EIGHTH INTERNATIONAL MOSCOW FINANCE CONFERENCE

Hosted by the International College of Economics and Finance (ICEF)

International Laboratory of Financial Economics (LFE)

Higher School of Economics

Moscow, 11 Pokrovsky Boulevard, building T, room T-510
October 25–26, 2019

NATIONAL RESEARCH UNIVERSITY

LFE INTERNATIONAL LABORATORY OF FINANCIAL ECONOMICS

ICEF and LFE

The International College of Economics and Finance (ICEF), an autonomous division of the Higher School of Economics (HSE) was established in 1997 in Moscow with academic support of London School of Economics (LSE). HSE is a leading Russian research-oriented university in the field of economics and social sciences, which aspires to become one of the top-100 world universities.

At present, ICEF has over 1,000 students within double-degree (UoL and HSE) BSc programmes and its own international MSc programme "Financial Economics" validated by LSE academics. It employs over 20 professors hired on the international job market with PhD degrees from leading universities in the USA, UK, France, Spain, Italy, Belgium and Canada. More than 1,900 ICEF graduates work or continue their studies in 35 countries all over the world, around 40% of graduates continue their education on masters and PhD programmes in Western universities. ICEF faculty members are actively involved in research and publish in leading international peer reviewed journals.

The International Laboratory of Financial Economics (LFE) was established in 2010 at ICEF, with the participation of the LSE, with the goal of supporting research in Financial Economics at HSE according to the highest international standards.

The core research team consists of Moscow-based researchers, all of whom hold a PhD from European and US universities with an affiliation to ICEF or HSE, as well as international fellows. The Laboratory is headed by Christian Julliard (Research coordinator), Vladimir Sokolov (Head of the Laboratory) and Alexei Boulatov (Research Advisor).

LFE provides research support to the resident researchers and broadens contacts of those researchers with the international academic community. To this end, LFE organizes an annual academic conference on research in finance.

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NATIONAL RESEARCH UNIVERSITY

THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

EIGHTH INTERNATIONAL MOSCOW FINANCE CONFERENCE

PROGRAMME

DAY 1. 25 OCTOBER, FRIDAY

10.00 AM **SESSION 1**
ASSET PRICING I
Chair: Vladimir Sokolov (ICEF, HSE)

1.A. Liquidity, Volume, and Volatility
Vincent Bogousslavsky (Boston College) and ***Pierre Collin-Dufresne*** *(EPFL)*
Discussant: Dmitry Livdan (Berkeley)

We examine the relation between liquidity, volume, and volatility using a comprehensive sample of U.S. stocks in the post-decimalization period. For large stocks, effective spread and volume are positively related in the time series even after controlling for volatility, contrary to most theoretical predictions. This relation is mostly driven by the systematic component of volume. In contrast, for small stocks the evidence matches the predictions of standard adverse selection models. We show that the volatility of order imbalances can reconcile our puzzling finding with standard intuition. Order imbalance volatility is strongly associated with spreads both in the time series and cross-section and makes the relation between spread, volume, and volatility close to what is predicted by invariance theories. We develop a continuous-time inventory model to explain our empirical findings. Evidence from intraday patterns and other liquidity measures (price impact and depth) support our interpretation.

1.B. Trading on Talent: Human Capital and Firm Performance
Anastassia Fedyk *(Berkeley) and James Hodson (Artificial Intelligence Laboratory)*
Discussant: Maria Semenova (FES, HSE)

How does skilled human capital affect firm performance? By directly observing the monthly career migration patterns of 37 million employees of US public companies, along with their education, demographics, and skills, we explore firm-level "skill premia." Our key empirical finding is that, contrary to the individual-level patterns documented by the labor economics literature, technical and social skillsets negatively forecast both financial and operational performance at the firm level. We explore several potential mechanisms for this finding. Negative premia on social skillsets are likely driven by their risk profiles, as these skillsets display counter-cyclical performance. Meanwhile, negative premia on technical skillsets reflect patterns consistent with over-exuberance regarding contemporaneous popular technologies: IT and Mobile Network skillsets carry negative premia in early 2000s, while Data Analysis, Software Engineering, and Web Development display negative premia during the 2010s.

