

## Forthcoming Colloquium

# Sargent and Sims

## Macro-Econometric Perspectives

On 29 May FMG will host a special one-day colloquium which will focus on the distinctive perspectives of Thomas Sargent and Christopher Sims in the fields of macro dynamics, econometric evaluation and policy analysis.

Sargent and Sims, intellectual leaders in the area of macroeconomics, started their research endeavours in the peak of the monetarist-Keynesian controversies of the sixties, and shared the then unique environment of the University of Minnesota. Their research agendas continue

to pursue tough questions on, to them, as yet unsatisfactory aspects of their own significant contributions to macroeconomics. Moreover, they have inspired generations of their own graduate students who have, in their own rights, made a mark on the profession. To reflect this, the colloquium will include contributions from Tim Cogley and Eric Leeper.

The colloquium papers, indicated below, illustrate the rich array of issues to be covered:

Timothy Cogley joint with Thomas Sargent 'Inflation Gap Persistence'

Eric M Leeper joint with Hess Chung 'What Has Financed Government Debt?'

Thomas J Sargent joint with Lars Hansen 'Fragile Beliefs and the Market Price of Model Uncertainty'

Christopher A Sims 'Noise, Delay and Discontinuity in Economic Behaviour – Connecting Micro data with Macro Theory'

*For the full programme, see page 2*

## Corporate Governance at LSE

Corporate governance is a key concern of regulators, lawmakers and investors. Following recent high profile corporate failures, governments have reformed corporate governance systems in different ways. At the same time there has been increased production and marketing of governance ratings. In the context of the FMG Corporate Governance and Finance Research Programme, led by Professor Antoine Faure-Grimaud, researchers at FMG investigated Anglo-Saxon corporate governance systems and the effectiveness of corporate governance ratings in preventing corporate frauds. This work covers both theoretical and empirical aspects, and benefits from collaboration with various providers of proxy voting and corporate governance services.

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# Sargent and Sims

## Macro-Econometric Perspectives

29 May 2007

9.30am – 6.30pm

LSE, New Theatre, E171, East Building, Houghton Street, London, WC2A 2AE

### Programme

- 8.30am Registration
- 9am Conference Opening: **Oliver Linton** (FMG/LSE)  
Morning Session, Chair: **Andrew Patton** (FMG/LSE)
- 9.30am **Timothy Cogley** (University California, Davis)  
**Inflation Gap Persistence**  
joint with Thomas Sargent (New York University)
- 11.30am **Thomas Sargent** (New York University)  
**Fragile Beliefs and the Market Price of Model Uncertainty**  
joint with Lars Hansen (University of Chicago)
- 2.30pm Afternoon Session, Chair: **Christian Julliard** (FMG/LSE)  
**Eric Leeper** (Indiana University)  
**What Has Financed Government Debt?**  
joint with Hess Chung (Indiana University)
- 4.30pm **Christopher Sims** (Princeton University)  
**Noise, Delay and Discontinuity in Economic Behaviour**  
– Connecting Micro Data with Macro Theory
- 6pm General Discussion
- 6.30pm Concluding Remarks: **Bob Nobay** (FMG/LSE)



**Timothy Cogley**  
(University of California, Davis)



**Eric M Leeper**  
(University of Indiana)



**Thomas J Sargent**  
(New York University)



**Christopher A Sims**  
(Princeton University)

**Organisers:** Christian Julliard, Oliver Linton, Bob Nobay, Andrew Patton

The Colloquium is organised with the support of the **Bank of England**, the **LSE Economics and Finance Departments** and the **Suntory and Toyota International Centre for Economics and Related Disciplines (STICERD)** at LSE.

Please note that attendance is by invitation. Further details are available on the FMG website:  
<http://fmg.lse.ac.uk>

# Corporate Governance at LSE

The research activities under the 'Corporate Governance at LSE' programme, an FMG initiative launched in late 2005, have shown significant growth. This has included not only the development of a coherent programme of public research debates but also the expansion of our research team with new high quality faculty from across the School. The Corporate Governance group at FMG is thus established as an interdisciplinary team of researchers with backgrounds in Finance, Law, Economics and Management. This places us in an advantageous position to study some highly topical issues from an interdisciplinary perspective that will allow us to make a significant contribution to this field. Our new research agenda includes projects on the following topics:

- **Shareholder Activism:** This includes issues relating to hedge funds, both benign and malign activism, and private equity.
- **The role of Boards of Directors, their function and their relationship with shareholders:** Topics include the role of the chairman and other non-executive directors and also the identity of board members. The latter covers the board selection process (merit vs. prestige) and the impact of board gender composition on board practices and firm outcomes. Further areas of research relate to the board's relationship with external shareholders (for example how executives and directors communicate with investors) and board structure and stock price informativeness.
- **Ownership Structure:** This research aims to study how ownership structure affects performance and organisational change through comparison of data from Italy, Germany and the UK supplemented with some selected in-depth case studies. This is based on a joint project with the Bank of Italy, which gives access to some unpublished panel data on ownership in Italy.

