Program CFR / AFAS

PhD Workshop 2017 Semester 2

Date: 6 November 2017

Time: 1.00pm – 5.00pm

Venue: Finance Decision Lab, Level 1, Building E4A, Eastern Road, Macquarie University, NSW. Light refreshments will be provided

Directions: The building is appox. 5 min walk from the train station.

Campus Map: http://www.mq.edu.au/about/contacts-and-maps/maps The building will show on the map if a search is done for Building E4A.

Final Program

(Presentations: 25 minutes, Discussants: 5 minutes, General Discussion/Questions: 5 minutes)

Time	Item
1.00pm	**Welcome / Start of Session 1**
1.05pm	**Speaker:** Johan Andreasson **Title**: Optimal annuitisation, housing decisions and means-tested public pension in retirement **Abstract**: Few retirees utilise financial products in retirement, such as annuities or reverse mortgages. Since the government provided means-tested Age Pension in Australia is an indirect annuity stream which typically is higher than the average consumption floor, it is argued that this is the reason why Australians do not annuitise. In addition, in Australia where assets allocated to the family home are not included in the means-test, the incentive to over allocate housing assets is high. This raises the question whether a retiree is better off over allocating, while accessing home equity later on either via downscaling housing or by taking out a reverse mortgage. In this paper we build on the retirement model developed in Andreasson et al. 2017 and extend it with access to annuities, a reverse mortgage and the option to scale housing. Our findings confirm that means-tested pension crowds out voluntary annuitisation in retirement, and that annuitisation is optimal sooner rather than later once retired. We find that it is never optimal to downsize housing with means-tested Age Pension when a reverse mortgage is available - only when there is no other way to access equity then downscaling is the only option.
1.30pm	**Discussant:** Sachi Purcal (MQ)
1.35pm	**General Discussions/Questions**

Time	Item
1.40pm	**Speaker:** Yanlin Li **Title:** Are the independent directors recommended by their predecessors independent? Evidence from China **Abstract:** Independent directors are normally elected to monitor management behaviour and protect the interests of minority shareholders, which maintains the effectiveness of internal governance. Based on the special context in China, where succeeding independent directors are often recommended by their predecessors, we examine the causes of this recommendation and the influence of these successors on corporate governance. Consistent with reciprocity theory, our results conclude that (1) the entirely compliant voting of successors or predecessors in historical records contributes to the likelihood of recommendation, and (2) recommended independent directors (RIDs) are positively associated with the related party transactions, the possibility and severity of violations in firms, and they are less likely to dissent from insiders particularly in firms with higher concentrated ownership and firms located in provinces with a weak market environment. In the supplementary analysis, we find that the recommendation is not motivated by the informational collaboration between RIDs and predecessors, which is invalid in dissenting from insiders. The pool of local independent director candidates is positively correlated with recommending compliant independent directors. Our empirical results are still robust even we consider various social ties, subsample analysis and endogeneity issues. We argue that RIDs may lose their independence, more supervision and assessment from the officials and investors over the election of independent directors is in demand to address this issue.
2.05pm	**Discussant:** Anna Loyeung (UTS)
2.10pm	**General Discussions/Questions**
2.15pm	**Speaker: Yanling Wu** **Title**: Media Coverage and Initial Public Offering, Based on the Rent-seeking Perspective: Evidence from China **Abstract**: This paper investigates whether the media plays a positive role in the resource allocation of Initial Public Offering (IPO) by collecting and disseminating information, in other words, whether the media can help China Securities Regulatory Commission (CSRC) screen good companies to receive IPO approval. We use Chinese A-stock companies that have submitted IPO applications to CSRC during the period of 2006-2014, and manually collect and process a comprehensive dataset of newspapers to measure the tendency of media coverage. We show that the “paid silence” fees which the IPO Company pays to the media for rent-seeking prior to IPO, increases the positive media coverage and decreases the negative media coverage related to the company, and then improves the likelihood of the company passing IPO screening process. In order to further test “bad companies” seek rent to cover up defective conditions and get IPO approval by the media packaging, and rule out the alternative explanation that “good companies” seek rent to avoid the long examination process, save time cost and reduce the risk of IPO rejection, we find that positive media reports have a negative relationship with operating performance, cumulative abnormal return, and increase in the tunnelling activities after IPO. Our results further support our main hypothesis and rule out the alternative story. Our findings provide new evidence for the governance role of the media in the capital market.

