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汇报人：李林熹

# Contents

# What’s wrong with Pittsburgh? Delegated investors and liquidity concentration

# Background

- As Table 1 shows, delegated investors do not find Pittsburgh attractive. While the share of commercial real estate(CRE) purchases by delegated investors averages 24% across US cities, it is a mere 14% in Pittsburgh. What makes Pittsburgh so much less attractive than other cities?

**Table 1**
Average share of purchases by delegated investors and REITs by MSA *Notes:* 1) *delshare* is the share of commercial real estate transactions made by delegated investors. 2) In columns 1–3 and 5, the shares are based on the identity of the buyer in the transaction; in column 4, the share is based on the identity of the seller in the transaction. 3) Delegated investors are entities that primarily manage money on behalf of others and include banks, pension funds, investment managers, and private equity funds. 4) *sharereit* is the share of purchases made by real estate investment trusts (REITs). 5) Shares are by $ volume, not number of transactions. 6) Data for all cities except Pittsburgh and San Antonio cover 2001–2015. Data for Pittsburgh and San Antonio cover 2002–2015 and 2007–2015, respectively.

| Rank | msa | msalabel | (1) *delshare* purchases 2001–2015 | (2) *delshare* purchases 2001–2007 | (3) *delshare* purchases 2008–2015 | (4) *delshare* sales 2001–2015 | (5) *sharereit* purchases 2001–2015 |
|---|---|---|---|---|---|---|---|
| 1 | Boston | BOS | 38.6 | 44.5 | 33.4 | 37.2 | 13.4 |
| 2 | DC metro | DC | 36.3 | 38.0 | 34.9 | 34.1 | 20.2 |
| 3 | Seattle | STL | 35.1 | 35.3 | 34.9 | 29.5 | 13.3 |
| 4 | San Francisco | SFO | 33.2 | 34.0 | 32.5 | 37.7 | 11.9 |
| 5 | Chicago | CHI | 31.0 | 33.7 | 28.5 | 33.4 | 17.0 |
| 6 | Memphis | MEM | 30.7 | 27.7 | 33.3 | 25.0 | 19.4 |
| 7 | Dallas | DFW | 29.3 | 32.7 | 26.4 | 30.0 | 17.1 |

- the observation：
  - some types of investors trade frequently, while others are more likely to be buy-and-hold investors.
  - The key intuition is that investors who value liquidity the most concentrate their investments in the most liquid markets.
  - concern for liquidity segments markets by investor type.The market segmentation in turn makes the most liquid markets even more liquid because the main asset owners are those that trade relatively more frequently.

# Main work

- Data and investor type classification
  - **CRE transactions data**： from 39 cities over the 2001–2015 period to identify investors by type and observe their holding periods.
  - delegated investors, direct investors, REITs, and small investors purchase
- Empirical facts
  - Delegated investors have shorter holding periods
  - purchase properties in higher turnover markets
- Explaining the facts
  - Model（showing how heterogeneity in liquidity preferences makes some markets more liquid）

# Conclusion

- It documents differences in investor composition across US cities .
- From the perspective of a delegated investor, the problem with Pittsburgh and similar cities is that they lack liquidity. The low share of delegated investors in markets like Pittsburgh is itself a reason that CRE in Pittsburgh trades infrequently.
- delegated managers are more likely to have higher liquidity needs than direct investors, an asset’s attractiveness to delegated managers depends on the existing concentration of delegated managers in an asset.
- Delegated investors prefer to invest in larger assets, in properties occupied by publicly traded firms, and in highly educated cities.
- The results indicate that policies that reduce trade frequency in a market, such as real estate transactions taxes, also change the investor base of that market and thus the cost of capital.a liquidity channel may explain divergent paths in city development.

- present-biased preferences play an important role in explaining their debt paydown behavior
- help explain why some consumers plan to pay off expensive credit card balances but fail to stick to their plans and actually do so.

