2011 Auckland Finance Meeting

16-17 December 2011

Department of Finance
Faculty of Business and Law
AUT University, Auckland, New Zealand

Kia Ora and welcome to the 2011 Auckland Finance Meeting.

This is the first year that the Department of Finance at AUT University hosts the Auckland Finance Meeting. The aims of this academic event are to bring together empirical finance researcher in a small but high-quality meeting which facilitates the dissemination and discussion of empirical financial research and the establishment of research networks. To facilitate these, we have allocated 40 minutes per paper, allowing for more elaborate and detailed presentation and discussion. In addition, the relatively small scale of the event allows for more in-depth discussion and assists in building networks. For this year I think, we have been quite successful in accomplishing these aims. Out of a total of 44 submitted papers, we have made a selection of 17 high-quality papers. The meeting also takes on a global character, with presenters from the US, Europe, Asia and of course New Zealand's North Island, South Island, and West Islands (Australia).

No academic meeting would be complete without a keynote speech, and we are honoured to have our distinguished speaker, Prof. Robert Webb. Prof. Webb has been the editor of the Journal of Futures Markets for many years. He is a distinguished researcher. We are very grateful for Prof. Webb's contribution to this event.

A great big thank you goes to all members of the program selection committee. Their support and effort in producing high-quality and timely reviews is essential in developing a high-quality conference programme.

Special thanks go to Prof. Alireza Tourani-Rad, Chair of the Department of Finance at the Auckland University of Technology, for his continuous input and support and to Ms Noni Wise for her superb administrative support. We are also thankful to our sponsors, the AUT Business School and the Department of Finance, whose financial support has made the organization of this event possible.

I thank all participants of this event. Obviously, their contributions through presentations, discussions and session chairing are crucial in making this event successful.

Finally, I hope that you will have a stimulating meeting, and that you will have a great time in the City of Sails, Auckland.

Bart Frijns
Meeting Organizer

2011 Auckland Finance Meeting

Program Selection Committee

Professor Rainer Baule, University of Siegen, Germany
Dr Dirk Baur, University of Technology Sydney, Australia
Professor Dick van Dijk, Erasmus University Rotterdam, The Netherlands
Dr Aaron Gilbert, Auckland University of Technology, New Zealand
Professor Janice How, Queensland University of Technology, Australia
Associate Professor Stefanie Kleimeier, Maastricht University, The Netherlands
Professor Olaf Korn, University of Goettingen, Germany
Professor Chandrasekhar Krishnamurti, University of Southern Queensland, Australia
Professor Ming-Hua Liu, Auckland University of Technology, New Zealand
Professor Thorsten Lehnert, Luxemburg School of Finance, Luxembourg
Professor Eva Liljeblom, Hanken School of Economics, Finland
Associate Professor Ben Marshall, Massey University, New Zealand
Professor Aline Muller, University of Liege, Belgium
Professor Alireza Tourani-Rad, Auckland University of Technology, New Zealand
Professor Yiuman Tse, University of Texas San Antonio, USA
Associate Professor Peiming Wang, Auckland University of Technology, New Zealand
Professor Ania Zalewska, University of Bath, United Kingdom
Dr Remco Zwinkels, Erasmus University Rotterdam, The Netherlands

Invited Speaker

Professor Robert I. Webb, Paul Tudor Jones II Professor of Commerce, KAIST Graduate School of Finance, Seoul, Korea.

Sponsors

Faculty of Business and Law, Auckland University of Technology, New Zealand
Department of Finance, Auckland University of Technology, New Zealand