The 'Corporate Governance at LSE' initiative is led by:

**Professor Paul Davies**, Department of Law, LSE

**Professor Antoine Faure-Grimaud**, Financial Markets Group, LSE

**Dr Thomas Kirchmaier**, MBS and Financial Markets Group, LSE

**Sir Geoffrey Owen**, Interdisciplinary Institute of Management, LSE

The 'Corporate Governance at LSE' group has been recently strengthened with the arrival of two new faculty members:

**Dr Daniel Ferreira** (Department of Management) and **Dr David Kershaw** (Department of Law). Daniel Ferreira has been a lecturer in the Department of Management at LSE since September 2006. He holds a PhD in Economics from the University of Chicago (2002). He is also a research associate at the European Corporate Governance Institute (ECGI) and at the Stockholm Institute of Transition Economics (SITE). His research focuses primarily on theoretical and empirical issues related to corporate governance.



**Daniel Ferreira**  
(Department of Management)

David Kershaw is a Lecturer in Law and joined the LSE Department of Law in 2006. Prior to joining LSE he was a Lecturer in Law at the School of Law at the University of Warwick from 2003 to 2006. He qualified as a Solicitor at Herbert Smith and practiced corporate law with Wolf Theiss & Partners, Vienna, and in the Mergers & Acquisitions Group of Shearman & Sterling in New York and London. He holds degrees from the University of Warwick and Harvard Law School. His primary research areas are corporate law and accounting regulation. Recent projects include an analysis of the balance of regulatory costs and revenue benefits to auditors of compromising their independence and objectivity, published in the *Journal of Law and Society*, and a critical evaluation of the impact of the UK's takeover defense regulation. Earlier work has looked at the economic analysis of employee ownership and employee strategic participation.



**David Kershaw**  
(Department of Law)

# Corporate Governance at LSE Research Debates

The aim of our 'Corporate Governance at LSE Research Debates' is to create a platform in which practitioners, policymakers and academics can discuss current issues in corporate governance, underpinned by the latest research evidence. Our programme of events was continued last term with a successful meeting lead by **Jonathan Rickford** (Department of Law, LSE),

on the 'Shareholder Democracy and the Case for One share: One vote'. The meeting generated large interest among distinguished academics and professionals and resulted in a stimulating debate. The presentation was discussed by **Peter Montagnon** (Association of British Insurers).

## Shareholder Democracy and the case for One share: One vote

**Jonathan Rickford, Department of Law, LSE**

**8 February 2007**



**Jonathan Rickford**  
(Department of Law, LSE)

Starting his presentation on 'Shareholder Democracy and the case for One share: One vote', **Jonathan Rickford** (Department of Law, LSE) pointed out that this topic has not only a legal dimension, but it should also be viewed from a broader social and economic perspective. Essentially, 'Shareholder Democracy' means treating alike cases alike, applying equal rules, and upholding the sense of proportionality. He argued that applying these principles in the present-day European context is easier said

than done. For example, one has to acknowledge that there are leveraged blockholders who have high control rights but low cash flow rights, or that block shareholders in general bring something to the firm and are hence understandably compensated by private benefits. Moreover, one has to recognise that due to financial innovation, investors' cash flow exposure to the firm can be separated from the voting rights by the use of derivatives.

Efforts at the EU level to reform shareholders' rights regulation introduced in the Lisbon agenda were driven by the desire to develop a liquid market for corporate control. This effort is largely resisted by entrenched shareholders and their boards. The main tools used by shareholders to become entrenched are special articles of incorporation, pyramidal ownership structures, or caps on votes. The result of these competing forces is a lack of unification and variation in practice across member countries. The UK, similar to the US, relies predominantly on the freedom of contracts and market proportionality. Even within the UK, there are examples of firms with a golden share or shares held by voting trusts. Germany maintains that it applies a one share one vote principle but, at the same time, it allows

special board nomination powers, equity preference shares, or participating bonds that are analogous to nonvoting shares. A special feature of equity regulation in France is loyalty shares. These bear one vote per share at the time you acquire it but two votes if you hold the share for long enough. This means that groups of loyal shareholders can reverse general shareholders' meeting decisions. Regulation and practice of takeovers varies as well. In the US, boards tend to protect incumbent shareholders while boards in the UK are considered to be neutral. The main UK takeover regulation is the principle-based City Code. The EU adopted the City Code model but many countries opted out from some of its main features: principle of neutrality and breakthrough.



**Peter Montagnon**  
(Association of British Insurers)

In his discussion, **Peter Montagnon** (Association of British Insurers) emphasised the need for a set of values that will allow single capital market in Europe so that capital can move freely and can be invested into the best opportunities and reap the benefits of diversification. This cannot be achieved by regulation, only the market can do it. Therefore, the regulation should facilitate this market driven process. The foundation of any regulation has to be (i) the accountability of firms to their owners, which is achieved when shareholders are able to exercise their

decision rights, and (ii) the responsibility of owners for their decisions. Peter Montagnon suggested that the guiding principle for progress on regulation should be a gradual removal of anti-proportional restrictions as vested interests may prevent a single capital market in Europe.

# Corporate Governance at LSE

## Forthcoming Corporate Governance Research Debates

### Corporate Governance and Regulation: Can there be too much of a good thing?

**Stijn Claessens**, IMF and University of Amsterdam  
Discussant: **Antoine Faure-Grimaud**, FMG/LSE

**2 May 2007, 5.30pm**

The presentation will be based on the paper: **Corporate Governance and Regulation: Can there be too much of a good thing?** Written in conjunction with Valentina Bruno (The World Bank) which has been published by the Centre for Economic Policy Research as (CEPR) Discussion Paper No 6108.