# Sticking to your plan: The role of present bias for credit card paydown

difference between their short-run and long-run preferences

# Background

- In the United States, the majority of households have at least one credit card and more than half of these households roll over credit card debt from month to month.The substantial cost of this credit card borrowing makes the observed amount of credit card debt hard to rationalize with standard preferences in economic models.
- In light of these difficulties, economists have proposed present-biased preferences as a potential explanation for the observed levels of household borrowing
- According to this explanation, individuals are overly impatient急切的 in the short run relative to their long-run preferences. They borrow excessively and often fail to repay later, despite a genuine intention to reduce their debt levels.
- In these models, the effect of present bias on borrowing depends on the extent to which individuals are aware or unaware about the difference between their short-run and long-run preferences whether they are “sophisticated” or “naive”

# Main work

- model of present bias： present bias model by Laibson (1997)
- a sample of U.S. consumers who signed up for an online financial management service. The data contain the daily balances and transactions on all bank accounts and credit cards of the users.
- Upon joining the service, users make a plan of how much they would like to reduce their debt balances each month. This allows us to interpret any failure to reduce debt levels as an actual deviation from planned behavior.
- we empirically evaluate the extent to which present bias can account for the observed household debt repayment behavior
  - first propose a new empirical methodology to detect short-run impatience and sophistication versus naivete in high-frequency transaction-level data of spending, income, balances, and credit limits
  - show that sophisticated individuals are substantially better in following through with their debt paydown plans
  - The large difference between naive and sophisticated users in following through with their debt paydown plans provides a key piece of evidence for the role of present bias debt repayment behavior

# Conclusion

- We use data from an online financial service to show that many consumers fail to stick to their self-set debt paydown plans.
- This behavior is best explained by present bias.
- Our empirical approach is informed by a parsimonious model showing that the sensitivity of spending to paycheck receipt **reflects** a present-biased agents short-run impatience, and that this sensitivity is reduced by available resources only for agents who are aware (sophisticated) of their future impatience.
- Classifying users accordingly, we find
  - ✓ sophisticated users debt paydown decreases with short-run impatience
  - ✓ planned paydown is most predictive of actual paydown for sophisticated users

# Long-term reversals in the corporate bond market

# Background

- There is evidence that contrarian strategies are profitable over long horizons.
- DeBondt and Thaler (1985) show that stocks with subpar performance over the previous three to five years produce higher returns over the next three- to five-year holding periods than stocks with superior performance over the same period.
- Understanding of these reversal-based strategies is important. While previous studies of the strategies mainly focus on equities, debt financing forms a significant portion of firms' capital structures,underscoring the need to study these long term reversals in corporate bond markets.
- Whether return predictability patterns in equities extend to bonds is an open question, however, given the markedly differing investing clienteles across equities and bonds.

# Main work

- We first assemble a comprehensive data set of corporate bonds using both transaction and dealer quote data from January 1977 to December 2017, yielding more than 1.7 million bond-month observations.
- Then, we investigate whether returns formed over long horizons can predict cross-sectional differences in future bond returns. We find strong evidence of long-term reversals in corporate bonds even as such reversals attenuate for stocks during our sample period.
- We also provide explanations for the profitability of long-term contrarian strategies in the corporate bond market.

# Conclusion

- Long-term reversals in corporate bonds are economically and statistically significant in a comprehensive sample spanning the period 1977 to 2017.
- Such reversals are stronger for bonds with high credit risk and more binding regulatory, capital, and funding liquidity constraints.
- Bond long-term reversal is mainly driven by long-term losers. A long-term reversal factor carries a sizable premium and is not explained by long-established equity and bond market factors.
- past returns capture investors' ex-ante risk assessment and the degree of institutional constraints they face, so losing bonds command higher expected returns.长期输家会经历信用风险的增加（即信用评级下调和财务困境加剧），这将导致立即的负面价格反应，随后是更高的未来回报。这些结果突出了监管约束和对债券持有人的限制的作用。

- multiple borrowing/default externalities/ investment decisions and the allocation of capital

# A dynamic theory of multiple borrowing

# Background

- Multiple borrowing—when a borrower takes out overlapping loans from multiple lenders—is a common phenomenon in many credit markets. Consumers hold multiple credit cards, student loans, and other debt secured by homes and vehicles, often financed by different lenders. Firms borrow from multiple banks and can issue multiple public debt securities to a wide range of investors.
- yet taking out new loans can affect borrowers' ability and incentive to pay off existing loans. Consequently, multiple borrowing can cause creditors to impose default externalities onto each other.违约外部性
- The goal of this paper is to understand how these distortions affect investment decisions and the allocation of capital.

