FIN 702: Seminar in International Investments – Fall 2015

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Class Meeting: Tuesday, 3:00 p.m. – 5:45 p.m. Classroom: BUSAD D 204
Office Hours: Tuesday 10:30 a.m. – 11:45 a.m. or by appointment

Course Objectives

Investment is one of the most important functional areas in finance. The academic research in this area has been rich and vigorous. The main objectives of the seminar course are to (i) introduce students to the foundations of modern investments and its key paradigms, (ii) assist students to develop a critical perspective on the literature, and (iii) provide students with an opportunity to identify viable research ideas.

Among other, the tentative topics will include empirical asset pricing tests, characteristics of asset returns (challenge or support to market efficiency), behavioral finance, mutual funds, international finance, derivative securities, financial institutions, investment issues related to corporate finance/financial accounting, and issues in the overlapping areas of economics and finance.

Course Content and Expectations

The course material for this class is drawn exclusively from original, published and unpublished research papers. Students should fully participate in the class discussions. While one or more students will make presentations in class, other students should read the papers to be discussed before class. Each presentation should focus on important issues in the paper. For many papers, the academic contributions, results, and implications are the most important aspects. In particular, how did the authors position their paper in the literature? What are the motivation and contribution of the paper? An equally important issue is the empirical execution, i.e., the route (methodology) the authors take to their conclusion. Last but not the least, we should learn how the authors handled exposition. If a paper is theoretical, the model and its intuition should be presented. To help the audience understand the motivation of a paper, presenters should briefly discuss the relevant background papers.

Reference Books:

There is no required textbook for this course. The following books may serve as reference books for theory and empirical methods.

Term Project

In addition to reading, presenting and participating in the discussion of selected papers, each student should complete an original research project or at the minimum, a detailed research proposal that include the motivation, summary of related work, proposed methodology, description of data (if the research is empirical), outline of model (if the research is theoretical) and expected contribution to the literature.

Final Exam

There will be one take-home final exam. Among others, the final exam will include specific questions about the papers discussed in the class. For PhD students with finance concentration, the final exam will help you prepare for the comprehensive exam.

Evaluation

Your final grade will be based on the following:

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<th>Component</th>
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Tentative Course Outline and Reading List (*Papers for presentation are generally chosen from the highlighted ones; changes may be made during the semester*)

1. Asset Pricing

1) Selected Background Papers:


2) *Some Further Work in Cross-Section of Asset Pricing Tests*


Zhi Da, Cash Flow, Consumption Risk, and the Cross-Section of Stock Returns *Journal of Finance*, 2009, 64, 2, Pages: 923-956

Juan Pedro Gomez, Instituto de Empresa, Fernando Zapatero, University of Southern California, Richard Priestley, Norwegian School of Management (BI), *The Effect of Relative Wealth Concerns on the Cross-Section of Stock Returns*, AFA 2009 working paper


ANDREA L. EISFELDT, DIMITRIS PAPANIKOLAOU, Organization Capital and the Cross-Section of Expected Returns, *Journal of Finance*, 2013, August, 68, 4, pages 1365-1406


"Informed Trading and Expected Returns," James Choi, Yale School of Management
Li Jin, Oxford University, Hongjun Yan, Yale School of Management, AFA 2014

Scott Richardson, London Business School, Pedro Saffi, University of Cambridge
Kari Sigurdsson, Reykjavik University, *Deleveraging Risk*, AFA 2014


Kweii Hou, Ohio State University (OSU), Marta Szymanowska, Erasmus University Rotterdam (EUR), *Commodity-based Consumption Tracking Portfolio and the Cross-section of Average Stock Returns*, AFA 2014

Joseph Gerakos, Juhani Linnainmaa, University of Chicago Booth School of Business, *Confounded Factors*, AFA 2014


NILS FRIEWALD, CHRISTIAN WAGNER, and JOSEF ZECHNER, The Cross-Section of Credit Risk Premia and Equity Returns, *THE JOURNAL OF FINANCE* • VOL. LXIX, NO. 6 • DECEMBER 2014

