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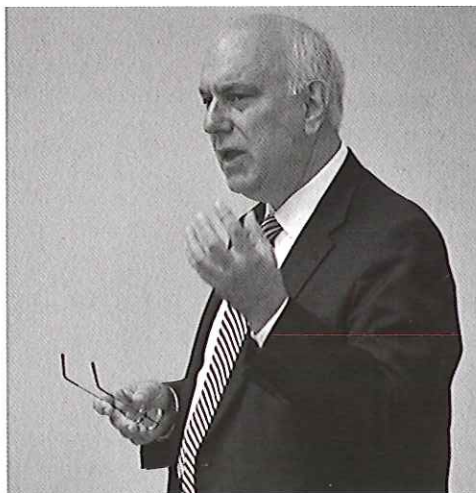
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FINANCIAL MARKETS RESEARCH CENTER • 2012

The 25th Annual Conference:

Then and Now

Each spring for the last 25 years, the Financial Markets Research Center (FMRC) has sponsored a conference on a current issue in the financial markets. In this the 25th consecutive annual conference, participants looked back and evaluated the developments in financial markets. Have financial markets become more efficient and more stable or are



Bob Davis comparing financial markets then and now.

markets becoming more volatile, more complex, and more costly? How and to what extent have the issues studied by finance researchers improved our understanding of financial markets over the last 25 years? Discussion at the conference was conditioned by such dramatic events in the last 25 years as the crash of 1987, the Asian crisis of 1997, the dotcom bubble of 2001, and the extraordinary banking crisis of 2008-09. Today, continued problems in housing markets and instability in the European banking system are among the important issues. Speakers at the conference included policy makers, industry leaders, and leading academics, many of whom had participated in prior conferences.

The 25th anniversary conference was sponsored by the FMRC with the help of special grants from the CME Group and the Eurex and took place May 3-4, 2012 at Vanderbilt University. Dean **Jim Bradford** welcomed participants with a short video recounting some of the conference topics in the last 25 years. **Hans Stoll**, founding director of the FMRC, previewed the upcoming conference program.

The keynote speaker, **Don Kohn**, who retired in 2011 as Vice Chairman of the Fed, can be said to have been “Present at the Creation” of monetary policy in the financial crisis of 2008-09 much as Dean Acheson was present at the creation of a post World War II foreign policy. The developments in monetary policy were no less dramatic than the post-war restructuring of global alignments over which Acheson presided. Kohn, wise counselor to the Board and to the Fed Chairman, recalled with nostalgia the “golden age” of monetary policy from 1988 to 2006. During this period, known as the “great moderation,” monetary policy targeted interest rates, and economic growth and price stability were in balance. The current financial crisis that began in 2007 stood that world on its head. Interest rates were pushed to zero, and inflation was a non-event. Yet the economy still struggled. The Fed began a policy of injecting liquidity directly into the economy by purchasing all types of assets in a policy that became known as “quantitative easing.” Kohn described these developments and the political pressures faced by the Board. He concluded with a discussion of the challenges ahead, including reconsideration of the dual mandate to maintain price stability and full employment.

The next speaker, **Pat Parkinson**, who retired in April as Head of the Supervision and Regulation Division of the Fed, spoke on “How Has the Financial Crisis Affected Bank Regulation and Capital Requirements?” Parkinson, a PhD economist, had been head of the Division of Research and Statistics and was the Fed’s expert on derivatives, a background well suited to regulating the complex positions that major banks can assume. He spoke on a variety of initiatives to limit systemic effects of bank risk taking: new capital rules, ring fencing of certain bank activities, resolution planning, and planning for orderly failures.

After a coffee break, the conference continued with the first panel, “Global Volatility, Financial Crashes, Sovereign Risk, and Bank Capital,” chaired by **Georges Ugeux**, Chairman and CEO of Galileo Global Advisors and former Executive Vice President of the NYSE, where he had responsibility for internationalization of the Exchange. The first speaker of this panel was **Bob Davis**, Executive V.P. at the American Bankers Association. Davis

The 25th Annual Conference: Then and Now (continued)



Craig Phillips and Georges Ugeux contemplating the future of Europe.

had spoken at the first conference 25 years ago, in the aftermath of the crash of 1987, when he was a commissioner of the CFTC. Since then he has held a number of positions in government and industry and has been a regular contributor to the annual FMRC conferences. In his talk he summarized economic events in the last 25 years, including volatility spikes, monetary ease and tightness, housing fluctuations, unemployment, and other events.

Current concern is greatest with respect to the financial instability in certain Euro countries, Greece in particular. **Craig Phillips**, Managing Director and head of BlackRock Solutions, spoke on "Sovereign Debt Crises: Ireland versus Greece," based on a diagnostic that BlackRock Solutions had carried out for each country. Phillips noted that the problems in the two countries were different. In Ireland, commercial banking instability spread to the sovereign, whereas in Greece, sovereign instability spread to the commercial banking system. He noted that the Irish problem was easier to solve than the Greek problem. **Oliver Jakob**, Managing Director and Global Head of IB Market Risk at UBS, discussed developments in risk management. He noted that the authority of risk managers to modify or veto transactions has increased greatly. At the same time regulatory requirements with

regard to capital and liquidity have grown, sometimes to such an extent that sensible transactions cannot be approved. The last speaker on the panel, **Michel Crouhy**, Head of Research and Development at NATIXIS Corporate and Investment Bank, spoke on "The View from Europe." Crouhy splits his time

between Paris and New York and is well-suited to contrast the American and European perspectives. While the U.S. financial crisis emanated primarily from the subprime credit crisis, the European sovereign debt crisis arose from the banking sector, the fiscal problems of sovereigns, and the constraints imposed by a single currency. He argued that the solution for Europe did not involve abandoning the Euro. What is required is coordination of fiscal and economic policies in Europe.

