel survey data, from a representative sample of the French population in December 2014 and May 2015, that provide insights regarding two channels via which social interactions may generally affect financial decisions. The first is a pure information effect, which arises solely from communicating and disseminating information to and from friends and acquaintances. The second is an imitation effect, broadly understood as comprising of social norm effects, complementarities, fads, etc. We find that both effects are positive, sizable and significant. The more and better informed about the stock market members of respondents' social circles are, the higher the share of respondents' financial wealth is invested in the stock market (information), in accordance to theoretical predictions. The same effect is found for more members of respondents' circles participating in the stock market (imitation). In the latter case however, we only find evidence of selective imitation, by identifying a positive and significant effect coming only from a subset of respondents' social circle with whom respondents interact regarding financial matters. These findings suggest that both directly and indirectly informative social interactions are important for financial behavior and stock market participation.</p>	
16.00 – 16.15	<p>DIRECTORS AS CONNECTORS: THE IMPACT OF THE EXTERNAL NETWORKS OF DIRECTORS ON FIRMS</p> <p><i>Bang Dang Nguyen (Cambridge Business School)</i></p> <p>The external networks of directors significantly impact firm value and decisions. Surrounding close gubernatorial elections, local firms with directors connected to winners increase value by 4.1% over firms connected to losers. Director network's value increases with network strength and activities, and is not due to network homophily. Connected firms are more likely to receive state subsidies, loans, and tax credits. They obtain better access to bank loans, borrow more, pay lower interest, invest and employ more, and enjoy better long-term performance. Network benefits are concentrated on connected firms, possibly through quid pro quo deals, and unlikely spread to industry competitors.</p>	
16.15-16.45	Questions and Closing of the Cavalcade	