

31<sup>st</sup> Australasian Finance and Banking Conference

# PHD FORUM PROGRAM

Wednesday 12 December 2018

Shangri-La Hotel, Sydney

**PhD Forum Program**  
Wednesday 12 December 2018  
Level 3 Cambridge Room, Shangri-La Hotel, Sydney  
9:30am – 4:15pm

**Welcoming Remarks** by Fariborz Moshirian, UNSW Sydney

**Session 1**

Chair: Rik Sen, UNSW Sydney

9:30am	<b>The Competitive Spillover Effect of Bank Failure</b> Siyu Lu, Carnegie Mellon University  <i>Discussant: Kristle Romero Cortés, UNSW Sydney</i>
10:05am	<b>Globally Consistent Creditor Protection, Reallocation and Productivity</b> Bo Bian, London Business School  <i>Discussant: Vikram Nanda, UT Dallas</i>
MORNING TEA Level 3 Lobby 10:40am – 11:10am	

**Session 2**

Chair: Kristle Romero Cortés, UNSW Sydney

11:10am	<b>Immigration Policy and Equity Returns: Evidence from the H-1B Visa Program</b> Ali Sharifkhani, University of Toronto  <i>Discussant: René Stulz, Ohio State University</i>
11:45am	<b>Follow the Money: Insider Trading and Performance of Hedge Fund Activism Targets</b> Chao Gao, Purdue University  <i>Discussant: David Denis, University of Pittsburgh</i>

## Keynote Presentation and Panel 12.20- 1pm

### **Navigating the Choppy Waters from PhD Student to Assistant Professor**

David Denis, University of Pittsburgh

AND

### **Panel Discussion**

David Denis, University of Pittsburgh and Rene Stulz, Ohio State University

LUNCH

Level 3 Lobby

1:00pm – 2:00pm

## Session 3

Chair: Wing Wah Tham, UNSW Sydney

2:00pm

### **Patience is a Virtue: Evidence from Insolvency**

Guangqian Pan, Australian National University

*Discussant: Rebel Cole, Florida Atlantic University*

2:35pm

### **Disaster in My Heart: A Visceral Explanation for Some Asset Pricing Puzzles**

Suk won Lee, University of Southern California

*Discussant: Tony Berrada, University of Geneva*

AFTERNOON TEA

Level 3 Lobby

3:10pm – 3:40pm

## Session 4

Chair: Zhaoxia Xu, UNSW Sydney

3:40pm

### **An Equilibrium Model of Blockchain-Based Cryptocurrencies**

Engin Iyidogan, Imperial College

*Discussant: Oleg Chuprinin, UNSW Sydney*

# The Competitive Spillover Effect of Bank Failure

Siyu Lu, Carnegie Mellon University

How does one bank's failure affect the failure probability of its competing banks? By exploiting the partially overlapping branch networks of banks, I estimate a peer effect model that identifies the bank failure spillover effect, and provide evidence for a novel industrial-organization-based channel transmitting such effect. I show a bank failure on average lead to a lower failure probability for an average affected bank competing with the failed bank. Moreover, the drop in failure probability is driven by affected banks competing with the acquirer of the failed bank. I interpret these results as consistent with the existence of a competition channel: competing banks of acquirers experience a bank consolidation in the market due to the failed bank acquisition, and thus higher market power, better performance, and lower failure probability. These results suggest regulators should take into account the spillover cost of bank failures when assessing different resolution options, by examining the industrial organization implications of these options.

# **Globally Consistent Creditor Protection, Reallocation and Productivity**

Bo Bian, London Business School

This paper documents that resource reallocation across firms is an important mechanism through which creditor rights affect real outcomes. I exploit the staggered adoption of an international convention that provides globally consistent strong creditor protection for aircraft finance. I find that country-level productivity in the aviation sector, proxied by average monthly flying hours per aircraft, increases by 12% following the adoption of the Convention. Across-firm reallocation accounts for most of the productivity increase. Productive firms borrow more, expand, and adopt new technology at the expense of unproductive ones. Such reallocation is facilitated by (i) easier and quicker asset redeployment; and (ii) the influx of foreign financiers offering innovative financial products to improve credit allocative efficiency. I further document an increase in competition and an improvement in the breadth and the quality of products available to consumers.