# Main work

- we build a dynamic model of multiple borrowing （a multi-agent dynamic game with multilateral externalities）where a single borrower takes out overlapping loans from different lenders to finance investment without the exante ability to commit to an exclusive lending relationship.
- We show that lack of ex ante commitment power induces perverse resource misallocation, as more productive projects can receive less investment, and entrepreneurs could deliberately choose inefficient endeavors with low returns to scale. The analytic solution to the model enables us to sharply characterize the inefficiency due to lack of commitment.
- These problems are exacerbated when borrowers have access to more lenders, explaining why increased access to finance does not always improve outcomes.
- We further analyze how the inefficiency is affected by pledgeability of investment capital.

# Conclusion

- First, we show that financial expansion could backfire, as high lender availability can lead to overindebtedness, underinvestment, and lower welfare.
- Second, because more productive entrepreneurs have a stronger desire to borrow in the future, and thus face worse commitment problems, they can be penalized in equilibrium and end up raising less investment capital, generating an especially perverse form of investment misallocation.特别反常的投资配置不当现象
- Finally, given the choice, entrepreneurs could explicitly pick investment opportunities with lower productivity than others available in order to receive better financing terms.
- Increased access to finance does not always improve outcomes.

- whether the cash-flow volatility changes around dividend events
- cash-flow volatility decreases following dividend increases

# Signaling safety

# Background

- The idea that dividend changes convey information about firms' future prospects has a long tradition in finance, which can explain why dividend changes come with large announcement returns but also predicts that changes in dividends should be followed by changes in earnings or cash flows in the same direction.
- Consistent with existing theories, the empirical literature has focused on the relation between dividend changes and changes in earnings—the first moment—rather than between dividend changes and changes in earnings volatility—the second moment.
- In this paper, we show dividends do convey information, but it is information about the second moment of earnings and not about the first moment.
- We show both theoretically and empirically that dividend changes signal changes in cash-flow volatility in the opposite direction.

# Main work

- We borrow a method from the Campbell and Shiller (1988a,b) return decomposition, to split movements in stock returns into parts coming from news about future cash flows and parts coming from news about future discount rates.
- We then examine whether cash-flow and discount-rate news vary around dividend events.
  - We find no significant change in discount-rate/cash flows news around dividend events
  - Changes in cash-flow volatility follow changes in dividend policy in the opposite direction
- What explains the negative relation between changes in dividends and subsequent changes in cash-flow volatility?
  - signaling model

# Conclusion

- Contrary to signaling models' central predictions, changes in the level of cash flows do not empirically follow changes in dividends.
- We use the Campbell (1991) decomposition to construct cash-flow and discount-rate news from returns and find the following:
  - ✓ both dividend changes and repurchase announcements signal changes in cash-flow volatility
  - ✓ larger cash-flow volatility changes come with larger announcement returns
  - ✓ neither discount-rate news, nor the level of cash-flow news, nor total stock return volatility change following dividend changes.
  - ✓ We conclude cash-flow news—and not discount-rate news—drive payout policy股利政策, and payout policy conveys information about future cash-flow volatility

directly measure banks’ monitoring of syndicated loans/ monitoring determinants

# Bank monitoring: Evidence from syndicated loans（银团贷款）

银团贷款亦称“辛迪加贷款”。由获准经营贷款业务的一家或数家银行牵头，多家银行与非银行金融机构参加而组成的银行集团采用同一贷款协议，按商定的期限和条件向同一借款人提供融资的贷款方式。