#### Abstract

For a large number of companies from different countries, we analyse how company corporate governance practices and country regulatory regimes interact in terms of company valuation. We confirm that corporate governance plays a crucial role in efficient company monitoring and shareholder protection, and consequently positively impacts valuation. We find substitution in valuation impact between corporate governance measures at the company and country level, with a possibility of over-regulation. Corporate governance appears also more valuable for companies that rely heavily on external financing, consistent with the hypothesis that corporate governance main role is to protect external financiers.

### Private Equity Roundtable Debate

**Paul Myners, Eli Talmor, Johannes Huth, Conor Kehoe, Guy Paisner**  
Chair: **Sir Geoffrey Owen**

**31 May 2007, 5.30pm**

**Paul Myners** will be giving some introductory remarks to this roundtable discussion, which will be followed by an overview of private equity from **Eli Talmor** (London Business School). Before opening up the general debate, there will be comments from practitioners or other specialists in private equity, including **Johannes Huth** (Kolberg Kravis Roberts & Co), **Conroe Kehoe** (McKinsey & Company) and **Guy Paisner** (Altius Associates).

**Paul Myners** is a respected voice on corporate governance. He was chairman of Gartmore Investment Management from 1987 to 2001. Since then he has served as chairman of Marks & Spencer, Land Securities and of the Guardian Media Group. He has also conducted several inquiries for the Government on investment issues.

**Professor Eli Talmor** is founding academic director of the Private Equity Institute at the London Business School. He was previously a professor of finance at the University of California (Irvine and UCLA), and at the Wharton School. He serves on the advisory boards of the African Venture Capital Association and ETV, a leading European venture capital lender.

**Johannes Huth**, who has been head of Kolberg Kravis Roberts & Co's London office since 2005, has had sixteen years experience of private equity. He joined KKR in 1999 and has been involved in several of the firm's European transactions, including MTU Aero Engines GmbH.

**Conor Kehoe** is a director in McKinsey & Company's London office where he serves both private equity investment firms and telecommunications and technology companies. He founded McKinsey's Private Equity practice in Europe, and has previously led its European telecoms practice.

**Guy Paisner** joined Altius Associates in 2006 as a partner, responsible for the firm's client relations and business development activities in Europe. Previously he had worked as financial journalist, as head of private equity at Financial News and launch editor of Private Equity News.

Attendance to the Research Debates is by invitation only. Further information is available on the FMG website: <http://fmg.lse.ac.uk>

# Some Issues in Estimation and Testing with Realised Volatility

## Leverhulme Trust

FMG was successful in obtaining a research grant from the Leverhulme Trust for a 24 month project on 'Estimation and Testing with Realised Volatility'. This programme of research was launched on 1 January 2007 under the leadership of **Professor Oliver Linton**. Other researchers working on this programme are **Anisha Ghosh** and **Ilze Kalnina**.

The research is divided into two main projects which relate to recent work in continuous time econometrics and their application. The first project proposes a more general model of microstructure noise that contaminates a latent price process and traces out the effects of this on the estimation of quadratic variation. This project proposes to use subsampling to construct confidence intervals and to perform hypothesis tests. The second project is concerned with small sample issues when using estimated realised volatility as regressors in the estimation of parameters associated with the unobserved quadratic variation. The research will establish the properties of the parameter estimates and propose a bias correction in the case where the estimation error is large.

### Correlated Measurement Error Model

Much of empirical finance is concerned with the measurement of risk. Recent work has involved using high frequency data to estimate a measure of risk that can be interpreted inside the prominent continuous time models of finance. However, it has been widely recognised that using all of the high frequency data that are available nowadays requires taking into account the effect of market microstructure (MS) noise. A common setting is the estimation of the quadratic variation (ie, volatility) of a latent price in the case where the observed log-price is a sum of a latent log-price that evolves as a diffusion process in continuous time and an error that captures the effect of MS noise. This is now an active area of research in financial econometrics with many contributions from leading scholars.

The first consistent estimator of quadratic variation of the latent price in the presence of a specific type of MS noise was recently proposed, called the Two Scales Realised Volatility (TSRV) estimator. It estimates the quadratic variation using a combination of realised variances computed on two different time scales. The MS noise is assumed to be independent and identically distributed and independent of the latent price. These are quite strong assumptions. Later work has allowed for serially correlated microstructure noise. The estimator has been shown to be consistent at a certain rate.

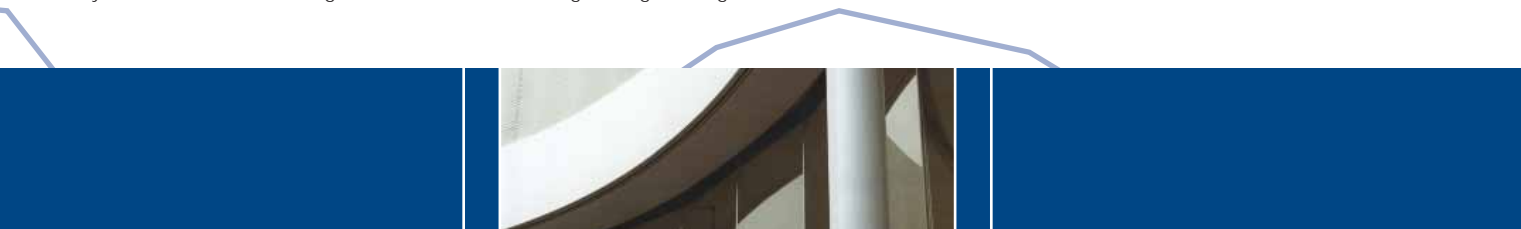
The research project proposes to generalise the measurement error model in some different directions. The first generalisation is allowing for contemporaneous correlation between MS noise and the latent returns. Another generalisation concerns the magnitude of the MS noise. Most of the literature that takes account of MS noise, assume that the variance of the MS noise is constant across sampling frequencies. The research will explicitly model the magnitude of the MS noise. Another feature of the modelling is to allow the MS noise to exhibit heteroscedasticity of unknown form. The purpose of this investigation is to evaluate the properties of the proposed estimators in the context of this more realistic measurement error structure and if necessary to propose additional estimators that work better under these conditions. It is also desirable to be able to conduct inference about the estimated quantities.