After lunch, **Rick Kilcollin** chaired a panel entitled "Securities Markets: Then and Now." Kilcollin is a principal in an equities hedge fund, Sanborn Kilcollin Partners. He has been a regular participant in Center conferences for 20 years since his days at the CME, where he was chief economist and rose to be President and chief operating officer. Kilcollin introduced **Rich Lindsey**, also a frequent participant in the Center conferences. Lindsey was chief economist and then Head of Market Regulation at the SEC in a period of considerable change in the structure of equities markets. Lindsey spoke on the topic, "Equities Market Structure and Regulation in the Last 25 Years." Among the major changes were the demise of the even-eighths pricing convention, the introduction of the order handling rules and of decimalization, electronic trading,



VANDERBILT UNIVERSITY
OWEN GRADUATE SCHOOL OF MANAGEMENT

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FUNDING

The Center, founded in 1987, is funded by its members and by an endowment. Funds are used to maintain financial markets data bases and to support the Center's research projects. Members participate in all activities of the Center, receive research reports, and give advice on the activities and research direction of the Center.

Members over the past 25 years include the following:

- Aeltus Investment Management, Inc.
- Archipelago, LLC
- America's Community Bankers
- Bank Administration Institute
- Bankers Trust Company
- Bear, Stearns & Company, Inc.
- Boston Options Exchange Group, LLC
- Caterpillar Financial Services Corp.
- * Chicago Board Options Exchange
- Chicago Mercantile Exchange
- ** CME Group Inc.
- CTS Strategic Investments
- Eclipse Capital Management, Inc.
- Equitable Securities Corporation
- ** Eurex Frankfurt AG
- Hirtle, Callaghan & Co.
- Hull Group LLC
- ** Interactive Brokers Group
- International Securities Exchange, Inc.
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- Lavery Consulting Group, LLC
- Matlock Capital LLC
- Merrill Lynch & Company, Inc.
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- ** The NASDAQ OMX Educational Foundation, Inc.
- National Association of Securities Dealers, Inc.
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- NYSE Euronext
- * Options Clearing Corporation
- Options Industry Council
- Pacific Exchange
- Ramsey Quantitative Systems, Inc.
- Refco Group, Ltd.
- Ronin Capital, LLC
- Shayne & Co. LLC
- State Street Global Advisors
- Susquehanna International Group, LLP
- Thales Fund Management, LLC
- Timber Hill Incorporated
- Tudor Investment Corporation
- Van Hedge Fund Advisors International, Inc.
- White Cap Trading LLC
- Willis Corroon

* indicates current member

** indicates current lead member

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FROM THE DIRECTOR

Although operating on a modest scale, the FMRC has, over the last 25 years, been quite successful in supporting applied research and in building links to the world of practice. The annual conferences

have proved to be an effective mechanism for bringing together researchers, industry leaders, regulators, and students. In addition to the spring conference, the Center, which is funded by annual contributions and an endowment, supports

a number of other activities. The Center

funds periodic focused research conferences, such as the Hedge

Fund Conference described elsewhere in this newsletter.

It supports the weekly finance research seminar. It maintains a

data center directed by a research associate/data base manager.

The Center has created and maintains a summary market microstructure

file with daily data for stocks traded on the NYSE and on Nasdaq.

The file is described on our web site and is available to researchers:

<http://www.vanderbiltfmr.org/databases/market-microstructure-database/>.



Hans R. Stoll

The Center provides summer research grants, and it supports academic visitors to Vanderbilt for stays of varying lengths.

Recent senior visitors to the Owen School and the Center include **Alex Stomper** (Humboldt University Berlin), **Christian Schlag** (University of Frankfurt), and **Bill Megginson** (University of Oklahoma). **Shubo Wang**, whose PhD is from UBC, spent the year as an FMRC visiting post-doc. His research is on incomplete information, asset prices, and the macro-economy.

Joining the faculty on a permanent basis is **Jesse Blocher**, who received his PhD from UNC and will be teaching corporate finance. His research is on a network approach to interconnected intermediaries. Resigning from the faculty to take a position at HEC in France is **Alexei Ovtchinnikov**. Alexei has been a tremendous colleague and a productive scholar. We are sorry to lose him and wish him and his family the very best. The Finance Group expects to hire at least one person. Inquiries about our opening should be sent to Professor Nick Bollen, who is chairing the search committee. ■

Dewey Daane Invitational Tennis Tournament

The tennis tournament, which has accompanied the spring conference since 1992, again took place albeit with a declining number of players. Nevertheless the participating players made up for their smaller numbers by strenuous play. Only one bottle of bubbly was supplied on the grounds of the small number of players, and that was won by

Hans Heidle. ■



Hans Heidle, victor, and runner-up, Ken Sutrick, with Dewey Daane.