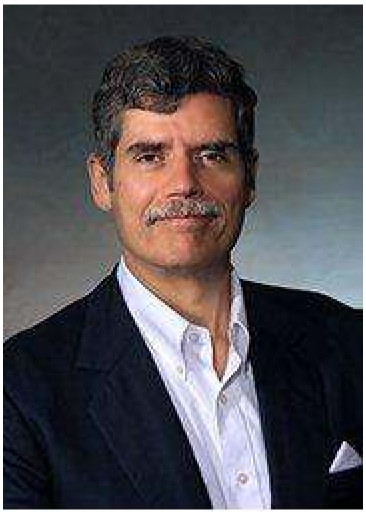
Meeting Organizer

Associate Professor Bart Frijns, Auckland University of Technology, New Zealand

Administrative Support

Ms Noni Wise, Auckland University of Technology, New Zealand

Invited Speaker - Professor Robert I. Webb

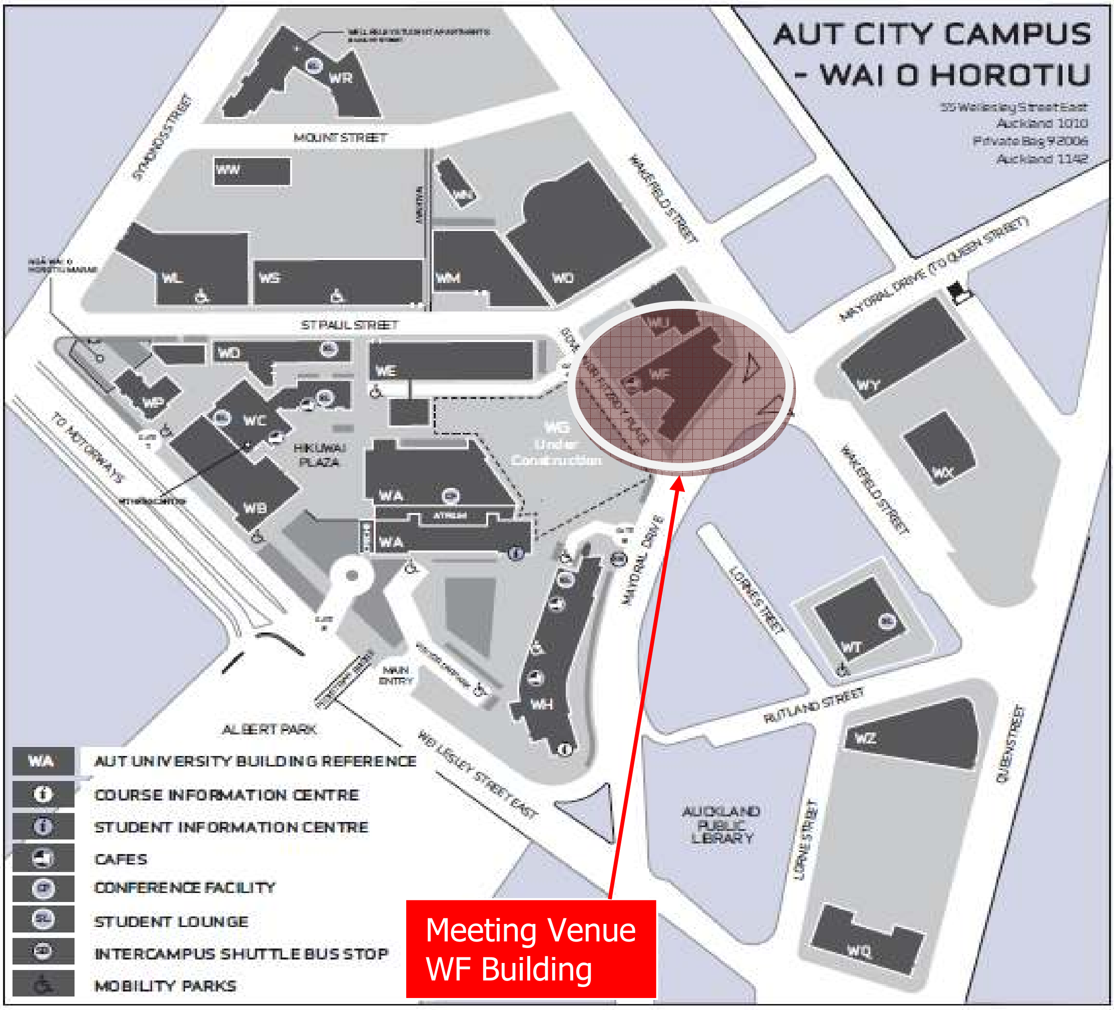


Bob Webb is the Paul Tudor Jones II Research Professor at the McIntire School of Commerce and a Visiting Professor at the Darden Graduate School of Business at the University of Virginia in Charlottesville, USA. He also holds a joint appointment as a professor at the Korea Advanced Institute of Science and Technology (KAIST) Business School in Seoul, Korea (KAIST Graduate School of Finance).