11.50 AM COFFEE BREAK

12.10 PM SESSION 2
CORPORATE FINANCE I
Chair: Luca Gelsomini (ICEF, HSE)

2.A. Shocked by Bank Funding Shocks: Evidence from 500 Million Consumer Credit Cards
Sudheer Chava (Georgia Tech)*, Rohan Ganduri (Emory), Nikhil Paradkar (Georgia Tech), and Linghang Zeng (Babson)*
Discussant: Anastassia Fedyk (Berkeley)

Using comprehensive credit card–borrower–bank matched data of approximately 500 million credit cards in the U.S., we analyze how a sharp unexpected decline in banks' short-term wholesale funding in 2008 affected their consumers. We decompose credit supply and demand effects using the sudden dry-up of short-term wholesale funding (which accounted for 17.8% of bank funding pre-2008) and account-level data on credit card limits and balances. For the same consumer, credit card issuers experiencing a 10% greater decline in wholesale funding reduced credit limits by 0.9% more relative to other issuers. Consumers' aggregate card balances decreased by 0.32% for a 1% reduction in aggregate limits induced by the wholesale funding liquidity shock. We document significant heterogeneity in the pass-through of the bank liquidity shocks with banks cutting credit limits by more for credit-constrained consumers (e.g., lower credit-score and higher credit utilization consumers). These consumers respond by cutting their consumption as they are less able to borrow from alternate sources. Moreover, this consumption decline is long-lasting for these credit-constrained consumers. Our results highlight that when banks face liquidity shocks, they are more likely to pass on these shocks to consumers who are least able to hedge against them. Consequently, our results show who bears the real costs of fragile bank funding structures. Our results also contribute to the debate on post-crisis regulatory reform on banks' funding structures that are dependent on wholesale funding by providing consumer-level elasticities of credit limits and balances to bank wholesale funding across different consumer groups.

2.B. Corporate Credit Provision
Nina Boyarchenko (NY Fed) and ***Philippe Mueller*** *(Warwick)*
Discussant: Madina Karamysheva (FES, HSE)

Productive firms can access credit markets directly by issuing corporate bonds or by borrowing through financial intermediaries. In this paper, we study the cyclical properties of corporate credit provision through these two types of debt instruments in major advanced economies. We argue that the cyclicality of corporate credit is closely related to the cyclicality of the types of financial intermediaries active in the provision of credit. When a debt instrument is held by institutions that manage their balance sheets through debt issuance, credit provision through that instrument is procyclical. But when a debt instrument is held by institutions that manage their balance sheets through equity issuance, credit provision through that instrument is countercyclical. We show that cross-country differences in the cyclicality of corporate credit can be ascribed to differences in the composition of the aggregate financial sector, and not to differences in the balance sheet management practices of each type of financial intermediary.

2.00 PM LUNCH BREAK

3.20 PM SESSION 3
CORPORATE FINANCE II
Chair: Vincent Fardeau (ICEF, HSE)

3.A. Interbank Networks and the Real Economy: Evidence from the Russian Banking Panic
Dmitry Livdan (Berkeley), Norman Schurhoff (HEC Lausanne), and ***Vladimir Sokolov*** *(ICEF, HSE)*
Discussant: Sudheer Chava (Georgia Tech)

Using transaction-level payment system data, we study how an intermittent freeze in interbank liquidity spills over to the network of firm-to-firm payment flows for goods and services. The 2004 Russian bank panic caused the interbank network to disintegrate. Using this episode as exogenous shock, we find that banks with severed interbank connections experience a decline in payments routed through them. A decrease in banks' connectedness by 1 per cent results in a decline of payments share by 0.7-1.5 per cent. Firms with multiple banks reroute payments through sending-receiving bank pairs that maintain interbank connectivity. The share of payments routed through bank pairs with disrupted bilateral relation falls by 38 percentage points relative to bank pairs with maintained interbank relation. Most importantly, paying firms with 1% larger exposure to the banking panic suffer a significant 0.1 per cent decline in payment growth originating from these firms. The decline is most pronounced for small firms. The evidence suggests that intermittent shocks disrupting interbank liquidity have persistent real effects, as flows decline permanently between firms exposed to banks' liquidity shortage.