# Main work

- In this paper, we examine
  - how banks monitor syndicated loans
  - what factors determine banks' monitoring efforts
  - how monitoring relates to other features of the loan contract and loan outcomes（loan maturity, loan spreads, and covenant-based monitoring）贷款期限、贷款息差和基于契约的监测
- Despite a large theoretical literature relying on a financial intermediary having a unique monitoring technology, there is little empirical evidence on these questions.
- we use the Shared National Credit (SNC) database to construct two new measures of bank monitoring activity.
  - Our first measure is an indicator for the presence of active monitoring, which includes borrower site visits or the use of third-party appraisers.
  - Our second measure captures the frequency with which banks demand loan-specific information, such as borrower financial statements or information on inventories.

# Conclusion

- Banks typically demand borrower information on at least a monthly basis. About 20% of loans involve active monitoring (i.e., site visits or third-party appraisals).
- Monitoring increases with the lead bank’s incentives（significant relation between lead share and monitoring） and is negatively associated with loan spreads and maturity. 贷款息差和期限
- The monitoring captured by our measures can either complement or substitute for covenant-based monitoring.
- Banks increase monitoring following deteriorations in borrower financial condition and credit line drawdowns.
- Finally, monitoring is positively related to future covenant violations and loan renegotiations. 未来违约和贷款重新谈判

- empirically evaluate dynamic firm financing models embedding many financial frictions
- assess which models rationalize best observed corporate policies and their relative fit

# The Sources of Financing Constraints

# Main work

- Corporate finance revolves around the study of financing constraints. What are the sources of financing constraints?What are these frictions that limit firms' access to external financing?
- there is a host of theoretical models have been proposed to rationalize observed firm financing policies.
- In this paper, we propose to take a first step toward providing quantitative guidance regarding the sources of firms' financing constraints.
- Our approach is to empirically evaluate a host of dynamic financing models proposed in the literature by means of structural estimation, and to assess their relative fit.
  - ✓ tax and default based models of firms' financial structure
  - ✓ dynamic contracting models featuring limited commitment 有限承诺的动态契约模型
  - ✓ dynamic moral hazard in the presence of asymmetric information

- In every estimation, we ask:
  - Which of the proposed models provides the best description of the actual behavior of a given set of companies, if any?
  - what combination of models, if any, improves on the empirical fit of individual models?

# Conclusion

- Which financial frictions drive firms' financing constraints?
- We structurally estimate dynamic firm financing models embedding many financial frictions, on panels of public firms and private firms.
- We focus on limited enforcement, moral hazard, and trade-off models and assess which models rationalize best observed corporate policies across various samples.
- Our tests, based on empirical policy function benchmarks, favor
  - ✓ trade-off models for larger public firms
  - ✓ limited commitment models for smaller public firms
  - ✓ moral hazard models for Private firms.

# Rejected stock exchange applicants

# Background

- We test whether firms accepted for listing by an exchange perform better, ex post, than firms rejected by the exchange.
- We are not aware of any other studies that examine the admission and rejection of securities to a stock exchange. One hurdle is data.
- The London Stock Exchange (LSE) archives in the Guildhall Library in London provide an unusual peek inside the listing decision.
- The records include
  - the previously confidential application for listing 保密申请
  - public firms that applied for an LSE official quotation (OQ) between 1891 and 1911.
  - 546 successful applicants and 82 failed applicants.
  - prospectus information 招股说明书信息

# Conclusion

- We examine listing applications by firms to the London Stock Exchange between 1891 and 1911.
- The exchange rejected 82 (13.1%) of the 628 applicants to its main board. Accepted applicants were twice as likely to pay dividends (and to pay twice as much) and had longer firm lives than rejected applicants.
- Rejected applicants were more likely to file for liquidation than successful applicants. These results remain even after we control for the primary benefits of the listing itself: liquidity and future capital inflows.
- In this era, the London Stock Exchange could screen applicants for listing.

causal link between funding liquidity and market liquidity

# Funding liquidity shocks in a quasi-experiment: Evidence from the CDS Big Bang

# Main work

- Intuitively, a funding shock for market participants impairs their ability to trade, which leads to a fall in market liquidity and pushes prices away from fundamentals.
- The goal of this paper is to test whether a causal link between funding liquidity and market liquidity exists empirically.
- We use the advent of the standardized fixed coupons for trading credit default swap (CDS) in April 2009, the so-called CDS BigBang, as a shock to funding requirements of trading CDS contracts and then trace out its ensuing impact on market liquidity.
- After the Big Bang, traders are required to pay upfront fees to execute CDS transactions, with the size of the fees depending on the level of CDS spreads.