Bob serves as the Editor of the *Journal of Futures Markets*—a leading finance journal that specializes in academic articles on futures, options, and other derivative securities. His experience includes: trading fixed income securities for the Investment Department of the World Bank (*Consultant*); trading financial futures and options on the floor of the Chicago Mercantile Exchange (*Member*); designing new financial futures and option contracts for the Chicago Mercantile Exchange (*Senior Financial Economist*); analyzing the effects of deregulating the financial services industry, among others, at the Executive Office of the President, Office of Management and Budget; (*Senior Financial Economist*) examining issues related to international futures markets at the U.S. Commodity Futures Trading Commission (*Senior Financial Economist*). Bob has also consulted on risk management issues for the Asian Development Bank in Manila. He formerly taught at the Graduate School of Business at the University of Southern California.

Bob earned his M.B.A. and Ph.D., degrees in finance from the University of Chicago and his B.B.A., degree from the University of Wisconsin at Eau Claire. Bob has published his research in a number of academic journals including the *Journal of Econometrics*, the *Journal of Business and Economic Statistics*, the *Journal of Futures Markets*, and the *Southern Economic Journal* among others. He has also published commentary on contemporary issues in the financial press including: *The Wall Street Journal*; *Investor's Business Daily*; the *Nihon Keizai Shimbun*; and the *Nikkei Weekly*. He is the author of the books, *Trading Catalysts: How Events Move Markets and Create Trading Opportunities*, (FT Press Financial Times 2007) and *Macroeconomic Information and Financial Trading* (Blackwell 1994).

Meeting Venue



The meeting will be held at the AUT City Campus – WF Building, Level 7, 42 Wakefield Street. The building can be accessed from Level 1 on Governor Fitzroy Place

Detailed Conference Programme

Friday 16 December

Registration open from	**8.00**	**Lobby Level 7**

Session 1		**8.30-10.30**	**WF710**
Session Chair	Bart Frijns (Auckland University of Technology)		
	Volatility, Investor Uncertainty, and Dispersion *Ronald Huisman (Erasmus University Rotterdam)* *Nico van der Sar (Erasmus University Rotterdam)* ***Remco Zwinkels*** *(Erasmus University Rotterdam)*		
Discussant:	Glenn Boyle (University of Canterbury)		
	Information Asymmetry and Cross-Border Strategic Alliances *Sian Owen (University of New South Wales)* ***Alfred Yawson*** *(University of Adelaide)*		
Discussant:	Michael Keefe (Victoria University Wellington)		
	Advisory Directors ***Olubunmi Faleye*** *(Northeastern University)* *Rani Hoitash (Bentley University)* *Udi Hoitash (Northeastern University)*		
Discussant:	Alireza Tourani-Rad (Auckland University of Technology)		

Coffee Break	**10.30-11.00**	**Lobby Level 7**

Session 2	**11.00-13.00 WF710**
Session Chair	Glenn Boyle (University of Canterbury)
	Trading Behavior of Style and Multi-Style Investors *Douglas Blackburn (Fordham University)* *William Goetzmann (Yale University)* ***Andrey Ukhov*** *(Cornell University)*
Discussant:	Remco Zwinkels (Erasmus University Rotterdam)
	The Dynamics of Credit Default Swap Spreads and Equity Volatility ***José Da Fonseca*** *(Auckland University of Technology)* *Katrin Gottschalk(Auckland University of Technology)*
Discussant:	Dirk Baur (University of Technology, Sydney)
	The effect of political connections on the level and value of cash holdings: International evidence ***Yuanto Kusnadi*** *(City University of Hong Kong)* *K.C. John Wei (Hong Kong University of Science and Technology)*
Discussant :	Joseph Alba (Nanyang Technological University)