GOALS OF THE CENTER

The Financial Markets Research Center at Vanderbilt University fosters scholarly research in financial markets, financial instruments, and financial institutions. Research of the Center examines participants in financial markets, such as brokers, exchanges, financial intermediaries, and businesses needing financing. The Center:

- Provides a mechanism for interaction among industry practitioners, academic researchers, and regulators.
- Identifies critical research issues in financial markets.
- Supports research by faculty members and PhD students at Vanderbilt.
- Maintains data bases.
- Disseminates research about financial markets. ■

The 25th Annual Conference: Then and Now (continued)



Don Kohn discussing the Fed's actions.

of Finance, December 1994 and Huang and Stoll, *Journal of Financial Economics*, July 1996). Many of the issues of the past remain today. It is only that trading proceeds at a faster pace. Lindsey discussed the flash crash, dark pools of liquidity, competing markets, market fragmentation, and other issues.

Europe, too, has rapidly developed its equities and derivatives markets. **Randolf Roth**, Head of Market Structure at the Eurex, traced the development of derivatives markets in Europe from the founding of the Amsterdam options exchange in 1978 to 2005 when two derivatives exchanges, Eurex and Liffe, remain. **Craig Lewis**, professor at Vanderbilt and currently on leave to the SEC as the Chief Economist and Head of the Division of Risk and Economic Analysis, eschewed discussion of a particular regulatory issue in favor of a description of the role of economic analysis in the development of regulations. He pointed out that the courts require a careful economic analysis of the effect of a new rule before they will approve it. He noted that this development should increase the demand for economists, which he found reassuring.

The day's last session, "Technology, Trading and Rule NMS," was chaired by **Bill Christie**, Professor at Vanderbilt. Christie introduced the panel's first speaker, **Jim Overdahl**, V.P. at NERA and Former Chief Economist at the CFTC and at the SEC. Jim is a PhD economist who, during his years in Washington, has made important contributions in the application of economic principles to regulatory policy. Overdahl spoke on the topic, "High Frequency Trading: Why the Fuss." He presented the pros and cons of trading speed and summarized some of the academic evidence on the topic. **Dean Payton**, Managing Director and Deputy Chief Regulatory Officer of the CME Group, spoke on the topic, "High Frequency Trading in Futures and Options Markets," and gave background on the CME and its trading procedures. **Dave Modest**, Head of Manager Selection at Soros Fund Management, spoke on the difficulties of evaluating investment management skill. Modest, a PhD economist, taught at Berkeley before entering the hedge fund world with Long Term Capital Management. He last spoke at Vanderbilt in 2002 at a conference on Financial Innovation. He noted then and noted now that what we have learned in graduate school often does not work. The final speaker of the day was **Blair Hull**. His firm, Hull Trading,

program trading, and a more competitive market structure. (Faculty at Vanderbilt made major contributions to reform of pricing conventions on Nasdaq. See Christie and Schultz, *Journal*

pioneered in automating options trading and became a major market-maker on several exchanges. The firm was sold to Goldman Sachs several years ago and only recently has Hull returned to the markets. He discussed the NMS system for trading stocks and expressed concern that the current structure of markets gave priority in the queue to HFT firms that don't deserve priority. He concluded by maintaining that the SEC created the HFT problem.

By then, the conference participants and attendees were ready for cocktails and dinner. At the dinner, to help celebrate the 25 years, Stoll posed a number of trivia questions based on past conferences. The audience shouted answers, not always correctly, all of which provided some entertainment. Also after dinner, the renowned financial analyst and economic philosopher, **Merle Hazard**, performed some of his songs, which provided important insights into the world's financial problems. <http://www.merleazard.com/>.

The conference continued Friday morning with two brief sessions. The first session, chaired by Bob Whaley, Professor at Vanderbilt, dealt with Financial Innovation. **Bill Speth**, V.P. for Research and New Products at the CBOE, discussed new products that allow investors to trade on volatility. The products are ETFs based on the futures contract for volatility. As the



Bernard Dumas enjoying the give and take at the conference.

underlying futures contract matures, positions must be rolled over. Whaley expressed concern that the rollover procedure made the ETFs a losing game, with which Speth disagreed. The second presentation in this session was by **Neil Ramsey**, CEO of Ramsey Quantitative Systems, who gave a comprehensive overview of hedge funds in the last 25 years. His presentation made clear the growing range of investment objectives of hedge funds as well as the range in risks taken by the hedge funds.

The last session of the conference, chaired by **Cliff Ball**, Professor at Vanderbilt, featured two research papers. **Bernard Dumas**, Professor at Insead, presented a paper entitled, "The Equilibrium Dynamics of Liquidity and Illiquid Asset Prices." The paper posits proportional transaction fees and develops a general equilibrium model of the effect of transaction costs on asset prices. A transaction-fee adjusted CAPM (capital asset pricing model) is developed. The second research paper, "Estimating Oil Risk Factors Using Information from Equity and Futures Markets," was presented by **Jacob Sagi**, Associate Professor at Vanderbilt. The research examines the extent to which oil futures prices are driven by forces that drive equity market prices. The work shows that four factors from the equity markets have significant power in explaining oil price movements. ■

Conference on

Hedge Funds

On Friday October 14, 2011, the FMRC sponsored a one-day conference on hedge funds organized by Owen Professor **Nick Bollen**. Eleven distinguished researchers in the field were invited to present and discuss current work examining hedge fund managerial skill, the role of hedge funds in markets, and evidence of reporting biases.