- Our main finding is that, consistent with theory, funding costs are negatively related to market liquidity.
- central clearing
  - facilitate netting 净额结算 → mitigate the burden of upfront payments → reduce the impact of upfront payments
- Deutsche Bank’s exit（Another event in the CDS market that occurred after the CDS Big Bang）
  - the funding effect is stronger
- placebo tests

# Conclusion

- We use the advent of new credit default swap (CDS) trading conventions in April 2009—the CDS Big Bang—to study how a shock to funding liquidity impacts market liquidity.
- While CDS bid-ask spreads decline in aggregate after the Big Bang, the liquidity improvement is smaller for firms that require larger fees.
- Furthermore, the funding effect is stronger for smaller and riskier firms and for noncentrally cleared contracts.
- The effect also becomes stronger after Deutsche Bank’s exit.

whether “commitment timing” based on market cycles can improve performance.

# Can investors time their exposure to private equity?

# Background

- Private equity markets are highly cyclical. The aggregate amount of capital committed to the sector varies substantially from peak to trough, and many have observed that periods of high fundraising activity are followed by periods of low absolute performance for the asset class.
- This raises an important question: is it possible to market-time the allocations to private equity to avoid the cyclicality of performance? In other words, if periods of high fundraising are known to be followed by low performance, then why not allocate capital in some appropriately countercyclical manner to avoid the predictable and well-documented episodes of underperformance of the asset class?
- The question is of immense practical interest to the investor community.

- Unlike public markets in which assets (e.g., stocks) can typically be purchased or sold almost immediately, limited partners who commit capital to private equity funds face significant delays and uncertainty surrounding the timing of purchases and sales, which are controlled by the general partner.
- As a consequence, there is substantial “commitment risk”: the investor has pledged capital but does not control the timing of when the money is put to work or returned.
- This paper explores, in the context of this “commitment risk”, LPs’ ability to protect themselves against downturns in private equity performance that come on the heels of strong periods of fundraising in the industry.
- Using comprehensive Burgiss data from over 3500 private equity funds going back to the 1980s, we create the full series of cash flows and net asset values that an LP would have experienced for a variety of capital commitment strategies.
- This allows us to explore whether “commitment timing” based on market cycles can improve performance.

# Main work

① motive:offers direct evidence that periods of high fundraising are followed by periods of low performance.

② examines different strategies for timing capital commitments to buyout and venture capital funds.

investors in private equity funds are typically large institutions,these decisions also involve organizational frictions and costs that can arise if allocation patterns swing dramatically from year to year.the potential timing benefits of adjusting annual allocations must be weighed against internal organizational frictions and reputational costs

# Conclusion

- Private equity performance, both for buyouts and venture capital, has been highly cyclical: periods of high fundraising have been followed by periods of low performance.
- Despite this seemingly predictable variation, we find modest gains, at best, to pursuing realistic, investable strategies that time capital commitments to private equity.
- This occurs, in part, because investors can only time their commitments to funds; they cannot time when commitments are called or when investments are exited. ( agency frictions/large institutions/the benefits of timing commitments are limited)

personal bankruptcy spillovers: the effect of a peer's bankruptcy outcome on an individual's decision to seek debt relief

# Friends with bankruptcy protection benefits

# Background

- In 1981, household debt in the US comprised 57% of disposable income; by 2007, that ratio reached 124%. This increase has been accompanied by research into the broader economic impact of household debt.
  - ✓ debt overhang limits a household’s incentives to invest or to enter the labor market.
  - ✓ with the rise of personal leverage, delinquency and default rates increased.
- As a public policy, debt relief offers a potential solution to these concerns through a combination of lower interest payments in the short run and the partial discharge of debt.