Lunch	**13.00-14.00**	**Lobby Level 7**

Session 3	**14.00-16.00 WF710**
Session Chair	Alireza Tourani-Rad (Auckland University of Technology)
	The Market Microstructure of the European Climate Exchange *Bruce Mizrach (Rutgers University)* ***Yoichi Otsubo*** *(Luxembourg School of Finance)*
Discussant:	Bart Frijns (Auckland University of Technology)
	Price reactions to equity cross-listings on major financial markets: A Reassessment of the role of international financial integration and investor awareness *Francesca Carrieri (McGill University)* ***Xavier Mouchette*** *(University of Liege)* *Aline Muller (University of Liege)*
Discussant:	Alfred Yawson (University of Adelaide)
	Price Discovery in US-Canadian Cross-listed Shares *Bart Frijns (Auckland University of Technology)* ***Aaron Gilbert*** *(Auckland University of Technology)* *Alireza Tourani-Rad (Auckland University of Technology)*
Discussant:	Andrey Ukhov (Cornell University)

Coffee Break	**16.00-16.30**	**Lobby Level 7**

	Invited Speech	16.30-17.15	WF 710
	Speaker: *Prof. Robert Webb (KAIST Business School)* **Trading and Fat Tails** Financial economists have known for a long time that the return distributions of many speculative price series are characterized by fat tails. However, some of the most extreme price moves are trading-induced--that is, the result of predatory trading or game-like behavior rather than a response to fundamental information. A number of examples are given and the implications for academic research and regulatory policy assessed.		

	Dinner	18.45-22.30
	Bus departs from WF building	18.45
	Dinner at Mecca Stonehouse	19.00 – 22.00
	Bus departs from Mecca Stonehouse	22.00

Conference Dinner Venue

Mecca Stonehouse Cafe, 44 Tamaki Drive, Mission Bay, Auckland

Saturday 17 December

Session 4A		**8.30-9.50**	**WF710**
Session Chair	Dirk Baur (University of Technology Sydney)		
	ASX 30-Day Interbank Futures: Investigating the process of price discovery following RBA cash target rate announcements ***Lee Smales*** *(University of New South Wales)*		
Discussant:	Aaron Gilbert (Auckland University of Technology)		
	Do industries lead the stock market in Australia? An examination of the gradual information diffusion hypothesis ***Qiongbing Wu*** *(University of Western Sydney)* *Abul Shamsuddin (Newcastle Business School)*		
Discussant:	Xavier Mouchette (University of Liege)		

Session 4B		**8.30-9.50**	**WF 711**
Session Chair	Yuanto Kusnadi (City University of Hong Kong)		
	Time Variation in the Market Value of Firms' Cash Holdings ***Michael Keefe*** *(Victoria University Wellington)* *Robert Kieschnick (University of Texas at Dallas)*		
Discussant:	Yuanto Kusnadi (City University of Hong Kong)		
	New Zealand Corporate Boards in Transition: Composition, Activity and Incentives Between 1995 and 2010 ***Glenn Boyle*** *(University of Canterbury)* *Xu Ji (University of Canterbury)*		
Discussant:	Olubunmi Faleye (Northeastern University)		

Coffee Break **9.50-10.20** **Lobby Level 7**

Session 5A	**10.20-11.40 WF710**
Session Chair	Yoichi Otsubo (Luxembourg School of Finance)
	The Financialization of Commodities, Contagion and Synchronization ***Dirk Baur*** *(University of Technology, Sydney)*
Discussant:	Xisong Jin (Luxembourg School of Finance)
	Does the GARCH Structural Credit Risk Model Make A Difference? ***Xisong Jin*** *(Luxembourg School of Finance)* *Thorsten Lehnert (Luxembourg School of Finance)* *Francisco Nadal De Simone (Banque centrale du Luxembourg)*
Discussant:	José Da Fonseca (Auckland University of Technology)