In the first session, Professor **George Aragon** from Arizona State University presented his paper, "Strategic Delays and Clustering in Hedge Fund Reported Returns," which studies the conditions under which managers delay reporting their returns to the TASS database. The paper was discussed by **Cristian Tiu** of SUNY Buffalo. Next, Professor **Stephen Brown** from New York University presented his paper, "The Impact of Mandatory Hedge Fund Portfolio Disclosure," which studies abnormal trading in equities around the time hedge fund managers report holdings on

SEC Form 13F. The paper was discussed by **Veronika Pool** of Indiana University.

In the second session, Professor **Andrew Patton** from Duke University presented his paper, "Change You Can Believe In? Hedge Fund Data Revisions," which studies different vintages of the TASS database. This paper has received a great deal of attention in the popular press. He finds that some managers revise previously reported returns, usually downward, suggesting that some managers initially purposefully misreport to

enhance their perceived performance. The paper was discussed by **Evan Dudley** of the University of Florida. The last paper of the morning was presented by Professor **William Fung** of the London Business School. He presented his paper, "Exploring Uncharted Territories of the Hedge Fund Industry: Empirical Characteristics of Mega Hedge Fund Firms," which

was then discussed by our own Professor **Bob Whaley**.

After lunch, Professor **William Goetzmann** of Yale University presented the keynote speech, titled "The Role of Hedge Funds in the Markets." Professor Goetzmann provided his own insights regarding the impact the growth of the hedge fund industry has had on market efficiency, market microstructure, and expectations of performance.

In the final session, Professor **Gjergji Cici** of the College of William and Mary presented his controversial paper, "Caught in the Act: How Hedge Funds Manipulate their Equity Positions." He presented evidence that some equity valuations reported by hedge fund managers on SEC Form 13F differ from stock prices recorded on the same day in the CRSP stock database. The paper



Neal Ramsey reviewing the development of hedge funds.

was discussed by Professor **Mila Sherman** of UMass Amherst. The last paper of the day was presented by Professor **Vikas Agarwal**, "Uncovering Hedge Fund Skill from the Portfolio Holdings They Hide." In this paper, Professor Agarwal studies the performance of stocks that hedge fund managers are able to "hide" by delaying reporting their ownership on SEC Form 13F. These stocks tend to outperform, providing evidence of managerial skill. The paper was discussed by our own Professor **Jacob Sagi**. ■

Research Workshops

Workshops conducted at the Owen School throughout the year provide a forum for the exchange and testing of new ideas in areas of current research. During 2011-2012 the following researchers presented work on finance topics:

08/26/11 – **Paul Seguin**, *Vanderbilt University*: “Hedging Costs, Index Volatility and the Underperformance of Leveraged Exchange-Traded Funds”

09/16/11 – **Laura Casares Field**, *Penn State University*: “Are Busy Boards Detrimental?”

09/23/11 – **Maya Eden**, *MIT/The World Bank*: “Financial Distortions and the Distribution of Global Volatility”

09/30/11 – **Ralph Koijen**, *National Bureau of Economic Research*: “Equity Yields”

10/07/11 – **Denis Sosyura**, *Ross School of Business*: “Safer Ratios, Riskier Portfolios: Banks’ Response to Government Aid”

10/21/11 – **Haim Kedar-Levy**, *University of Jerusalem*: “A Dynamic Equilibrium Model of Bubbles”

11/04/11 – **Paul Schultz**, *University of Notre Dame*: “The Market for New Issues of Municipal Bonds: The Roles of Transparency and Limited Access to Retail Investors”

11/11/11 – **Arnir Yaron**, *University of Pennsylvania*: “Volatility, the Macroeconomy and Asset Prices”

11/18/11 – **Shubo Wang**, *Vanderbilt University*: “Incomplete Information and Asset Returns in Real Business Economies”

12/02/11 – **Miguel Palacios**, *Vanderbilt University*: “Macroeconomic Announcements and Firm-Level Risk Characteristics”

12/09/11 – **David Mauer**, *University of Texas at Dallas*: “Subprime Mortgage Defaults and Credit Default Swaps”

01/26/12 – **Tomislav Ladika**, *Brown University*: “Freedom to Unwind: Executive Equity Sales and Subsequent Compensation”

02/03/12 – **Beau Page**, *University of Rochester*: “CEO Ownership and Firm Value: Evidence from Structural Estimation”

02/08/12 – **Ryan Pratt**, *Duke University*: “A Structural Model of Human Capital and Leverage”

02/10/12 – **Andrew MacKinlay**, *Wharton School*: “(How) Do Taxes Affect Capital Structure?”

02/15/12 – **Matt Plosser**, *University of Chicago*: “Bank Heterogeneity and Capital Allocation: Evidence from ‘Fracking’ Shocks”

02/17/12 – **Jesse Blocher**, *University of North Carolina*: “Contagious Capital: A Network Analysis of Interconnected Intermediaries”

03/02/12 – **Michael Roberts**, *Wharton School*: “Financial Crowding Out”

03/23/12 – **Lisa Kramer**, *University of Toronto*: “Seasonal Asset Allocation: Evidence from Mutual Fund Flows”

03/30/12 – **Martin Ruckes**, *Karlsruhe University*: “Time to Wind Down: Closing Decisions and High Water Marks in Hedge Fund Management Contracts”

04/13/12 – **Stavros Panageas**, *University of Chicago*: “Young, Old, Conservative and Bold: the Implications of Heterogeneity and Finite Lives for Asset Pricing”