- The effectiveness of debt relief programs depends on providing access to individuals who are unable—rather than unwilling—to cover debt payments.

# Main work

- we demonstrate that even targeted debt relief may lead to spillover effects, whereby people learn through their social network about the bankruptcy process, increasing the rate of default and potentially undoing attempts to exclude solvent households 将有偿付能力的家庭排除在外的努力化为泡汤
- Hypotheses
  - Hypothesis 1: The dismissal of a peer’ s bankruptcy filing leads to a decrease in the likelihood of an individual also filing for bankruptcy
  - Hypothesis 2a: If insolvent households respond to the dismissal of a peer’ s bankruptcy filing, then the likelihood of an subsequent foreclosure increases
  - Hypothesis 2b: If solvent households respond to the dismissal of a peer’ s bankruptcy filing, then the likelihood of an subsequent foreclosure decreases

# Conclusion

- We show information spillovers limit the effectiveness of targeted debt relief programs.
- We study individuals who learn about the likelihood of debt relief from the recent experiences of workplace peers filing for bankruptcy protection. Peers granted bankruptcy can discharge debts, while peers facing dismissal lose all protections.
- Exploiting the random assignment of judges to bankruptcy cases, we determine that individuals with a “dismissed peer” are significantly less likely to file for bankruptcy or enter foreclosure.
- We highlight a novel channel relating social networks to household finances and identify additional costs of granting individual debt relief imposed on lenders.

how firms deal with business regulations that limit their operations

# The hidden costs of being public: Evidence from multinational firms operating in an emerging market

# Background

- Firms are becoming reluctant to go or remain public.
- Much of the existing research argues this decline responds to an increase in the costs of being listed following the enactment of regulations that only apply to public firms .
- In contrast, I argue that even laws and regulations that apply to both private and listed firms — such as capital control measures— impose a higher burden on listed firms and that this differential burden has increased over the last two decades following the passage and stricter enforcement of antibribery laws.反贿赂
- Listed firms are overseen by a larger number of agencies and auditors than private firms, which might translate into a higher probability of being caught bribing officers to bypass regulations.

# Main work

- To support the argument that universal regulations increase the costs of compliance disproportionately
  - ① tests whether listed firms comply more with regulations than private ones.
  - ② tests whether the differential compliance cost faced by listed firms is significant.
- novel data :
  - ✓ on international trade and take advantage of a regulation imposed by the Argentine government in 2012 that banned companies from transferring money abroad from their Argentine operations.
- global listed firms in industries more exposed to the regulations often sold their Argentine operations in the aftermath of the ban, while private global firms in the same industries did not,suggesting that compliance costs can be large enough to trigger the divestiture of subsidiaries.

# Conclusion

- I study how firms deal with business regulations that limit their operations.
- I first show that the ownership structure of a firm affects its degree of compliance with regulations, with publicly listed firms complying more than privately held ones.
- This differential compliance imposes a burden on listed firms that helps explain mergers and acquisitions patterns. When regulatory levels increase, private firms acquire listed ones and listed firms stop acquiring private ones.
- These results uncover an additional cost faced by listed companies, identify a new driver of M&A transactions, and show that high levels of regulation lead to opaque corporate structures.

how changes in political power affect consumers' credit access, we find that increased political power decreases credit access to disadvantaged borrowers.

# Politicizing consumer credit

# Background

- There is a growing consensus that political and governmental choices have a large influence on financial market outcomes.
- When studying the role of politics in finance, the literature generally focuses on how firms are affected by legislation  or political connections . In this literature, regulatory agencies are typically viewed as being mechanical enforcers of legislation that are beyond the reach of politics.
- However, regulatory agencies have considerable enforcement discretion and can be subject to outside influence from powerful politicians. Thus, the prospect of political interference with regulatory enforcement likely affects constituents' regard for regulations, a proposition this paper explores in the context of the US market for consumer credit.