Session 5B	**10.20-11.40 WF710**
Session Chair	Aaron Gilbert (Auckland University of Technology)
	Sudden crash or long torture: The timing of market reactions to operational loss events ***Elisabeth Biell*** *(University of Liege)* *Aline Muller (University of Liege)*
Discussant:	Lee Smales (University of New South Wales)
	Corporate Governance and FDI: Firm-Level Evidence from Japanese FDI into the US *Peiming Wang (Auckland University of Technology)* ***Joseph Alba*** *(Nanyang Technological University)* *Donghyun Park (Asian Development Bank)*
Discussant:	Qiongbing Wu (University of Western Sydney)

Boat to Waiheke 12.45 Ferry Terminal Building

Abstracts

Session 1 – Paper 1

Volatility, Investor Uncertainty, and Dispersion

Huisman, Ronald (Erasmus University Rotterdam)
van der Sar, Nico (Erasmus University Rotterdam)
Zwinkels, Remco (Erasmus University Rotterdam)

This paper focuses on investor expectations about the volatility of the equity market. We show that the market's expected volatility can be decomposed into average individual expected volatility plus the cross-sectional dispersion between market participants' expected returns. This has large implications for our way of thinking about market volatility. Our result implies that it is per definition the case that individuals are overconfident, since focusing on investors' expected volatility only does not take the cross-sectional dispersion into account. Hence, individual estimates of market volatility will always be too low compared to market volatility, except for the case that investors are homogeneous such that there is no disagreement about expected return.

Session 1 – Paper 2

Information Asymmetry and Cross-Border Strategic Alliances

Sian Owen (University of New South Wales)
Alfred Yawson (University of Adelaide)

We examine the role of information asymmetry in cross-border strategic alliances. We construct a comprehensive measure of information asymmetry based on geographical distance and the proportion of worldwide GDP the partner's home country represents. Consistent with the theory that foreign investors tend to under-invest if they are handicapped in terms of domestic market information, we find strategic alliances involving US firms to be common in countries with low information costs. We further show that low country investment risk is a significant determinant of cross-border strategic alliances only in nations with low information costs. Further we find that the probability of selecting a private or governmental organization partners increases in nations with weak institutions. Due to limited disclosure requirements, these private and governmental organizations might be used as avenues where corrupt practices that could breach US Foreign Corrupt Practices Act of 1977 might be perpetuated. Our results are robust to controlling for macro-economic conditions, stock market development, the corporate tax rate, ownership restrictions and several differing econometric techniques.

Session 1 – Paper 3

Advisory Directors

Olubunmi Faleye (Northeastern University)

We study the characteristics and effects of directors dedicated to providing strategic counsel to the chief executive officer (CEO). We find that advisory directors possess professional expertise and experience most valuable to the CEO in strategic decision making: entrepreneurial background, CEO-level experience, advanced degrees, and longer board tenures. We also find that these directors are associated with better strategic decisions. Acquisition returns are higher at companies with advisory directors while time to deal completion is shorter. Similarly, advisory directors are associated with increased and better-quality corporate innovation and higher firm value. The value effect is stronger when advising needs are high and when the CEO is less powerful and thus more amenable to board influence on strategy. We do not find that advisory directors diminish the effectiveness of board monitoring.

Session 2 – Paper 1

Trading Behavior of Style and Multi-Style Investors

Douglas Blackburn (Fordham University)
William Goetzmann (Yale University)
Andrey Ukhov (Cornell University)

We investigate whether investors tend to form expectations about different categories of assets in a consistent, similar fashion, or whether an investor would apply different models for forming expectations depending on the classification or characteristics of the assets. We investigate the trading behavior of investors who specialize in value assets, investors who specialize in growth assets, and investors who trade both value and growth. We find important systematic differences in trading tendencies. Growth investors tend to follow a momentum buying and contrarian selling strategy and tend to rely on short term return signals while value investors follow a contrarian buying and momentum selling strategy and tend to rely on longer-term return signals. Surprisingly, multi-style investors, those who trade both value and growth, use different strategies depending on the style of asset being traded. When trading growth, the multi-style investor uses a momentum buy and contrarian sell strategy. However, when trading value, the multi-style investor uses a contrarian buy and momentum sell strategy. Hence, the multi-style investor trades like both the value and the growth style-investors. Investors adopt different trading strategies depending on the characteristics of asset being traded.