04/20/12 – **Jules van Binsbergen**, *Northwestern University*: “Measuring Managerial Skill in the Mutual Fund Industry” ■

Guest Speakers

An important aspect of the education of MBA students and the faculty at the Owen School is the opportunity to listen to and question senior executives from financial industries. Outside speakers are sponsored directly by the Financial Markets Research Center, the Owen Lecture Series, or the Finance Association, or are invited as an integral part of courses such as Monetary and Fiscal Policy and Financial Institutions. Guest speakers during the 2011-2012 academic year were:

Roger E. Brinner, Partner and Chief Economist, *The Parthenon Group*

Robert R. Davis, Executive Vice President, *American Bankers Association*

Lynn Dorough, Chief Financial Officer, *Citizens National Bank*

Peter Fisher, Senior Managing Director, Head of Fixed Income Portfolio Management, *BlackRock Inc.*

Jayson Flowers, Managing Director, *Guggenheim Partners Asset Management*

Richard Frank, President and Chief Executive Officer, *Darby Overseas Investments*

Campbell Harvey, Professor of Finance, *Duke University*

Ron Henriksson, Principal and Chief Investment Officer, *Advanced Portfolio Management*

Joanne Hill, Head of Investment Strategy, *ProFunds Group*

G. William Hoagland, Vice President for Public Policy and Government Affairs, *CIGNA Corporation*

Don D. Humphreys, Senior Vice President & Principal Financial Officer, *Exxon Mobil Corporation*

Jeffrey M. Holland, Chief of Projections Unit, *Congressional Budget Office*

David Katsnelson, Senior Economist, *RISI*

Donald L. Kohn, Senior Fellow, Economic Studies, *Brookings* (former Vice Chairman, *Board of Governors of the Federal Reserve System*)

Dennis P. Lockhart, President and Chief Executive Officer, *Federal Reserve Bank of Atlanta*

James Overdahl, Vice President, *NERA, Securities and Finance Practice*

Rudolph G. Penner, Senior Fellow, *The Urban Institute* (former Managing Director, *Barents Group KPMG*, and former Director, *Congressional Budget Office*)

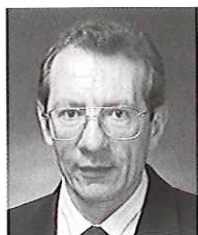
Deborah Perelmuter, Senior Vice President, *Federal Reserve Bank of New York*

Paul Volcker, Former Chairperson, *President's Economic Recovery Advisory Board* and 12th Chairman, *Board of Governors of the Federal Reserve*

John G. Walsh, Acting Comptroller of the Currency, *Office of the Comptroller of the Currency*

Lawrence Yun, Chief Economist and Senior Vice President of Research, *NATIONAL ASSOCIATION OF REALTORS* ■

Current Activities of Center Faculty



CLIFFORD A. BALL, Professor of Finance and Statistics. MSc, Nottingham 1975, PhD (Mathematics), University of New Mexico 1980.

Research interests include equities, bonds, options, and futures contracts, empirical testing of financial models, stochastic processes and statistical applications to finance, stochastic volatility and correlation, the European monetary system, capital requirements, risk management and Value-at-Risk. He is currently focused on state space time series applications to Finance.

During the past year, Professor Ball taught a two-module sequence in Financial Econometrics designed for MSF students, Risk Management, and Investments. He has served as Director of Graduate Studies for the Owen PhD Program and has frequently participated in the PhD Project, a program designed to attract students from underrepresented minorities, which is held in Chicago each November. Ball serves as a member of the Executive Committee of the Graduate School Council and as an associate editor for the *Journal of Empirical Finance*.

In addition, he has acted as referee for numerous other finance and economics journals.



KATHRYN BARRACLOUGH, Senior Lecturer in Finance and Director of MS Finance program, PhD, Australian National University 2007.

Current research interests include derivatives, corporate finance, and asset pricing.

During the past year, Kate has published two papers: "Early exercise of put options on stocks" (with Robert E. Whaley) in the *Journal of Finance* and "Stock option contract adjustments: the case of special dividends" (with Hans R. Stoll and Robert E. Whaley) in the *Journal of Financial Markets*. She has recently had another paper, "Put option exercise and short stock interest arbitrage" (with Robert E. Whaley), accepted for publication in the *Journal of Investment*

Management. Kate's latest working paper, "Using option prices to infer overpayments and synergies in M&A transactions" (with David T. Robinson, Tom Smith and Robert E. Whaley), is currently under review at the *Review of Financial Studies*.

Kate is director of the MS Finance program and teaches Financial Modeling.

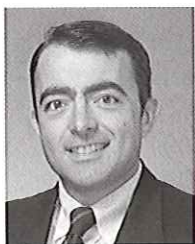


JESSE A. BLOCHER, Assistant Professor of Finance. BS, Chemical Engineering, Virginia Tech, MS, MIT, PhD, Finance, University of North Carolina 2012.

Research interests include asset pricing and market intermediaries. Areas of expertise include hedge and mutual funds, market structure and inter-connectedness, liquidity, securities lending, financial networks, collateralized investments, exchange-traded funds, and market complexity.

Professor Blocher joined the finance group at Owen in 2012. His dissertation, "Contagious Capital: A Network Analysis of Interconnected Intermediaries," won the Financial Research Association's Michael J. Barclay award for best solo-authored paper by a young scholar and the Shmuel Kandel Award for best North American PhD Student from the Utah Winter Finance Conference. His paper, "The Long and the Short of it: Evidence of Year-End Price Manipulation by Short Sellers" (with Joey Engelberg and Adam Reed), was on the AFA 2012 program in Chicago.