# Main work

- We confront these empirical challenges by connecting the market for consumer credit to changes in the political power of US Senators. The market for consumer credit is an ideal testing ground because there are several im_x0002_portant fair-lending regulations, such as the Equal Credit Opportunity Act (ECOA) and the Community Reinvestment Act (CRA), that provide guidance for the amount of lending that “should” occur.
- the setting is ideal because some data sets allow us to connect banks’ headquar_x0002_ters locations to Senator’s states, thereby creating a tangible link between powerful Senators and the economic agents that decide how to comply with such fair-lending regulations.

- We measure shocks to political power by examining turnover in Senate committee chairs. Committee chairs are powerful politicians who have been reelected several times and who have substantial influence over the scope of regulatory enforcement.
- by using the Federal Reserve Bank of New York Consumer Credit Panel/Equifax(FRBNY CCP/Equifax) data set .
- We use a difference-in-differences framework to estimate the differential effects of committee chair ascensions on credit access to minority communities.
- We focus on minority communities because they are more likely to be protected by fair-lending regulations.
- To verify that these credit access reductions are driven by banks changing their lending decisions when they have "political protection," we explore how changes in Senators' political power interacts with the organizational structure of banks by linking committee chairs to banks'headquarters locations in the HMDA data.

# Conclusion

- Powerful politicians can interfere with the enforcement of regulations. As such, expected political interference can affect constituents' behavior.
- Using rotations of Senate committee chairs to identify variation in political power and expected regulatory relief, we study powerful politicians' effect on consumer lending to communities protected by fair-lending regulations.
- We find a 7.5% reduction in credit access to minority neighborhoods in states with new committee chairs. Larger reductions occur in Community Reinvestment Act-eligible neighborhoods and when Senators serve on committees that oversee the enforcement of fair-lending laws.
- Banks headquartered in powerful Senators' states are responsible for the reduction in credit access.

how risk exposure (beta) predictability affects an asset’s risk premium

# Can unpredictable risk exposure be priced?

# Background

- Over the past years scholars have become increasingly concerned about the exponential growth in risk factors explaining cross-sectional differences in stock returns.
- The wide variety of risk factors tells us little about investor preferences or demands because there is little overlap in economic terms.
- How does a risk premium emerge?Asset pricing theory states that an investor's (hedging) demand for a particular type of risk moves prices and consequently creates a premium.
- While most studies work under the popular assumption that investors perfectly observe ex-post realized exposure to a particular risk factor, this is not the case in practice. Investors need to predict next period's beta when setting up a long-short portfolio that provides exposure to a certain risk factor.

# Main work

- This paper studies how risk exposure (beta) predictability affects an asset’ s risk premium.
- Ambiguity aversion and correlation uncertainty
  - model:relating beta predictability to hedging demands and prices of risk
  - illustrate how parameter uncertainty around asset correlations affects asset prices
  - less (more) predictability in betas decreases (increases) hedging demands and thus reduces (increases) risk premiums.

# Conclusion

- We study the link between beta predictability and the price of risk.
- We use a simple model to show that an ambiguity averse agent’s demand is lower when betas are hard to predict, leading to a reduction in risk premiums.
- We test the implications for downside betas and VIX betas. We find that they have economically and statistically small prices of risk once we account for the fact that an investor cannot observe ex-post realized betas when determining asset demand.

# Time-varying state variable risk premia in the ICAPM

# Abstract


- We find that the relation between state variables, such as the t-bill rate and term spread, and consumption growth is time-varying.
- In the cross-section of U.S. stocks, risk premia for exposure to state variables vary over time accordingly. When a state variable predicts consumption strongly relative to its own history, its annualized risk premium increases by 6% .
- This effect implies that risk premia can switch signs and are increasing in the conditional variance of the state variable.
- These common drivers of time-varying risk premia are consistent with the Intertemporal CAPM. Benchmark factors contain the same conditional expected return effects as state variable risk premia.

# Thanks!