# **Immigration Policy and Equity Returns:**

## **Evidence from the H-1B Visa Program**

Ali Sharifkhani, University of Toronto

I show that firms' access to skilled immigrant labor is an important determinant of the cross-section of equity returns. Using a comprehensive set of data on H-1B visa petitions, I construct an occupation-level measure of labor market competition between skilled immigrant and local workers. I find that stocks of firms in high-competition industries - those with a high share of labor for which skilled immigrants are close substitutes - outperform their peers with a low share by 8.8% annually. I show that this premium is explained by firms' differential exposures to priced immigration policy shocks that shift the supply of skilled immigrant labor. Based on evidence from the 2003 H-1B legislative cap reduction as a natural experiment, I show that these shocks differentially impact wages at the occupation-level, leading to an asymmetric effect on firms' cash flows through labor expenditure.

# **Follow the Money: Insider Trading and Performance of Hedge Fund**

## **Activism Targets**

Chao Gao, Purdue University

Hedge fund activism announcements send noisy information to the market. As a result, campaign announcement returns are noisy indicators of the campaign outcomes and the value creation. Using insider trading after activism announcements as a signal of market mis-reactions, I identify hedge fund activism targets whose stock prices drift after the campaign announcements. I find that post-announcement insider trades contain superior information about activism campaigns and predict target stock returns for up to ten months after the campaign announcement. A value-weighted buy-minus-sell calendar-time portfolio with a six-month holding period generates a monthly abnormal return of 1.46% or an annualized abnormal return of 19.04%. I also find evidence that these insider trades predict the campaign outcomes.

## **Patience is a Virtue: Evidence from Insolvency**

Guangqian Pan, Australian National University

Pre-packaged reorganization (prepack) takes ex ante better firms through a shorter and less costly bankruptcy procedure compared to traditional Chapter 11 but leads to more refiling. To explain this phenomenon, we propose an information acquisition model where creditors trade higher bankruptcy costs under traditional reorganization with higher accuracy in filtering inefficient from efficient firms. The prepack decision is governed by the value of the signal that a firm can acquire under traditional Chapter 11. Empirically, firms with better information and higher downside risks choose traditional reorganization. These firms subsequently have a lower rate of emergence but a higher survival rate.

# **Disaster in My Heart: A Visceral Explanation for Asset Pricing**

## **Puzzles**

Suk Lee, University of Southern California

I introduce the notion of 'dis-utility shocks': rare but large negative idiosyncratic deviations from the consumption-implied utility level. Dis-utility shocks represent an unmistakable aspect of human life - that it can sometimes be unusually painful. I embed dis-utility shocks in a rational, consumption-based asset pricing model and develop a method to compute their impact on asset prices numerically. Despite their idiosyncratic nature, calibration results show that they are priced. Moreover, contrary to many other asset pricing models, I add dis-utility shocks in a parsimonious manner - in just three parameters - yet show that they help address many of the standard asset pricing puzzles.

# **An Equilibrium Model of Blockchain-Based Cryptocurrencies**

Engin Iyidogan, Imperial College

This paper develops an equilibrium model of proof-of-work cryptocurrencies. Equilibrium behaviour of miners and users are characterized for exogenous blockchain protocol metrics. This paper shows that an equilibrium can be achieved in the long run. High fixed mining reward is the reason of instability in current cryptocurrency designs. The equilibrium model has two main implications. First, decentralization and technological improvement in mining are the drivers of low transaction fees and low mining costs. Second, limited block size and mining difficulty, which is endogenously determined, create an incentive mechanism that achieves the sustainability of cryptocurrency in the long run.