Session 2 – Paper 2

The Dynamics of Credit Default Swap Spreads and Equity Volatility

José Da Fonseca (Auckland University of Technology)
Katrin Gottschalk(Auckland University of Technology)

The aim of this paper is to study the Japanese and Australian credit default swap markets. We perform a panel analysis in order to understand the determinants of the credit default swap spread. We find consistent results with those obtained for the US market in the existing literature. Among the important variables is the volatility that we compute using high frequency data. In a second part we focus on the joint dynamics of the credit default swap spread and realized volatility. Performing a VAR analysis we find that the standard afine model might not be a convenient framework for modeling the joint behavior of the credit and equity markets.

Session 2 – Paper 3

The effect of political connections on the level and value of cash holdings: International evidence

Yuanto Kusnadi (City University of Hong Kong)
K.C. John Wei (Hong Kong University of Science and Technology)

In this paper, we examine the role of political connections on corporate liquidity policies and their consequences in an international setting. We find that managers of politically connected firms have a tendency to hoard more cash than their non-connected counterparts. Moreover, presence of political connections reduces the value of cash holdings. Further analysis reveals that our main findings are more pronounced for firms in emerging markets as well as for firms in countries with weak legal protection of investors and high levels of corruption. Overall, our empirical results corroborate previous findings on the agency cost explanation for corporate cash holdings.

Session 3 – Paper 1

The Market Microstructure of the European Climate Exchange

Bruce Mizrach (Rutgers University)
Yoichi Otsubo (Luxembourg School of Finance)

This paper analyzes the market microstructure of the European Climate Exchange, the largest EU ETS trading venue. The ECX captures 2/3 of the screen traded market in EUA and more than 90% in CER. 2009 Trading volumes total €22 billion and are growing, with EUA transactions doubling, and CER volume up 61%. Spreads range from €0.02 to €0.06 for EUA and from €0.07 to €0.18 for CER. Market impact estimates imply that an average trade will move the EUA market by 1.08 euro centimes and the CER market 4.29. Both Granger-Gonzalo and Hasbrouck information shares imply that approximately 90% of price discovery is taking place in the ECX futures market. We find imbalances in the order book help predict returns for up to three days. A simple trading strategy that enters the market long or short when the order imbalance is strong is profitable even after accounting for spreads and market impact.

Session 3 – Paper 2

Price reactions to equity cross-listings on major financial markets: A Reassessment of the role of international financial integration and investor awareness

Francesca Carrieri (McGill University)
Xavier Mouchette (University of Liege)
Aline Muller (University of Liege)

Cross-listing of a company's shares on an international exchange is associated with multiple effect –revaluation, increased liquidity, informational effects, or corporate governance improvements. This paper focuses on the price effects occurring around cross-listings, using more detailed and scrupulous investigation of two particular arguments. We examine how (i) the mitigation of the market segmentation and (ii) the decrease in the shadow cost of information improves our understanding of stock price reaction to cross-listings. Using a hand-collected database of 574 firms cross-listing on four major international markets from 1982 to 2009, our analysis adopts a rigorous assessment of firms' segmentation prior to cross-listing dates –rooted in Errunza and Losq's (1985) model- and uses the change in analysts coverage to proxy for Merton's (1987) investor awareness factor. Our results lend support for both hypotheses, but also highlight differences across host exchanges and home countries. Informational effects are mainly detected for cross-listings in the US, while segmentation arguments seem to be highly for firms coming from emerging markets.