Time	Item
2.40pm **2.45pm**	**Discussant:** Le Zhang (UNSW) **General Discussions/Questions**
2.50pm-3.10pm	***20 minute afternoon tea break***
3.10pm	**Start of Session 2**
                 3.35pm **3.40pm**	**Speaker:** Jin Sun **Title:** A note on the impact of management fees on the pricing of variable annuity guarantees **Abstract:** Variable annuities, as a class of retirement income products, allow equity market exposure for a policyholder's retirement fund with electable additional guarantees to limit the downside risk of the market. Management fees and guarantee insurance fees are charged respectively for the market exposure and for the protection from the downside risk. We investigate the pricing of variable annuity guarantees under optimal withdrawal strategies when management fees are present. We consider from both policyholder's and insurer's perspectives optimal withdrawal strategies and calculate the respective fair insurance fees. We reveal a discrepancy where the fees from the insurer's perspective can be significantly higher due to the management fees serving as a form of market friction. Our results provide a possible explanation of lower guarantee insurance fees observed in the market than those predicted from the insurer's perspective. Numerical experiments are conducted to illustrate the results. **Discussant:** Youri Kabanov (University of Franche-Comte) **General Discussions/Questions**
3.45pm	**Speaker:** Qin Zhang **Title:** Does Use of the Mixed Frequency and Unbalanced Data Provide Gains for Forecasting? Evidence from China's macroeconomy **Abstract:** Real activities and price indexes are two of the most critical issues facing China. Recent advances in the computer science and the statistical theory makes it possible to use the mixed frequency and unbalanced data to forecast macroeconomics indictors. This papers studies forecasting of four China's leading indicators: the CPI, the PPI: industrial goods, the industrial production and the production of electricity in a data-rich environment using 3 factor models and 3 univariate time series models for 1, 3 and 6 months ahead. The three factor models are diffusion index, factor ARIMA and factor VAR and 3 univariate models are AR, ARIMA and simple exponential smoothing models. The use of factors is very appropriate when there are the rapid change of economic structure and the scepticism about the unreliability of China's official data. The factors are extracted using principal component from 85 monthly variables and 25 quarterly variables in the period from 1998 through 2016 and the expected maximisation algorithm proposed by Stock and Watson (2002) is used to estimated factors for unbalanced panel of data. The forecasting exercise is conducted using both balanced panel and unbalanced panel and is evaluated by mean square error and statistical test. Compared to benchmark AR model, the use of factor model from balanced panel

Time	Item
	provides marginal to moderate gains while the factors model based on unbalanced panel substantially outperform the benchmark model in 3 and 6 months ahead forecast. Overall, the factor-augmented VAR model provides the best forecasts among 6 models.
4.10pm	**Discussant:** Ben Wang (MQ)
4.15pm	**General Discussions/Questions**
4.20pm	**Speaker:** Matteo Malavesi **Title:** Pareto Optimal Choices vs Mean Variance Optimal Choices: a Paradigm of Portfolio Theory **Abstract:** In this paper, we compare two of the main paradigms of portfolio theory: mean variance efficient frontier and expected utility framework. In particular we focus on non satiable and risk averse investor portfolios Pareto optimal set and aim to empirically prove that mean variance efficient frontier portfolios are suboptimal with respect to portfolios belonging to this set. We show, that none risk averse and non satiable agents will not hold a portfolio for which, at any level of risk aversion, there exists a less risky portfolio. Then we apply this result to prove, empirically, that more than the 40% of the mean variance efficient portfolios are Second Order Stochastically dominated and construct a three parameter efficient frontier in which, for each level of risk aversion we depict the optimal quantity of undertaken risk to reach a desired reward. Finally we construct non Second Order Stochastic dominated strategies able to outperform the global minimum variance one of more than 400%.
4.45pm	**Discussant:** Youri Kabanov (University of Franche-Comte)
4.50pm	**General Discussions/Questions**
4.55pm-5.00pm	**Closing Remarks**
5.00pm-6.00pm	**Light refreshments will be provided**