His paper, "Connecting Two Markets: An Equilibrium Framework for Shorts, Longs and Stock Loans" (with Adam Reed and Ed Van Wesep), is revise and resubmit (2nd round) at the *Journal of Financial Economics*.



NICOLAS P.B. BOLLEN, E. Bronson Ingram Associate Professor of Finance MBA, PhD, Duke University 1997.

Research interests include hedge funds, mutual funds, derivatives, and financial markets.

Professor Bollen had two papers accepted for publication in the past year. In "Zero- R^2 hedge

funds and market neutrality," forthcoming at the *Journal of Financial and Quantitative Analysis*, he illustrates the extremely poor performance of factor models for explaining risk in individual hedge funds. Those funds for which factor models have zero explanatory power feature a higher failure rate than other funds, indicating that the "unknown unknowns" are an important source of risk for investors.

Bollen, along with Professor Veronika Pool of Indiana University, completed "Suspicious patterns in hedge fund returns and the risk of fraud," forthcoming at the *Review of Financial Studies*. This paper shows that hedge funds with reported returns that display one or more suspicious "man-made" patterns are more likely to be charged with fraud by the SEC. The information content of these patterns exists even after controlling for measures of operational risk, suggesting that regulators and institutional investors can benefit by using them to identify funds with a higher risk of fraud.

In October 2011, Professor Bollen organized a conference at Owen that brought together some of the leading researchers in hedge funds, including Stephen Brown from New York University, William Goetzmann from Yale, and Bill Fung from the London Business School. New research was presented, including a provocative paper by Andrew Patton of Duke University and Tarun Ramadorai of Oxford that suggests some hedge fund managers mislead investors by reporting inflated returns, then revising them downward in the future.

Over the past year, Professor Bollen also participated in half a dozen other conferences including the WFA, AFA, ICI/AIM Mutual Fund Conference, SFS Finance Cavalcade, and the EFMA annual meeting in Barcelona.



NICOLE BRANGER, Visiting Professor of Finance. PhD, University of Karlsruhe 2001. Habilitation, Goethe-University Frankfurt 2005.

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Faculty Activities *(continued)*



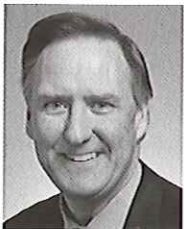
PAUL K. CHANEY,
E. Bronson Ingram
Professor of Accounting,
MBA, PhD, Indiana
1983, CPA, CMA.
Research interests

include auditor reputation, business combinations, earnings quality, earnings management, and audit pricing.

Professor Chaney's paper (with Debra Jeter, Steven Cahan, and Wei Zhang), "Damaged Auditor Reputation and Analysts' Forecast Revision Frequency," was accepted for publication in *Auditing: A Journal of Practice and Theory*.

Chaney serves on the editorial boards of three journals: the leading American Accounting Association (AAA) journal, *The Accounting Review*, the AAA auditing journal, *Auditing: A Journal of Practice and Theory*, and a leading international accounting journal, *International Journal of Accounting*.

Professor Chaney also serves as the Database Coordinator for the FMRC.

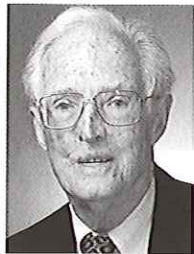


WILLIAM G. CHRISTIE, Frances
Hampton Currey
Professor of Management
and Professor of Law,
MBA, PhD, Chicago
1989.

Academic interests include financial markets, market microstructure and corporate finance.

Professor Christie concluded his role as Executive Editor of *Financial Management*, the flagship journal of the Financial Management Association (FMA). He served as Executive Editor for the past six years, doubling the number of annual submissions and reducing the turnaround time by almost 50%. He served as co-chair of the fifth annual UC Davis/FM Conference on Financial Markets that was held at the Cakebread Winery in Napa, California. He was voted by the membership of the FMA as Vice-President, Programs for 2013-2014, responsible for the program at the FMA annual meetings in 2014.

Christie received the James A. Webb Jr. Award for Excellence in Teaching from the graduating class of 2012. This marks the third time he has received this honor since joining the Owen faculty in 1989. He serves on numerous committees at Owen, including the Curriculum Committee (chair), Clinical and Adjunct Appointments Committee (chair), Student Achievement Committee, and the Executive Program Guidance Committee. He continues to serve in the capacity of finance area coordinator and oversees the Max Adler Student Investment Club, TVA Investment Challenge, and was the faculty advisor to a team of Owen students competing in the CFA Investment Challenge. Christie teaches the core finance class to all incoming MAcc and MBA students in both the day and Executive programs.



J. DEWEY DAANE,
Frank K. Houston
Professor of Finance,
Emeritus and Senior
Advisor to the Financial
Markets Research
Center. MPA, DPA,
Harvard 1949.

Research interests include monetary economics and international finance. During the spring semester, as part of his Seminar in Monetary and Fiscal Policy, Professor Daane arranged for many of the guest speakers listed elsewhere in this newsletter.

In September of 2011, Professor Daane attended the World Bank and International Monetary Fund annual meetings in Washington DC, and in May 2012, he participated in the Financial Markets Research Center's 25th annual conference, "Then and Now" at Vanderbilt University.