### Estimating Regression Models with Medium Frequency Realized Volatility

This project provides a unified framework for the estimation and testing of some prominent asset pricing models that were created to explain a wide variety of dynamic asset pricing phenomena, including the high average real stock return, the

low average riskless real interest rate, the high volatility of real stock returns, the low volatility of the real interest rate, the procyclical variation of stock prices, the long-horizon predictability of excess stock returns, and the countercyclical variation of stock market volatility. In all these models, assets are priced as if there were a representative investor who maximises the expected value of lifetime utility subject to a budget constraint. The models differ in their specification of the utility function and the stochastic processes for consumption and dividend growth. Empirical evaluation of these models has important implications for asset pricing, performance evaluation, and risk management.

Asset pricing models imply an Euler equation that may be solved to obtain an intertemporal relation between the conditional expected excess return of stock market investment and its conditional variance. The intercept and the slope coefficient in the above relation depends on the parameters of the utility function and those of the stochastic process for consumption and dividend growth. The research project will estimate the above relation using realised volatility as a proxy for the conditional variance and incorporate the measurement error in the volatility proxy while proving consistency and deriving the limiting distribution of the estimated parameters. Realised volatility is a nonparametric volatility measure that is void of any specific functional form assumptions about the stochastic process governing returns and is easily computed from intra-period returns. The estimated intercept and slope coefficients may then be compared to calibrated values by means of formal testing procedures.



# UBS Pensions Research Programme

## The Future of Pension Plan Funding

7-8 June 2007



The FMG is organising a conference in the context of the UBS Pensions Research Programme at LSE which will discuss the future of pension plan funding and cover issues under three main themes:

### • Retirement Savings Behaviour

This session is to examine questions related to both the accumulation and deaccumulation phases of retirement saving. Contributors in this session will discuss the determinants of retirement savings and present empirical evidence on the effects of individual characteristics, such as gender, family size and income, on the persistency rates of pension contributions. It will also discuss empirical studies on how the levels of retirement savings can be raised by enrolling employees automatically in pension plans. Discussion of the deaccumulation phase of retirement saving will focus on the issue of the optimal annuitization level for UK households.

### • The Design of Pension Plans and the Switch from DB to DC

In this session the conference papers will examine the issues of optimal portfolio allocation for defined benefit corporate pension plans and optimal design for defined contribution plans. On the topic of collective pension funds our contributors will present empirical evidence on the welfare gains, in terms of low cost and intergenerational risk sharing, and costs to heterogeneous participants of mandatory uniform contracts.

### • Implication of uncertainty to DC Pension Schemes

The focus of this session will be on the different sources of risk involved in pension plans. The discussion will involve an international comparison of the risks in defined contribution schemes. The session will also look at the effects of different sources of unhedgeable risks, such as wage indexation and longevity risk, on the valuation of pension liabilities/products and examine the impact of tax deferred retirement saving on asset prices in a general equilibrium context.

## Conference Programme

### Thursday 7 June

9.25am Opening and welcome remarks  
**David Webb** (FMG/LSE)

### Session 1 Retirement Savings Behaviour

9.30am The Importance of Default Options for Retirement Saving Outcomes: Evidence from the United States  
**David Laibson** (Harvard University)  
Discussant: **David McCarthy** (Imperial College)

10.30am What do DC Pensions Mean for Retirement  
**Sarah Smith** (University of Bristol)  
Discussant: **Joachim Inkmann** (Tilburg University)

11.45am How Deep is the Annuity Market Participation Puzzle?  
**Paola Lopes** (FMG/LSE)  
Discussant: **Edmund Cannon** (University of Bristol)

### Session 2 The Design of Pension Plans and the Switch from DB to DC

2pm Optimal Portfolio Allocation for Pension Funds in the Presence of Background Risk  
**David Miles** (Morgan Stanley)  
Discussant: **Francisco Gomes** (London Business School)

3pm Saving and Investing over the Life Cycle and the Role of Collective Pension Funds  
**Theo Nijman** (Tilburg University)  
Discussant: **Andrea Prat** (FMG/LSE)

4.15pm The Optimal Design of Individual-Account Pension  
**Luciano Greco** (Padova University and FMG/LSE)  
Discussant: **Paolo Volpin** (London Business School)

5.15pm Session Ends

### Friday 8 June

### Session 3 Implications of Uncertainty for DC Pension Schemes

9.30am Pensions and Corporate Performance: Effects of the Shift from Defined Benefit to Defined Contribution Pension Plans  
**Sean Finucane** (University of Exeter)  
Discussant: **Yves Nosbusch** (FMG/LSE)