3.B. The Sources of Financing Constraints
Boris Nikolov *(HEC Lausanne), Lukas Schmid (Duke) and Roberto Steri (HEC Lausanne)*
Discussant: Sergey Stepanov (HSE)

In order to identify the relevant sources of firms' financing constraints, we ask what financial frictions matter for corporate policies. To that end, we build, solve, and estimate a range of dynamic models of corporate investment and financing, embedding a host of financial frictions. We focus on limited enforcement, moral hazard, and tradeoff models. All models share a common technology, but differ in the friction generating financing constraints. Using panel data on Compustat firms for the period 1980-2015 and a more recent dataset on private firms from Orbis, we determine which features of the observed data allow to distinguish among the models, and we assess which model performs best at rationalizing observed corporate investment and financing policies across various samples. Our tests, based on empirical policy function benchmarks, favor trade-off models for larger Compustat firms, limited commitment models for smaller firms, and moral hazard models for private firms. Our estimates point to significant financing constraints due to agency frictions.

5.10 PM COFFEE BREAK

5.30 PM KEYNOTE SPEECH
Credit risk of high-quality sovereigns
Mikhail Chernov *(UCLA)*
Chair: Christian Julliard (LSE)

The premiums on sovereign credit default swaps (CDS) of high-quality sovereigns (e.g., U.S., Germany) have risen to persistently elevated levels since the financial crisis. That begs the question of which risks are compensated in these markets. We explore credit risk as an explanation. First, we develop an equilibrium model of U.S. default. Second, we demonstrate that U.S. credit risk explains other puzzles in the fixed income markets, such as interbank uncollateralized borrowing costs that are smaller than those of the U.S. Treasury.

6.30 PM RECEPTION

DAY 2. 26 OCTOBER, SATURDAY

10.00 AM SESSION 4
ASSET PRICING II
Chair: Alexei Boulatov (ICEF, HSE)

4.A. Tactical Target Date Funds
Francisco Gomes (LBS), ***Alexander Michaelides*** *(Imperial), and Yuxin Zhang (RenMin University)*
Discussant: Philippe Mueller (Warwick)

We propose target date funds modified to exploit stock return predictability driven by the variance risk premium. The portfolio rule of these tactical target date funds (TTDFs) is extremely simplified relative to the optimal one, making it easy to implement and communicate to investors. We show that saving for retirement in TTDFs generates economically large welfare gains, even after we introduce turnover restrictions and transaction costs, and after taking into account parameter uncertainty. Crucially, we show that this predictability is uncorrelated with individual household risk, confirming that households are in a prime position to exploit it.

4.B. Bayesian Solutions for the Factor Zoo
Svetlana Bryzgalova (LBS), Jiantao Huang (LSE), and ***Christian Julliard*** *(LSE)*
Discussant: Dmitry Malakhov (FES, HSE)

We propose a novel, and simple, Bayesian estimation and model selection procedure for cross-sectional asset pricing. Our approach, that allows for both tradable and non-tradable factors, and is applicable to high dimensional cases, has several desirable properties. First, weak and spurious factors lead to diffuse, and centered at zero, posteriors for their market price of risk, making such factors easily detectable. Second, posterior inference is robust to the presence of such factors. Third, we show that flat priors for risk premia lead to improper marginal likelihoods, rendering model selection invalid. Therefore, we provide a novel prior, that is diffuse for strong factors but shrinks away useless ones, under which posterior probabilities are well behaved, and can be used for factor and (non necessarily nested) model selection, as well as model averaging, in large scale problems. We apply our method to a very large set of factors proposed in the literature, and analyse 2.25 quadrillion possible models, gaining novel insights on the empirical drivers of asset returns.

