The Seventh International Moscow Finance Conference Executive Summary of the most interesting papers

The Seventh International Moscow Finance Conference is organized by the Laboratory of Financial Economics (LFE) at ICEF. This year the conference brought together 24 researchers in Finance from a number of the world's most prestigious universities: MIT, Berkeley, Oxford, LSE, INSEAD and others. On our side 8 faculty members took active part in the conference.

This year there were 11 papers presented at the conference including 1 keynote speech. The main areas of Finance such as Asset Pricing, Corporate Finance and Macro-Finance were covered by the conference. The organizing committee maintained the balance between theoretical and empirical papers.

The keynote speech was delivered by Professor Bernard Dumas who throughout his career served as an Editor or Associate Editor of top academic journals including the Journal of Finance, The Review of Financial Studies and the Review of Finance. In his presentation Professor Dumas focused on the role played by the inflation-targeting central bank on the financial markets. One of the contributions of his study is testing the validity of the "Fed model". The model build by Professor Bernard Dumas invalidates the suggestion that one might compare dividend yields to bond yields to assess the direction of the stock market. It turns out that the relationship between them is in fact negative: when inflation is high, the bond yield is high while the dividend yield is low.

Another notable contribution was a presentation by the NRU-HSE graduate Andrey Malenko who is an Associate Professor of Finance at MIT. Andrey builds a theoretical model which allows him to study the optimal security design when the investors face Knightian uncertainty. His model provides a common foundation for two most widespread financial contracts stocks and bonds based on one simple market imperfection - information asymmetry. The model predicts proportions of stock versus bond financing depending on the level of uncertainty. It should be noted that earlier this year Andrey presented this paper at the Utah Winter Finance Conference famous for the fact that all papers accepted at that conference are published in the top-3 Finance journals.

There were also a number of interesting empirical papers at the conference. Andrey Simonov from Michigan State University studies the performance of the family of the mutual funds before and after their sale to the outside investors. He finds patterns in cross-subsidization of funds within a family in the year leading to the sale. This deteriorates the performance of funds from the top of relative rankings (“the stars”). The funds that a year before the sale have been at the bottom of relative rankings (“the dogs”) appear to have been at the receiving end of the cross-subsidization. This finding suggests that fund managers strategically manipulate the performance of funds prior to their sale.

Another interesting empirical asset pricing paper was presented by Phillippe Mueller from Warwick University. He collected high-frequency data for major currencies and tests the performance of the popular trading strategies such as carry-trade and dollar carry. The paper shows that positive average returns for going long foreign currencies are almost entirely generated during U.S. main trading hours. Overnight, currencies collectively depreciate against the U.S. dollar. This new evidence sheds light on our understanding of currency markets and has important implications for future theoretical and empirical work.

The Corporate Finance was represented by two papers. One by Silvia Rossetto from Toulouse School of Economics and another by ICEF, HSE graduate Olga Kuzmina who is an Assistant Professor at NES.

Silivia’s paper investigates the empirical link between the mid-sized blockholders and firm risk. She show that ownership structure matters for firm risk beyond the largest blockholder. In particular, firms with multiple blockholders are associated with higher risk. This is consistent with theories showing that firms' decisions are affected by mid-sized blockholders and not merely by the largest blockholder.

Olga Kuzmina studies the appealing institutional setting of the Spanish labor market to show that the use of more flexible (shorter and cheaper-to-terminate) contracts with labor increases firm’s innovation. She distinguishes between different types of innovation (frontier vs adoptive, domestic vs imported technology) to shed light on the mechanism behind the effect. The evidence is consistent with both flexible labor contracts reducing financial constraints of the firm, but at the expense of lower human capital investment.

It should be emphasized that all conference participants appreciated the high quality of the discussions prepared by the discussants appointed by the conference organizers. This creates a very good positive reputation of the conference and encourages the submissions of the high-quality papers in the future years.

Another important role played by the Moscow Finance Conference is a creation of the active research environment for the ICEF, HSE faculty. It enables our faculty to interact with the top-researchers in the profession and receive the feedback from them. Furthermore, such conference should stimulate the research of our faculty and enable them to focus on the most active and interesting areas of Finance.