10.30am The Risk in Defined Contribution Pension Schemes: An International Comparison  
**Edmund Cannon** (University of Bristol)  
Discussant: **Anthony Neuberger** (Warwick Business School)

11.45am Longevity Risk and Retirement Savings  
**Joao Cocco** (London Business School)  
Discussant: **Alex Michaelides** (FMG/LSE)

12.45pm Conference Ends

The conference will take place at the London School of Economics, Shaw Library, 6 Floor, Main Building, Houghton Street, London WC2A 2AE

For registration please contact Polly Canning at p.canning@lse.ac.uk



# World Economy and Finance Research Programme Events

The London School of Economics and Political Science

27-29 June 2007



World Economy & Finance  
Research Programme

On 28-29 June the FMG is holding a workshop on **Cycles, Contagion and Crises** to highlight work undertaken as part of the ESRC-funded research project on the **Stability of the Global Financial System: Regulation and Policy Response**. This project forms part of the ESRC wider 'World Economy and Finance' research programme ([www.worldeconomyandfinance.org/](http://www.worldeconomyandfinance.org/)).

This event will run in parallel with the **Finance and Development** Conference which is organised as part of the **National and International Aspects of Financial Development** research project at Leicester University, funded too by the ESRC World Economy and Finance research programme. This conference is hosted by LSE.

## Cycles, Contagion and Crises

28-29 June 2007

Organised by Professors Charles Goodhart and Hyun Shin, the objective of the event is to report research in this field by established academics alongside that of FMG junior researchers affiliated with the project, who will receive valuable comments from an audience of senior researchers and practitioners. The Conference will cover topics under all three themes of its title:

- **Cycles:** Financial factors have long been recognised as one of the driving forces of the propagation and amplification of aggregate output shocks. Papers in this theme will explore different aspects of this relationship from the linkages between liquidity and financial cycles through to sudden stops and the role of credit constraints in emerging market economy business cycles.
- **Contagion:** The widespread diffusion of the financial crises of the 1990s led to a large theoretical and empirical literature on the causes and consequences of financial contagion. Papers will examine how the increasing interlinkages and innovation in modern financial markets influence how systemic crises can spread within domestic financial systems.
- **Crises:** Papers will focus on the costs of crises, both domestic banking crises and sovereign debt crises, and the optimal ex ante and ex post policy responses. For example, how can sovereign debt markets, monetary policy and banking regulation (such as liquidity regulation) and regulatory practices, eg, forbearance, be reformed to minimise the magnitude and risks of such costs.

### Thursday 28 June

- Session 1** 'Lending Booms and Sudden Stops'  
**Jean-Charles Rochet** (IDEI, Toulouse University)  
'Liquidity and Transparency in Bank Risk Management'  
**Lev Ratnovski** (Bank of England / University of Amsterdam)  
'Awareness and Information Acquisition'  
**Gara Minguez-Afonso** (Princeton University)

- Session 2** 'Crises and recovery in emerging markets: "Phoenix miracles" or endogenous growth?' (preliminary title)  
**Marcus Miller** (Warwick University)  
'Regionality Revisited: An Examination of the Direction of Spread of Currency Crises'  
**Anja Shortland** (Brunel University)  
'Coordination Clauses and the Price of Sovereign Debt'  
**Ossip Huhnerbein** (Munich Graduate School of Economics)

### Friday 29 June

- Session 1** 'Forbearance' **Patrick Honohan** (Trinity College Dublin)  
'Dealing with country diversity: challenges for the IMF credit union model' **Ashley Taylor** (FMG/LSE)  
'Interest Rate and Business Cycles in a Credit Constrained Small Open Economy' **Sarquis Sarquis** (Graduate School of Diplomacy, Brazil)
- Session 2** Title to be confirmed, **Jagjit Chadha** (University of Kent)  
'Financial Innovation, Macroeconomic Stability and Systemic Crises' **Ander Perez** (FMG/LSE)  
'Financial and Real Business Cycles' **Oriol Aspachs** (La Caixa, Spain)
- Session 3** 'Liquidity and Financial Cycles' **Hyun Shin** (Princeton University)  
'Monetary Policy and its Informative Value'  
**Camille Cornand** (CNRS-BETA)  
'Coordination Cycles'  
**Jakub Steiner** (University of Edinburgh)

For registration please contact Polly Canning at [p.canning@lse.ac.uk](mailto:p.canning@lse.ac.uk). More information will be available soon on the FMG website at <http://fmg.lse.ac.uk>

# Finance and Development Conference

The London School of Economics and Political Science

27-29 June 2007

This conference is organised by Panicos Demetriades (University of Leicester). The aim of the 'Finance and Development' conference is to disseminate findings from an ESRC-funded World Economy and Finance research programme which in

this case advanced knowledge in the area of finance and development, using approaches from various disciplines, including economics, finance, law and politics, to a high level audience of academics, policy makers and practitioners.