11.50 AM COFFEE BREAK

12.10 PM SESSION 5
MACRO-FINANCE
Chair: Dmitry Makarov (ICEF, HSE)

5.A. Exchange Rate Exposure and Firm Dynamics
*Juliana Salomao (Minnesota) and **Liliana Varela** (LSE)*
Discussant: Udara Peiris (ICEF, HSE)

This paper develops a heterogeneous firm-dynamics model with endogenous currency debt composition to jointly study financing and investment decisions in developing economies. In our model, firms' foreign currency borrowing arises from a trade-off between exposure to currency risk and growth. We assess econometrically the pattern of foreign currency borrowing using firm-level census data on Hungary, calibrate the model and quantify its aggregate impact. Our counterfactual exercises show that foreign currency borrowing can lead to higher growth and that the efficiency of the banking sector to screen productive and capital-scarce firms is essential to reap up the benefits of this financing.

5.B. Prudential policies and systemic risk: the role of interconnections
***Madina Karamysheva** (FES, HSE) and Ekaterina Seregina (Bocconi)*
Discussant: Alexander Michaelides (Imperial)

The impact of prudential policies in open economies depends not only on their intrinsic efficacy but also on the feedback of the policy through close financial partners. Using a dataset of advanced countries, we find that prudential policy measures reduce systemic risk in the financial system in the 2000-2014 time period. We show that indirect effect in case of uniform interventions enforces the direct one and accounts for up to 87% of total risk reduction. The policies though remain insignificant for GIIPS countries which stay dependent on actions and responses of their financial counterparties.

2.00 PM LUNCH BREAK

BUS TOUR

CONFERENCE DINNER

Keynote speaker

Mikhail Chernov

UCLA

Mikhail Chernov is a Professor of Finance at Anderson School of Management at the University of California, Los Angeles. He holds a PhD in Business Administration from Pennsylvania State University. Mikhail Chernov focuses on macro-based asset pricing, derivatives, fixed income and financial econometrics. Professor Chernov's academic publications have earned him numerous awards. Among others he has published in Journal of Financial Economics, Review of Financial Studies, Journal of Financial and Quantitative Analysis, Journal of Finance, Journal of Econometrics, Journal of Financial Econometrics, Journal of Business and Economic Statistics.

Conference organizers

Christian Julliard

London School of Economics, LFE Research coordinator

Christian Julliard is an Associate Professor of Finance and a Senior Research Associate of the Financial Market Group (FMG) at the London School of Economics. He was awarded a PhD by the Department of Economics at Princeton University. His research interests span Macroeconomics, Asset Pricing, Applied Econometrics, International Economics, Networks, Market Microstructure. His research has been published in the Journal of Political Economy, Review of Financial Studies, Journal of International Economics.

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Alexei Boulatov is a Full Professor at the International College of Economics and Finance, Higher School of Economics. He holds a PhD in Finance from the University of California, Berkeley. His main areas of interest are Market Microstructure and Informational Economics. Alexei Boulatov has published in the Review of Economic Studies, Review of Financial Studies, Economic Theory.

Vladimir Sokolov

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Vladimir Sokolov is an Associate Professor at the International College of Economics and Finance of the Higher School of Economics and Head of the International Laboratory in Financial Economics. He holds a PhD in Economics from the University of Notre Dame. The main research interests of Vladimir are Banking, Empirical Finance, and International Trade. His research has been published in the Review of Finance, Journal of Empirical Finance, Review of International Economics.

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Sudheer Chava is Alton M. Costley Chair and a Professor of Finance at Scheller College of Business at Georgia Tech. He received his PhD from Cornell University in 2003. Dr. Chava's research interests are in Credit Risk, Banking, FinTech, Empirical Asset Pricing and Corporate Finance. He has published extensively in the top journals in Finance including Journal of Finance, Journal of Financial Economics, Review of Financial Studies, Management Science, Review of Finance, Journal of Monetary Economics and Journal of Financial and Quantitative Analysis.