TOBIAS ADRIAN, ERKKO ETULA, and TYLER MUJR, Financial Intermediaries and the Cross-Section of Asset Returns, TOBIAS ADRIAN, ERKKO ETULA, and TYLER MUJR, *THE JOURNAL OF FINANCE*, VOL. LXIX, NO. 6, DECEMBER 2014

Kevin Tseng, Northwestern University, Knowledge Network and the Cross-Section of Expected Returns, WFA 2015

Darien Huang, Cornell University, Gold, Platinum, and Expected Stock Returns, WFA 2015
3) Asset Pricing – Beyond Stocks


Joshua Coval, Jakub Jurek, and Erik Stafford, Harvard University, Economic Catastrophe Bonds, WFA 2008 working paper.

Geert Bekaert, Columbia University, Columbia Business School - Economics Department, Lieven Baele, Tilburg University, Koen Inghelbrecht, Ghent University, The Determinants of Stock and Bond Return Comovements, AFA 2009 working paper


2. Characteristics of Asset Prices (Support or Challenges to Market Efficiency)

1) Speculation, Overreaction, Mean Reversion, Momentum / Contrarian Strategies


MIGUEL ANTON and CHRISTOPHER POLK Connected Stocks, THE JOURNAL. OF FINANCE, VOL. LXIX, NO. 3, JUNE 2014, 1099-1127

Da, Zhi; Gurun, Umit G.; Warachka, Mitch, Frog in the Pan: Continuous Information and Momentum, Review of Financial Studies, Jul2014, Vol. 27 Issue 7, p2171-2218

Hillert, Alexander; Jacobs, Heiko; Müller, Sebastian, Media Makes Momentum, Review of Financial Studies, Dec2014, Vol. 27 Issue 12, p3467-3501


Chin-Han Chiang, Wei Dai, Jianqing Fan, Harrison Hong, Jun Tu, When Everyone Misses on the Same Side: Debiased Earnings Surprises and Stock Returns, Working paper, WFA 2015

2) Volatility, Volume, and Liquidity


Chan, Kalok, Peter Chungm and Wai Ming Fong, 2002, Informational role of stock and option volume, Review of Financial Studies, 15, 1049-1075

Dan Dhaliwal and Oliver Zhen Li, 2006, Investor tax heterogeneity and ex-dividend day trading volume, Journal of Finance, 61,1,463-490.


OLIVER BOGUTH, LARS-ALEXANDER KUEHN, Consumption Volatility Risk, Journal of finance, December 2013, 68, 6, pages 2589-2615


Travis Johnson, University of Texas-Austin Eric So, Massachusetts Institute of Technology, Earnings Announcement Premia: The Role of Asymmetric Liquidity Provision, WFA 2015

3) Idiosyncratic Risk


ROBERT F. STAMBAUGH, JIANFENG YU, and YU YUAN, Arbitrage Asymmetry and the Idiosyncratic Volatility Puzzle, THE JOURNAL OF FINANCE, forthcoming

4) Event Based Stock Price Reactions

i) Stock Price Reactions to Large Block Trades


ii) Stock Price Reactions to Announcements of Secondary Equity Offerings


iii) Stock Price Reactions to Announcements of Corporate Investment Decisions
iv) Stock Price Reactions to Macro Economic News and other Information


vi) Stock Price Reactions to Announcements of Index Additions and Deletions


5) Predictability of Stock Return


Ralph Koijen, New York University and Jules van Binsbergen, Duke University, Predictive Regressions: A Present-Value Approach. WFA 2008 working paper. (awarded the best paper in empirical investments)


6) Correlation, Autocorrelation / Cross autocorrelation of Stock Returns


7) Trading Frictions and Asset Prices


Melissa Prado, Nova School of Business and Economics, Pedro Saffi, University of Cambridge, Jason Sturgess, DePaul University, *Ownership Structure, Limits to Arbitrage and Stock Returns: Evidence from*
**Equity Lending Markets, AFA 2014**


**8) Selected Issues in Asset Pricing Anomalies**


3. Bubbles, Financial Distress, and Downside Risk


4. Behavioral Finance


Malmendier, Ulrike and Tate, Geoffrey, 2005, CEO overconfidence and corporate investment, Journal of Finance, 6, 2661-2700.