Professor Daane, now 94, is still a regular contributor to the *Wall Street Journal's* monthly economic survey, having earned a spot in their annual US economic-forecasting rankings, and he also contributes to the *USA TODAY* quarterly economic forecast.



LUKE M. FROEB,
William C. Oehmig
Associate Professor of
Entrepreneurship and Free
Enterprise. PhD,
Wisconsin 1983.

During the past year, Professor Froeb gave talks on a variety of topics related to the economics of competition. Professor Froeb continues to do research, consulting, and you can follow his thoughts on business and economics at his blog, *ManagerialEcon.com*. He is rewriting his textbook, *Managerial Economics*, for the third edition, and he has posted a series of talks on various chapters on his youtube channel, *lukefroeb*.



THOMAS S.Y. HO,
Visiting Research Professor
of Financial Markets. PhD
(mathematics), University of
Pennsylvania 1978.



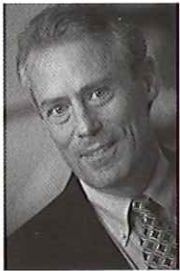
DEBRA C. JETER,
Associate Professor of
Accounting. MBA, Murray
State 1981, PhD, Vanderbilt
1990, CPA.

Research interests include financial accounting and auditing, with specific interests in earnings and audit quality, earnings management, components of earnings, the market for audit services, audit pricing, and audit opinions.

Professor Jeter visited the University of Auckland in March 2012 as a research mentor. One of her research papers, "Are All Industry Specialists the Same?" with S. Cahan and V. Naiker, was awarded the Best Paper Award in *Auditing Literature* at the AFAANZ (Accounting & Finance Association of Australia and New Zealand) Conference in 2011. This paper was published in November 2011 in *Auditing: A Journal of Practice & Theory*. She presented "Pay-Performance Sensitivity before and after SOX," coauthored with Hui Chen and Ya-wen Yang, at the Seventh International Conference on Interdisciplinary Social Sciences in Barcelona,

Spain held at the Universidad Abat Oliba, CEU, in June 2012. Another paper, "Are CSR Disclosures Credible? Cross-Country Evidence," co-authored with Steven F. Cahan, Charl de Villiers, Vic Naiker, and Chris van Staden, was presented in July 2012 at the AFAANZ Conference in Melbourne, Australia. Her paper, "Damaged Auditor Reputation and Analysts' Forecast Revision Frequency," co-authored with Steven Cahan, Paul Chaney, and Wei Zhang, has been accepted for publication in *Auditing: A Journal of Practice & Theory*.

Jeter is currently serving on the Editorial Boards of *The Accounting Review* and *Accounting and Finance*, and as Editor of *Auditing: A Journal of Practice & Theory*. The 5th edition of her textbook, *Advanced Accounting* by Jeter and Chaney, was published in the fall 2011.



CRAIG M. LEWIS, Madison S. Wigginton Professor of Finance. MS, PhD, Wisconsin 1986, CPA. On leave to the SEC as Chief Economist and Director of Risk, Strategy and Financial Innovation Division.



ALEXEI OVTCHINNIKOV, Assistant Professor of Finance. MBA, University of California, Riverside 2000, PhD, Purdue University 2004.

Research interests include regulation and mergers, board characteristics and firm performance, and the effect of market timing on firms' cost of capital.

During the past year, Professor Ovtchinnikov visited the London Business School where he taught Advanced Corporate Finance. He presented his paper, "Merger waves following industry deregulation," at the University of Cambridge, HEC Lausanne, HEC Paris, Copenhagen Business School, the University of Amsterdam, the Imperial College of London, and the University of Virginia. Ovtchinnikov's paper, "Individual political

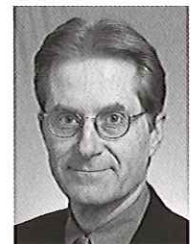
contributions and firm performance" (with Eva Pantaleoni) which he presented at the American Finance Association meeting, was published in the *Journal of Financial Economics*.



MIGUEL PALACIOS, Assistant Professor of Finance. MA, PhD, University of California, Berkeley 2009. Research interests are

in the fields of education financing, human capital and asset-pricing, and labor economics. He teaches courses in International Financial Markets and Instruments and in Corporate Valuation.

Professor Palacios presented his paper, "Debt Aversion: An Experiment among Student Loan Candidates" (with Gregorio Caetano and Harry Patrinos), at the University of North Carolina's business school. He presented another paper, "Training and its impact on wage and industry risk" (with Alex Stomper), at a seminar in the Foster School of Business at the University of Washington, and he worked with Hans Stoll and Tom Ho on "Regulatory Principles for the Financial System." Professor Palacios discussed "Equilibrium Implications of Oligopoly: Markups and Shock Transmission" by Marcus Opp, Christine Parlour, and Johan Walden at the University of Michigan's Ross School of Business.



DAVID C. PARSLEY, E. Bronson Ingram Professor of Economics and Finance. AM, Indiana 1979, PhD, California, Berkeley 1990.

Research interests are in the fields of international finance and macroeconomics. His research examines links across countries, both in financial markets and in markets for goods and services. The role that exchange rates play in the market integration process is central to this research. His recent research has examined the value of political connections and corporate lobbying activities.

Professor Parsley's papers, "Slow Pass-through around the World: A New Import for Developing Countries" (with Jeffrey Frankel and Shang-Jin Wei), and "Exchange Rate Pass-

through in South Africa: Panel Evidence from Individual Goods and Services," were both published in 2012.