## Programme

### Wednesday 27 June

- 1.45pm Opening Remarks: **John Driffill** (Birkbeck College, University of London) and **Panicos Demetriades** (University of Leicester)
- 2pm **Finance and Growth I**  
Chair: **John Driffill** (Birkbeck College, University of London)
- 'What is Happening to the Relationship Between Financial Development and Economic Growth'  
Guest Speaker: **Peter Rousseau** (Vanderbilt University) joint with Paul Wachtel
- 'Financial Liberalisation and Property Rights'  
**Colin Rowat** (University of Birmingham) joint with Jayasri Dutta  
Discussant: **Svetlana Andrianova** (University of Leicester)
- 4.15pm **Finance and Growth II**  
Chair: **Badi Baltagi** (Syracuse University)
- 'Explaining Cross Country Variation in Investment: the Role of Endowments, Institutions and Finance'  
**Adeel Malik** (University of Oxford) joint with Steve Bond  
Discussant: **Badi Baltagi** (Syracuse University)
- 'Finance and Economic Development Dynamics: Cross Country Evidence'  
**Kevin Lee** (University of Leicester) joint with Panicos Demetriades and Gregory James  
Discussant: **Steve Bond** (University of Oxford)

### Thursday 28 June

- 9am **Law and Finance I**  
Chair: **Peter Rousseau** (Vanderbilt University)
- 'How Legal Rules Evolve: Evidence from Panel Data'  
**John Armour** (University of Cambridge) joint with Simon Deakin, Priya Lele and Mathias Siems  
Discussant: **Badi Baltagi** (Syracuse University)
- 'The Legal Protection of Shareholders and Financial Development'  
**Prajarbit Sarker** (Jadavpur University) joint with Sonja Fagnas and Ajit Singh  
Discussant: **Chenggang Xu** (LSE)
- 11.15am **Law and Finance II**  
Chair: **Stijn Claessens** (International Monetary Fund)
- 'Law, Finance and Development: The Case of India'  
**Priya Lele** (University of Cambridge) joint with John Armour  
Discussant: **Panicos Demetriades** (University of Leicester)
- 'Japan's Paradoxical Response to the New Global Standard in Corporate Governance'  
**John Buchanan** (University of Cambridge) joint with Simon Deakin  
Discussant: **Geoffrey Underhill** (University of Amsterdam)
- 2pm **Financial Globalisation**  
Chair: **Simon Deakin** (University of Cambridge)
- 'Norms, Legitimacy and Global Financial Governance'  
**Geoffrey Underhill** (University of Amsterdam) joint with and Xiakoe Zhang  
Discussant: **John Buchanan** (University of Cambridge)

## Events

	<p>'Empirical Evidence on the New International Aid Architecture'</p> <p><b>Danny Cassimon</b> (University of Antwerp) joint with Stijn Claessens</p> <p>Discussant: <b>Ajit Singh</b> (University of Cambridge)</p>	<p>'Basle II Capital Requirements and Developing Countries'</p> <p><b>Stijn Claessens</b> (IMF) joint with Geoffrey Underhill and X Zhang</p> <p>Discussant: <b>Ajit Singh</b> (University of Cambridge)</p>
4.15pm	<p><b>Political Economy and Finance</b></p> <p>Chair: <b>Danny Cassimon</b> (University of Antwerp)</p> <p>'The Political Economy of Financial Development in Europe and Asia'</p> <p><b>Svetlana Andrianova</b> (University of Leicester) joint with Panicos Demetriades and Chenggang Xu</p> <p>Discussant: <b>Steve Haber</b> (Stanford University)</p>	<p>'Does Financial Regulation Matter? Market Volatility and the US 1933/34 Acts'</p> <p><b>Chenggang Xu</b> (LSE) joint with S Li</p> <p>Discussant: <b>Martin Weale</b> (National Institute of Economic and Social Research)</p>
	<p>'Markets, Institutions, and Governance: extending the transaction cost approach'</p> <p><b>Geoffrey Underhill</b> (University of Amsterdam)</p> <p>Discussant: <b>John Armour</b> (University of Cambridge)</p>	<p><b>Finance and Growth Case Studies</b></p> <p>Chair: <b>Geoffrey Underhill</b></p>
6pm	<p>Keynote speaker: <b>Steve Haber</b> (Stanford University)</p> <p>Chair: <b>John Driffill</b> (Birkbeck College, University of London)</p> <p>'Political Institutions and Financial Development: What is there to be Learned from Political Science and History?'</p>	<p>'Finance and Growth in Chinese Regions' <b>Jun Du</b> (Aston Business School) joint with Panicos Demetriades, Sourafel Girma and Chenggang Xu</p> <p>Discussant: <b>Sonja Fagnas</b> (University of Cambridge)</p>
		<p>'Aggregate Mortality Risk: Market Solutions and Government Policy'</p> <p><b>Martin Weale</b> (National Institute of Economic and Social Research) and Justin van de Ven</p> <p>Discussant: <b>Colin Rowat</b> (University of Birmingham)</p>
<b>Friday 29 June</b>		
9am	<p><b>Financial Regulation</b></p> <p>Chair: <b>Panicos Demetriades</b> (University of Leicester)</p>	<p>1pm</p> <p>Closing Remarks: <b>John Driffill</b> (Birkbeck College, University of London) and <b>Panicos Demetriades</b> (University of Leicester)</p>

This event is invitation only.

More information will be available soon on the FMG website at <http://fmg.lse.ac.uk>

We expect that participants at either one of these conferences will want to switch between the two. We welcome this.

# Capital Markets Workshop

The Capital Markets Workshop meets regularly throughout the academic year at 5pm on Wednesdays in room R405, Lionel Robbins Building, LSE. Please see the schedule below for any changes in times or locations.