“No News is News: Do Markets Underreact to Nothing” Stefano Giglio and Kelly Shue, University of Chicago Booth School of Business, AFA 2014

Michael Dzielinski, University of Zurich, Henrik Haseltoft, University of Zurich, “Why Do Investors Disagree? The Role of a Dispersed News Flow” AFA 2014


Andrei, Daniel; Hasler, Michael, Investor Attention and Stock Market Volatility, Review of Financial Studies, Jan 2015, Vol. 28 Issue 1, p33-72


5. Mutual Funds and Asset Management

1) Mutual Fund Performance


Xi Dong, INSEAD, Massimo Massa, INSEAD, *Excess Autocorrelation and Mutual Fund Performance*. AFA 2014


2) *Fund Styles, Characteristics, Fund Flows, and Fund Performance*


M. Cooper, H. Gulen, and RAGHAVENDRA RAU, “Changing names with style: Mutual fund name changes and their effects on fund flows”, *Journal of Finance, 60* (6), 2825-2858, 2005.


MARCIN KACPERCZYK, STIJN VAN NIEUWERBURGH, LAURA VELDKAMP, Time-Varying Fund Manager Skill, Journal of Finance, Forthcoming

Honghui Chen, University of Central Florida, Hemang Desai, Southern Methodist University, and Srinivasan Krishnamurthy, SUNY, Binghamton University, An Empirical Investigation of Short-Selling by Actively Managed Mutual Funds, WFA 2008 working paper.

Zhi Da, University of Notre Dame, Pengjie Gao, University of Notre Dame, and Ravi Jagannathan, Northwestern University, Informed Trading, Liquidity Provision, and Mutual Fund Stock Selection WFA 2008 working paper.

Zhi Da, University of Notre Dame, Pengjie Gao, University of Notre Dame, Ravi Jagannathan, Northwestern University, When Does a Mutual Fund’s Trade Reveal its Skill?, AFA 2009 working paper

Ralph S.J. Koijen, University of Chicago, The Cross-Section of Managerial Ability and Risk Preferences, AFA 2009 working paper


Mark Kamstra, York University, Lisa Kramer, University of Toronto, Maurice Levi, University of British Columbia (UBC), Russ Wermers, University of Maryland Seasonal Asset Allocation: Evidence from Mutual Fund Flows, AFA 2014

Nichola Gennaioli, University of Pompeu Fabra, Andrei Shleifer, Harvard University, and Robert Vishny, University of Chicago, Money Doctors, AFA 2014

Darwin Choi, Hong Kong University of Science & Technology, Bige Kahraman, Stockholm School of Economics, Abhiroop Mukherjee, Hong Kong University of Science & Technology Performance-Chasing Behavior and Mutual Funds: New Evidence from Multi-Fund Managers, AFA 2014

Oleg Chuprinin, University of New South Wales, Sergio Gaspar, INSEAD, Massimo Massa, INSEAD, Mutual Funds and Trading on Information Tangibility, AFA 2014

Zhi Da, University of Notre Dame, Sophie Shive, University of Notre Dame, When the bellwether dances to noise: Evidence from exchange-traded funds, AFA 2014

Ranadeb Chaudhuri, Oakland University, Zoran Ivkovich, Michigan State University, Joshua Pollet, University of Illinois at Urbana-Champaign, Charles Trzcinka, Indiana University, What a Difference a Ph.D. Makes: More than Three Little Letters, AFA 2014