Session 3 – Paper 3

Price Discovery in US-Canadian Cross-listed Shares

Bart Frijns (Auckland University of Technology)
Aaron Gilbert (Auckland University of Technology)
Alireza Tourani-Rad (Auckland University of Technology)

Given the increasing integration of markets around the world, concerns have been expressed about the survival of smaller national exchanges in competition with larger, more liquid exchanges. Several theories have been put forward regarding the likely long-term survival of smaller exchanges, but little actual empirical evidence has been presented to suggest which of the theories, if any, are correct. We explore this issue within the setting of Canadian and US firms cross-listing onto each other's exchanges using the component share measure of each exchanges contribution to price discovery. We look at Gonzalo and Granger (1995) component shares over a 14 year period from 1996-2009 and find that each market is on average informationally dominant for its own companies, with the exception of Canadian firms listing on the NASDAQ. We also find that there is considerable time variation in the component shares, but little evidence that the Canadian market is systematically losing competitiveness to the US exchanges as has been feared. We also find that known determinants of the level of price discovery appear unrelated to the changes in price discovery.

Session 4A – Paper 1

ASX 30-Day Interbank Futures: Investigating the process of price discovery following RBA cash target rate announcements

Lee Smales (University of New South Wales)

The article examines microstructure issues in the Australian Interbank futures market by analyzing the price adjustment process following scheduled Cash Target Rate announcements by the Reserve Bank of Australia. In characterizing the market response, three distinct stages of price formation and liquidity provision are identified. Market expectations around the RBA decision are derived explicitly from 30-Day Interbank futures. The first trade following the RBA decision occurs after 220 seconds on average, and after 234 seconds and 1.73 trades the market has adjusted to the theoretical settlement price. Deviations from theoretical prices post-announcement are common, particularly when a large amount of uncertainty exists around the RBA decision. The potentially costly issue of stale price quotes is also addressed.

Session 4A – Paper 2

Do industries lead the stock market in Australia? An examination of the gradual information diffusion hypothesis

Qiongbing Wu (University of Western Sydney)
Abul Shamsuddin (Newcastle Business School)

Using the monthly data for more than 1700 Australian stocks over the period from 1990 to 2009, we extend the work of Hong et al (*JFE*, 2007) to investigate whether industry portfolio returns predict the aggregate market. We find that a few industries, such as General Retailers, Industrial Engineering and Oil Equipment & Services, significantly lead the market even controlling for well-recognized market predictors. However, we do not find that the ability of an industry to predict the market is closely related to its capacity to forecast economic growth as documented by Hong et al (2007) for the U.S. markets. Instead, we find that the ability of an industry to lead the market is significantly moderated by proxies for investor recognition, providing evidence in support of the gradual-information-diffusion hypothesis. We also find that the predictive power of industry portfolio returns is weaker during periods of economic recession.

Session 4B – Paper 1

Time Variation in the Market Value of Firms' Cash Holdings

Michael Keefe (Victoria University Wellington)
Robert Kieschnick (University of Texas at Dallas)

We decompose the effect of cross-sectional characteristics and macroeconomic variables on the changing market value of firm cash holdings. We find the market value of cash holdings: (i) changes over time; (ii) changes over time due to changing cross-sectional firm characteristics such as firm size and R&D intensity; (iii) increases during states of economic growth and decreases during states of economic decline. Our evidence suggests that both cross-sectional changes in firm composition and time variation in macroeconomic variables affect the market value of firm cash holdings.

Session 4B – Paper 2

New Zealand Corporate Boards in Transition: Composition, Activity and Incentives Between 1995 and 2010

Glenn Boyle (University of Canterbury)
Xu Ji (University of Canterbury)

We document changes in New Zealand corporate board characteristics between 1995 and 2010, a period centred around the 2003 introduction of the NZX Corporate Governance Best Practice Code. Unsurprisingly, the representation of non-executive, independent and female directors on NZ boards rose during the period, as did real chair and director fees and the importance of board committees, while average board size fell. Perhaps more surprisingly, much of this movement occurred before 2003. However, the magnitude of these changes frequently varies according to firm size, and there are some intriguing differences between New Zealand board characteristics and those prevailing in other, larger, countries. We use this information to identify a number of unanswered questions about New Zealand corporate boards.