## Summer Term 2007

25 April	<b>Yacine Ait-Sahalia</b> (Princeton University) Portfolio Choice with Jumps: A Closed Form Solution
2 May	<b>Luis Viceira</b> (Harvard University) Global Currency Hedging
9 May	<b>Jose Scheinkman</b> (Princeton University) Long Term Risk: an operator approach
16 May	<b>Thomas Noe</b> (Tulane University) Dynamic Governance
23 May	<b>Laura Veldkamp</b> (New York University, Stern) NOTE: Lunch seminar TBC
23 May	<b>Stijn van Nieuwerburgh</b> (New York University) The Role of the Wealth-consumption Ratio in Leading Asset Pricing Models
30 May	<b>Toni Whited</b> (UW-Madison) The Corporate Propensity to Save
6 June	TBC
13 June	<b>Andrea Buraschi</b> (Imperial College London) TBC
20 June	<b>Jiang Wang</b> (MIT Sloan School of Management) Asset Prices Under Short-Sale Constraints
27 June	TBC

The updated schedule is available on the FMG website at <http://fmg.lse.ac.uk>. If you require further information, please call 0207 955 6301/7891 or email [fmg@lse.ac.uk](mailto:fmg@lse.ac.uk).

The Capital Markets Workshop is funded by:  
The Department of Accounting and Finance, LSE,  
The Suntory and Toyota International Centres for Economics and Related Disciplines (STICERD), LSE

# FMG Students

## Update of Job Market Candidates

The FMG PhD students who joined the job market this year have accepted the following academic and non-academic positions:

### **Sridhar Arcot**

**Position:** Assistant Professor, ESSEC Business School, Paris

**Job market paper:** 'One size does not fit all, after all: Evidence from Corporate Governance'

**Valentina Bruno** (Currently at the World Bank, Washington)

**Position:** Assistant Professor, Finance and Real Estate Department, American University

**Job market paper:** 'One size does not fit all, after all: Evidence from Corporate Governance'

### **Cristian Huse**

**Position:** Assistant Professor, Department of Finance, Stockholm School of Economics

**Job market paper:** 'Term Structure Modelling with Observable State Variables'

### **Michael Kollo**

**Position:** PhD Associate, Black Rock Investment Management (UK) Limited

**Job market paper:** 'Combine and conquer. Investor relationships, global reputation and underwriter competition'

### **Xuewen Liu**

**Position:** Lecturer, Imperial College London

**Job market paper:** 'The capital structure of private equity-backed firms'

### **Enrique Sette**

**Position:** Economist, Bank of Italy

**Job market paper:** 'Competing Influence'

### **Katrin Tinn**

**Position:** Assistant Professor, Department of Economics, Stockholm School of Economics and research fellow at SITE

**Job market paper:** 'The speed of technology adoption with imperfect information in equity markets'

# Discussion papers



DP 567 (UBS Pensions Series 043)

## The Optimal Design of Funded Pensions

Luciano G Greco

In many countries, pension funds based on individual accounts have been affected by high operating costs. Contract theory helps to unravel the nature of such problems: managers of pension funds have strong incentives to manipulate market expectations about their capacity through wasteful activities (eg, promotion). Thus, competition among pension funds entails efficiency losses, due to pension savings attraction efforts, as well as gains, related to investments in asset management skills. Regulations capping fees or costs of pension funds worsen market inefficiency, while a public pension fund competing with private ones improves (at least weakly) it. Taking into account political and commitment constraints affecting public institutions, a quasi-competitive pension scheme – centralizing contribution collection, auctioning the right to manage raised money to competitive fund managers, and affording an opting out choice to households – Pareto-dominates (at least weakly) the market of pension funds.

DP 568

## Are there Monday effects in Stock Returns: A Stochastic Dominance Approach

Young-Hyun Cho, Oliver Linton,  
Yoon-Jae Whang

We provide a test of the Monday effect in daily stock index returns. Unlike previous studies we define the Monday effect based on the stochastic dominance criterion. This is a stronger criterion than those based on comparing means used in previous work and has a well defined economic meaning. We apply our test to a number of stock indexes including large caps and small caps as well as UK and Japanese indexes. We find strong evidence of a Monday effect in many cases under this stronger criterion. The effect has reversed or weakened in the Dow Jones and S&P 500 indexes post 1987, but is still strong in more broadly based indexes like the NASDAQ, the Russell 2000 and the CRSP.

common knowledge on the shocks affecting the economy where the central bank has no inflationary bias. In this context, monetary policy entails a dual role. The instrument of the central bank is both an action that stabilizes the economy and a public signal that partially reveals to firms the central bank's assessment about the state of the economy. Yet, firms are unable to perfectly disentangle the central bank's signals responsible for the instrument and the central bank optimally balances the action and information purposes of its instrument. We derive the optimal monetary policy and the optimal central bank's disclosure. We define transparency as an announcement by the central bank that allows firms to identify the rationale behind the instrument. It turns out that transparency is welfare increasing (i) when the degree of strategic complementarities is low, (ii) when the economy is not too affected by mark-up shocks, (iii) when the central bank is more inclined towards price stabilization, (iv) when firms have relatively precise private information, and (v) when the central bank's information is relatively precise on demand shocks and relatively imprecise on mark-up shocks. These results rationalize the increase in transparency in the current context of relative low sensitivity of the economy to mark-up shocks and of strong central bank's preference for price stability.