MARCIN KACPERCZYK, STIJN VAN NIEUWERBURGH, and LAURA VELDKAMP, Time-Varying Fund Manager Skill, THE JOURNAL OF FINANCE, VOL. LXIX, NO. 4, AUGUST 2014

Lubos Pastor, University of Chicago Robert Stambaugh, University of Pennsylvania Lucian Taylor, University of Pennsylvania, Do Funds Make More When They Trade More? WFA 2015

6. Selected Issues in International Finance

1) Market Liberalization, Home bias, Segmentation vs. Integration, Foreign Exchange Rate Risk and Global Pricing


Griffin, John, 2002, Are the Fama and French factors Global or country specific? Review of Financial Studies, 15, 783-803


Pasquale Della Corte, Imperial College Business School, Tarun Ramadorai, University of Oxford
Lucio Sarno, City University London, Volatility Risk Premia and Exchange Rate Predictability, AFA
2014

Adrian Buss, INSEAD, Capital Controls and International Financial Stability, AFA 2014

2) International Diversification and Portfolio Holdings

Grubel, Herbert G., 1968, Internationally diversified portfolios: welfare gains and capital flows, American
Economic Review 58(5), 1299-1314.

H. Levy and M. Sarnat, International Diversification of Investment Portfolios, American Economic

Bruno H. Sonic, Why not diversify internationally rather than domestically? Financial Analyst Journal,
July/August 1974, 48-54.

Richard Roll, “Industrial structure and the comparative behavior of international stock marked indexes”,

S. Heston and G. Rouwenhorst, Does industrial structure explain the benefits of international

Journal of International Money and Finance 14, 3-26.


Errunza, Vihang, Ked Hogan, and Mao-Wei Hung, 1999, Can the gains from international diversification
be achieved without trading abroad?, Journal of Finance 54, 2075-2107.

R. Gaston Gelos and Shang-Jin Wei, 2005, Transparency and international portfolio holdings, Journal of
Finance, 60, 6, 2987-3020.

correlations, Journal of Business, 78 1 (2005), 1-38

Cheol S. Eun, Wei Huang, and Sandy Lai, “International Diversification with Large- and Small-cap

3) Cross-border listing, Cross-border M&A


I. Werner and A. Kleidon, “U.K. and U.S. trading of British cross-listed stocks: An intraday analysis of

I. Domowitz, J. Glen, and A. Madhavan, “International cross-listing and order flow migration: Evidence


John Ammer, Sara B. Holland, David Smith, and Francis E. Warnock, *Look at me now: The role of cross-listing in attracting U.S. investors*, 2006, AFA working paper


### 4) Cross-border (Portfolio) Investment and Country Funds


5) Studies Using Country-Specific or Cross-Country Data


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6) Issues related to International Corporate Governance


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Andrew Ellul, Indiana University, Marco Pagano, Università di Napoli Federico II, Fabiano Schivardi, LUISS University of Rome, *Risk-Sharing within Firms: Worldwide Evidence*, AFA 2014


7) *International Market Microstructure*


**7. Issues Related to Banking and Financial Intermediation**


Plantin, Guillaume, Shadow Banking and Bank Capital Regulation, Review of Financial Studies, Jan2015, Vol. 28 Issue 1, p146-175


33
Liangliang Jiang, Lingnan University-Hong Kong, Ross Levine, University of California-Berkeley, Chen Lin, University of Hong Kong, Competition and Bank Opacity, WFA 2015

Matej Marinč, University of Ljubljana, Faculty of Economics, Demand Deposits and Bank Monitoring, WFA 2008 working paper

Sumit Agarwal, Federal Reserve Bank of Chicago and Robert Hauswald, American University, Distance and Information Asymmetries in Lending, WFA 2008 working paper

Mariassunta Giannetti, Stockholm School of Economics, Steven R.G. Ongena, Tilburg University, 'Lending by Example': Direct and Indirect Effects of Foreign Banks in Emerging Markets, AFA 2009 working paper.