Session 5A – Paper 1

The Financialization of Commodities, Contagion and Synchronization

Dirk Baur (University of Technology, Sydney)

The financialization of commodities may change the co-movement with other assets such as stocks and bonds, reduce the benefits of diversification and increase systemic risks. This paper uses three measures of co-movement to provide a detailed picture of co-movement changes possibly associated with financialization. The empirical analysis covering data from 1990 to 2010 shows that co-movements of commodities with other asset classes fluctuated around their long-run average and only increased during the Global Financial Crisis and its aftermath. The results suggest that contagion was the main driver of this effect and that financialization increased the probability of contagion. The findings also suggest that crises synchronize cycles.

Session 5A – Paper 2

Does the GARCH Structural Credit Risk Model Make A Difference?

Xisong Jin (Luxembourg School of Finance)
Thorsten Lehnert (Luxembourg School of Finance)
Francisco Nadal De Simone (Banque centrale du Luxembourg)

In this study, we empirically investigate and evaluate various approaches to structurally assess credit risk using a panel of European banking groups. We consider not only the standard approaches in the literature, but also include models that allow the asset volatility to be stochastic and models that allow for short- and long-term components of default risk. Models are evaluated by comparing their ability to correctly and timely identify changes in risk indicators. Surprisingly, we find that the GARCH structural credit risk model, despite its more sophisticated modeling approach, typically underperforms more basic models. Importantly for macro-prudential policy, the combined Merton/GARCH-MIDAS model performs best and reflects important market events earlier than the other approaches.

Session 5B – Paper 1

Sudden crash or long torture: The timing of market reactions to operational loss events

Elisabeth Biell (University of Liege)
Aline Muller (University of Liege)

An emerging literature looking at the market reaction to operational loss announcements concludes that markets appear to overreact. This overreaction is commonly interpreted as reputational damage. We revisit this issue by focusing on the market timing in order to highlight two variables, the start and the speed of the stock market response. In cases of internal fraud, the negative market reaction materializes earlier and faster. Further, business lines and the market trend can influence the market reaction. The relative magnitude of overreactions is strongly positive correlated to our estimate of the reaction time.

Session 5B – Paper 2

Corporate Governance and FDI: Firm-Level Evidence from Japanese FDI into the US

Peiming Wang (Auckland University of Technology)
Joseph Alba (Nanyang Technological University)
Donghyun Park (Asian Development Bank)

Better corporate governance can reduce the scope for increasing shareholder value and thus discourage M&A FDI inflows. Sound governance may also discourage non-M&A FDI inflows in light of the complementary relationship between M&A and non-M&A FDI. We use firm-level evidence to empirically examine the effect of US corporate governance on Japanese M&A and non-M&A FDI. We find that two landmark US corporate governance regulations help explain the sharp drop in both Japanese M&A and non-M&A FDI into the US during the 1990s. Our evidence suggests that corporate governance may affect both M&A and non-M&A FDI.

Meeting Participants

Name	Affiliation	Session
Alba, Joseph	Nanyang Technological University	2, 5B
Baur, Dirk	University of Technology Sydney	2, 4A, 5A
Biell, Elisabeth	University of Liege	5B
Boyle, Glenn	University of Canterbury	1, 2, 4B
Da Fonseca, Jose	Auckland University of Technology	2, 5A
Faleye, Olubunmi	Northeastern University	1, 4B
Frijns, Bart	Auckland University of Technology	1, 3
Gilbert, Aaron	Auckland University of Technology	3, 4A, 5B
Jin, Xisong	Luxembourg School of Finance	5A
Keefe, Michael	Victoria University Wellington	1, 4B
Kusnadi, Yuanti	City University of Hong Kong	2, 4B
Mouchette, Xavier	University of Liege	3, 4A
Otsubo, Yoichi	Luxembourg School of Finance	3, 5A
Smales, Lee	University of New South Wales	4A, 5B
Tourani-Rad, Alireza	Auckland University of Technology	1, 3
Ukhov, Andrey	Cornell University	2, 3
Webb, Robert	KAIST Graduate School of Finance	Invited Speaker
Wu, Qiongbing	University of Western Sydney	4B, 5B
Yawson, Alfred	University of Adelaide	1, 3
Zwinkels, Remco	Erasmus University Rotterdam	1, 2

AUT

UNIVERSITY

TE WĀNANGA ARONUI O TAMAKI MAKAU RAU