DP 569

## Monetary Policy and its Informative Value

Romain Baeriswyl, Camille Cornand

This paper analyzes the welfare effects of economic transparency in the conduct of monetary policy. We propose a model of monopolistic competition with imperfect



DP 570

### Speculative Attacks with Multiple Sources of Public Information

Camille Cornand, Frank Heinemann

We propose a speculative attack model in which agents receive multiple public signals. It is characterised by its focus on an informational structure, which sets free from the strict separation between public information and private information. Diverse pieces of public information can be taken into account differently by players and are likely to lead to different appreciations ex post. This process defines players' private value. The main result is to show that equilibrium uniqueness depends on two conditions: (i) signals are sufficiently dispersed (ii) private beliefs about the relative precision of these signals sufficiently differ. We derive some implications for information dissemination policy. Transparency in this context is multi-dimensional: it concerns the publicity of announcements, the number of signals disclosed as well as their precision. Especially, it seems that the central bank has better not publishing its forecast errors in order to maintain stability. An illustration to our analysis is the recent debate concerning the optimal monetary policy committee structure of central banks.

## Special Papers

SP 168

### Current State of Cross-Border Banking

Dirk Schoenmaker, Christiaan van Laecke

No abstract available.

# Forthcoming Discussion and Special Papers

## Discussion Papers

DP 571

### 'Incentive Design Under Loss Aversion'

David de Meza, David C Webb

DP 572

### 'Recovery Rates, Default Probabilities and the Credit Cycle'

Max Bruche, Carlos González-Aguado

DP 573

### 'Liquidity and Capital Structure'

Ron Anderson, Andrew Carverhill

DP 574

### 'Corporate Governance and Regulation: Can There Be Too Much of a Good Thing?'

Valentina G Bruno, Stijn Claessens

DP 575

### 'Security-Voting Structure and Bidder Screening'

Christian At, Mike Burkart, Samuel Lee

DP 576

### 'Financial Structure, Managerial Compensation and Monitoring'

Vittoria Cerasi, Sonja Daltung

DP 577

### 'A Search-Based Theory of the On-the-Run Phenomenon'

Dimitri Vayanos, Pierre-Olivier Weil

DP 578

### 'The Gambler's and Hot-Hand Fallacies: Theory and Applications'

Matthew Rabin, Dimitri Vayanos

## Special Papers

SP 169

### 'Is Forbearance Always Bad? How Can We Test Whether its Use Lessened the Incidence of Crises?'

C A E Goodhart

SP 170

### 'Did NASDAQ Market Makers Successfully Collude to Increase Spreads? A Reexamination of Evidence From Stocks that Moved from NASDAQ to the New York or American Stock Exchanges'

George J Benston

# Visitors to the FMG

## February – April 2007

**George Benston** (Emory Business School)  
**Alex Bowen** (Bank of England)  
**Richard Brown** (HM Treasury)  
**Mike Burkart** (Stockholm School of Economics)  
**Sylvain Champonnois** (Princeton University)  
**George Constantinides** (University of Chicago Graduate School of Business)  
**Vicente Cunat** (Universitat Pompeu Fabra)  
**Florin Dorobantu** (Duke University)  
**Jack Favilukis** (NYU Stern)  
**Pesh Framjee** (Deloitte)  
**Apostolos Gkoutzinis** (Shearman and Sterling, LLP)  
**Yaniv Grinstein** (Cornell University)  
**Ralph de Haas** (EBRD)  
**Scott Joslin** (Stanford University)  
**Dongmei Li** (Wharton University of Pennsylvania)  
**Erica Li** (University of Rochester)  
**Gregor Matvos** (Harvard University)  
**Ramana Nanda** (MIT Sloan School of Management)  
**Anders Nielsen** (Princeton University)  
**Iulian Obreja** (Carnegie Mellon University)  
**Tomasz Piskorski** (NYU Stern)  
**Peter Sinclair** (University of Birmingham)  
**Stephen Smith** (University College London)  
**Viktor Todorov** (Duke University)  
**Tanju Yorulmazer** (Bank of England)





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Financial Markets Group

The Financial Markets Group Research Centre at LSE is one of the leading centres in Europe for academic research into financial markets. [more about FMG](#)



### Events this week @ FMG

**Wednesday, 1st November 2006 - 13.00pm - 14.00pm**

**Lunchtime Workshop** | Competing Influence | Enrico Sette (LSE)  
**location:** R407, 4th Floor, Lionel Robbins Building, LSE

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**Wednesday, 1st November 2006 - 5.00pm**

**Capital Markets Workshop** | Risk Aversion and Clientele Effects | Will Goetzmann (Yale University)  
**location:** R405, 4th Floor, Lionel Robbins Building, LSE

### In the news

[GAM Gilbert de Botton Award in Finance Research 2006 Results](#) 29 Oct 2006

The Financial Markets at LSE is pleased to announce Valentina Bruno & Sridhar Arcot as the winne

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[Launch of the new internal Corporate Governance at LSE research seminars](#) 24 Oct 2006

FMG would like to announce the launch of a new series of informal research seminars in the area of C

announce Valentina Bruno & Sridhar Arcot as the winne

**Launch of the new internal Corporate Governance at LSE research seminars - FMG w**

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research	people	be involved	mailing list	contact	



<http://fmg.lse.ac.uk>

## FMG Review

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Designed by: LSE Design Unit  
[www.lse.ac.uk/designunit](http://www.lse.ac.uk/designunit)