Sanjai Bhagat, University of Colorado at Boulder, Brian J. Bolton, University of New Hampshire Corporate Governance and Company Performance, AFA 2009 working paper.


Tara Rice, Board of Governors of the Federal Reserve System, Philip E. Strahan, Boston College, Does Credit Supply Affect Small-Firm Finance? AFA 2009 working paper

Allen Berger, University of South Carolina, Sadok El Ghoul, University of Alberta, Omrane Guedhami, University of South Carolina, Raluca Roman, University of South Carolina, Bank Internationalization and Risk Taking, AFA 2014

Victoria Ivashina, David Scharfstein, Jeremy Stein, Harvard University, Dollar Funding and the Lending Behavior of Global Banks, AFA 2014

8. Investment Issues Related to Corporate Culture, Financial Analysts, Earnings Management, etc.


Modupe Wintoki, James Linck, and Jeffry Netter, *University of Georgia,* Endogeneity and the Dynamics of Corporate Governance, WFA 2008 working paper.


Anup Agrawal, University of Alabama, Tommy Cooper, Kansas State University *Corporate Governance Consequences of Accounting Scandals: Evidence from Top Management, CFO and Auditor Turnover,* AFA 2009 working paper.


Anton Miglo, University of Guelph, *Can Earnings Manipulation Create Value?*, AFA 2009 working paper.


Paolo Fulghieri, University of North Carolina at Chapel Hill, Merih Sevilir, Indiana University, *Asset Complementarities, Mergers and Synergies,* AFA 2014.

Laurent Fresard, University of Maryland, Gerard Hoberg, University of Maryland Gordon Phillips, University of Southern California (USC), *The Incentives for Vertical Mergers and Vertical Integration,* AFA 2014.
Martin Strieborny, Madina Kukenovaz, Lund University, Investment in Relationship-Specific Assets: Does Finance Matter? AFA 2014


Brent Glover, Carnegie Mellon University, Oliver Levine, University of Wisconsin-Madison, Idiosyncratic Risk and the Manager, AFA 2014

Michael McDonald, University of Tennessee, Politically-Connected Analysts, AFA 2014

John Graham, Duke University, Hyunseob Kim, Cornell University, Si Li, Wilfrid Laurier University, Jiaping Qiu, McMaster University, Human Capital Loss in Corporate Bankruptcy, AFA 2014


Stephen Dimmock, Nanyang Technological University (NTU), William Gerken, University of Kentucky, Zoran Ivkovich, Michigan State University, Scott Weisbenner, University of Illinois at Urbana-Champaign, Locked-in to Govern: How the Capital Gain of a Stock Holding Affects a Mutual Fund’s Voting Decision, AFA 2014

Casey Dougal, University of North Carolina at Chapel Hill, Christopher Parsons, University of California, San Diego (UCSD), Sheridan Titman, University of Texas at Austin, Urban Vibrancy and Corporate Growth, AFA 2014

Paul Ehling, BI, Norwegian Business School, Avner Kalay, University of Utah, Shagun Pant, University of Iowa, Agency and Corporate Purchase of Insurance, AFA 2014


Roger Loh, Singapore Management University, Rene Stulz, Ohio State University (OSU), Is Sell-Side Research More Valuable in Bad Times? AFA 2014

Kenneth Merkley, Roni Michaely, Joseph Pacelli, Cornell Univ, Does the Size of Sell-Side Analyst Industry Matter? An Examination of Bias, Accuracy and Information Content of Analyst Reports, AFA 2014

Byoung-Hyun Hwang, Purdue University, Jose Liberti, DePaul University, Jason Sturgess, DePaul University, On the Performance of Financial Analysts, AFA 2014


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9. Derivatives Securities

1) Options


The Information in Option Volume for Stock Prices, WFA 2004, Jun Pan , MIT, Allen Poteshman , University of Illinois, Urbana-Champaign