Pierre Collin-Dufresne

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Pierre Collin-Dufresne is a Full Professor of Finance at the Ecole Polytechnique Fédérale de Lausanne. Pierre obtained a PhD in Finance from HEC School of Management. Pierre's teaching and research interests include Asset and Contingent Claim Pricing, Fixed Income Securities, Default Risk, Emerging Markets, International Finance, and Real Estate Economics. His research has been published in refereed journals such as Econometrica, Journal of Finance, and Journal of Derivatives.

Vincent Fardeau

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Vincent Fardeau is an Assistant Professor at the International College of Economics and Finance of the Higher School of Economics. He obtained his PhD in Finance from the London School of Economics. His research interests include Financial Markets with Frictions, Liquidity, Delegated Portfolio Management.

Anastassia Fedyk

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Anastassia Fedyk is an Assistant Professor of finance at the Haas School of Business. Fedyk holds a PhD in Business Economics from Harvard University. Her research focuses on behavioral biases in individual and group decision-making, particularly concerning information and belief formation. She studies how information from a variety of sources, including financial news and individual employment records, influences asset prices.

Luca Gelsomini

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Luca Gelsomini is an Assistant Professor at the International College of Economics and Finance of the Higher School of Economics and a Research Fellow at the International Laboratory of Financial Economics. He holds a PhD in Economics from the University of Warwick. His research interests include Financial Economics, Financial Regulation, Financial Accounting, Economics of Information.

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Dmitry Livdan is an Associate Professor of Finance at the Haas School of Business, University of California, Berkeley and Associated Researcher at the International Laboratory of Financial Economics of the Higher School of Economics. He received a PhD in Finance from the Wharton School, University of Pennsylvania, and a PhD in Physics from the City University of New York. His main research interests are Corporate Finance, Asset Pricing, and Market Microstructure. His research has been published in the Review of Economic Studies, Journal of Finance, the Review of Financial Studies, the Journal of Financial Economics, the Journal of Financial Markets, Review of Accounting Studies, and Critical Finance Review.

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Dmitry Malakhov is a Senior Lecturer at the Faculty of Economic Sciences at the Higher School of Economics. His research interests span Econometrics, Econometric Analysis, Financial Econometrics, Macroeconometrics, Macroeconomics, Theoretical Econometrics, and Applied Econometrics. Dmitry Malakhov has publications in Applied Econometrics and Risk Management in Credit Organization.

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Alexander Michaelides is a Professor of Finance at Imperial College Business School. He holds a PhD in Economics from Princeton University. Alexander Michaelides' research interests include household finance, asset pricing with heterogeneous agents and financial frictions, housing markets and topics in the intersection of macroeconomics and finance. He has published among others in Journal of Financial Economics, Financial Management, Journal of Financial and Quantitative Analysis, Review of Financial Studies, Journal of Finance American Economic Review, Economics Letters, Journal of Econometrics, etc.

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Philippe Mueller is a Professor of Finance at Warwick Business School, University of Warwick. He obtained his PhD in Finance and Economics from Columbia University. His research is in the areas of Asset Pricing, Macro-Finance, Financial Econometrics, Fixed Income, Volatility, Monetary Policy, Foreign Exchange, Banking. Philippe Mueller has published in Journal of Finance, Journal of Financial Economics, Review of Finance, Review of Financial Studies.

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Maria Semenova is a Senior Research Fellow at CInSt and an Associate Professor at the Faculty of Economic Sciences at the Higher School of Economics. Maria has got her PhD from the Higher School of Economics. Her research interests are in the field of Banking in emerging markets, Microeconomics of banking, Household finance. Maria Semenova has published in Journal of Financial Stability, Emerging Markets Finance and Trade, Personality and Individual Differences, Eastern European Economics, Comparative Economic Studies.

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