BYEONG-JE AN, ANDREW ANG, TURAN G. BALI, and NUSRET CAKICI, The Joint Cross Section of Stocks and Options THE JOURNAL OF FINANCE , VOL. LXIX, NO. 5, OCTOBER 2014


2) Futures


Information, Trading and Volatility: Evidence from Weather-Sensitive Markets, WFA 2004, Jeff Fleming, Rice University, Chris Kirby, University of Texas, Dallas, Barbara Ostdiek, Rice University

Wenjin Kang, Renmin University of China K. Geert Rouwenhorst, Yale University Ke Tang, Renmin University of China, The Role of Hedgers and Speculators in Liquidity Provision to Commodity Futures Markets, WFA 2015

3) Risk Management


10. **Market Microstructure**

1) *Bid-Ask Spreads, Market Makings, Order Routing Competitions, and Order Flows*


Schnitzelein, Charles, 2002, Price formation and market quality when the number and presence of insiders is unknown, Review of Financial Studies, 15, 1077-1109


A Comprehensive Test of Order Choice Theory: Recent Evidence from the NYSE, WFA, 2004, Andrew Ellul, Indiana University, Craig W. Holden, Indiana University, Pankaj Jain, University of Memphis, Robert Jennings, Indiana University

Specialist Profits and the Minimum Price Increment, WFA 2004, Jay F. Coughenour, University of Delaware, Lawrence E. Harris, University of Southern California and SEC


2) Market Transparency and OpenBook


3) Tick Size


4) Microstructure & Asset Pricing – The intersection


11. Issues on Financial Crisis, Credit Rating, Household Finance, Real Estate Finance, and etc


Cesare Fracassi, University of Texas at Austin, Stefan Petry, University of Melbourne, Geoffrey Tate, University of North Carolina (UNC) at Chapel Hill, Are Credit Ratings Subjective? The Role of Credit Analysts in Determining Ratings, AFA 2014

Kimberly Cornaggia, American University, Jess Cornaggia, Indiana University, Timothy Simin, The Pennsylvania State University, The Value of Uninformative Credit Ratings, AFA 2014


Ing-Haw Cheng, Dartmouth College, Sahil Raina, University of Michigan, Wei Xiong, Princeton University, Wall Street and the Housing Bubble, AFA 2014


12. Overlapping Areas of Economics and Finance

1) Public Finance and Financial Markets


2) Labor Market and Asset Prices


Simintzi, Elena; Vig, Vikrant; Volpin, Paolo, Labor Protection and Leverage, Review of Financial Studies, Feb2015, Vol. 28 Issue 2, p561-591

XAVIER GIROUD, HOLGER M. MUELLER, Capital and Labor Reallocation within Firms, The JOURNAL OF FINANCE, Volume 70, Issue 4, August 2015, Pages 1767–1804

3) Macroeconomic Determinants of Asset Prices


John Campbell, Harvard University Carolin Pflueger, University of British Columbia Luis Viceira, Harvard University, Monetary Policy Drivers of Bond and Equity Risks, WFA 2015


RAVI BANSAL, DANA KIKU, IVAN SHALIASTOVICH, and AMIR YARON, Volatility, the Macroeconomy, and Asset Prices, THE JOURNAL OF FINANCE, VOL. LXIX, NO. 6, DECEMBER 2014

4) Government Intervention and Financial Markets

PHILIP BOND and ITAY GOLSTEIN, Government Intervention and Information Aggregation by Prices, THE JOURNAL OF FINANCE, forthcoming

5) Housing Risk

6) Education and Financial Markets


Britta Augsburg, Institute for Fiscal Studies (IFS), Ralph De Haas, European Bank for Reconstruction and Development (EBRD), Heike Harmgart, European Bank for Reconstruction and Development (EBRD), Costas Meghir, Yale University, Microfinance, Poverty, and Education, AFA 2014

7) Social Media and Stock Price


8). Econometric Issues