JACOB S. SAGI, Associate Professor of Finance. BS, University of Toronto 1991, PhD, University of British Columbia (physics) 1995, (financial economics) 2000.

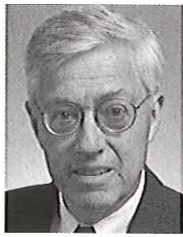
Research is focused on decision-making under risk and uncertainty, as well as asset pricing. An expert on financial economics and decision theory, Sagi has been published in *Econometrica*, the *Journal of Economic Theory*, the *Journal of Financial Economics*, *The Review of Financial Studies*, and other highly regarded journals. His most recent publication at the *Journal of Economic Theory* offers a novel approach to measuring income inequality that accounts for social mobility as well as the degree to which the wealthy and poor share the plights of unexpected economic fluctuations.

During the past year, Professor Sagi served on the review committees for the Utah Winter Finance Conference, the Tel-Aviv University Finance conference, the IDC Caesarea Center Conference, and the Finance Down Under conference in Australia. This past year he has given invited presentations at UNC Chapel Hill, UC Boulder, the University of Maryland, UF Gainesville, and the Caesarea Practitioner Finance Workshop at IDC in Israel. Together with Professor Bob Whaley, he developed the NASDAQ-OMX Alpha Index family of relative performance indices, some of which currently trade on the PHLX. Professor Sagi is an associate editor at *Emerging Markets Review*, *Mathematical Social Sciences*, and the *Journal of Mathematical Economics*.



CHRISTIAN SCHLAG, Visiting Professor of Finance, University of Karlsruhe, PhD, Habilitation, 1996.

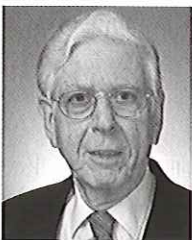
Faculty Activities *(continued)*



HANS R. STOLL,
The Anne Marie and
Thomas B. Walker
Professor of Finance and
Director of the Financial
Markets Research Center.
MBA, PhD, University

of Chicago 1963, 1966.

Professor Stoll participated in the annual meeting of the Financial Economists Roundtable held at Niagara on the Lake in July 2012. The roundtable is a group of senior financial economists from universities around the world that meets once a year to issue a statement on a current policy issue. Stoll is on the steering committee of the organization. This year's topic was, "What Does Government Financial Assistance Really Cost?" Stoll's paper, "Stock option contract adjustments: The case of special dividends," (with K. Barraclough and Bob Whaley) appeared in print in the *Journal of Financial Markets* in 2012. His paper (with Tom Ho and Miguel Palacios), "Regulatory Principles for the Financial System" will appear in the Fall 2012 issue of the *Journal of Derivatives*. The monograph, "Dynamic Financial System: Complexity, Fragility, and Regulatory Principles," is forthcoming in *Financial Markets, Institutions and Instruments*.



**H. MARTIN
WEINGARTNER,**
Brownlee O. Currey
Professor of Finance,
Emeritus. MS, PhD,
Carnegie Mellon 1962.

Before his retirement from Owen in January 1998, Professor Weingartner taught courses in negotiation, case studies in finance, financial decision making, and real estate finance. His research over the years focused on the premise that specialty is the financial strategy of organizations – particularly entrepreneurial ventures. He has written extensively on the uses of mathematical models in financial decision making and approaches to capital budgeting and has consulted for major financial institutions and other organizations. Professor Weingartner is a past president of The

Institute of Management Sciences and associate editor of *Management Science*.



**ROBERT E.
WHALEY,** The Valere
Blair Potter Professor of
Management (finance)
and Co-Director of the
Financial Markets
Research Center. PhD,
University of Toronto
1978.

Research interests include derivatives, asset pricing, market microstructure, and market volatility. Much of Professor Whaley's past work focused on investigations of market volatility, the valuation of option and futures option contracts, and the efficiency of the markets in which they trade. His research has been published in the top academic and practitioner journals, and he is a frequent presenter, chairman, and/or discussant at major conferences and seminars.

Professor Whaley's recent publications include "Commodity index investing: Speculation or diversification?" in *Journal of Alternative Investments*, "Stock option contract adjustments: The case of special dividends" in *Journal of Financial Markets*, "Trading relative performance with alpha indexes" in *Financial Analysts Journal*, "Early exercise of put options on stocks" in *Journal of Finance*, "No-arbitrage price relations: Options," *The Encyclopedia of Financial Models*, Frank Fabozzi (Editor), Hoboken, New Jersey: John Wiley & Sons, Inc., "No-arbitrage price relations: Forwards, futures, swaps" in *The Encyclopedia of Financial Models*, Frank Fabozzi (Editor), Hoboken, New Jersey: John Wiley & Sons, Inc. "Put option exercise and short stock interest arbitrage" is forthcoming in *Journal of Investment Management*. Recent research presentations include *Trading Volatility: At What Cost?* at the 9th Annual Rothschild Caesarea Summit, Interdisciplinary Center (IDC), Tel Aviv, Israel, May 2012, *Financial Innovation: At What Cost?* at the Financial Markets Research Center conference, Owen Graduate School of Management, Vanderbilt University, Nashville, Tennessee, May 2012, *Trading Volatility: Caveat Emptor* at the MidSouth Alternative Investment Association meeting, Nashville, Tennessee, April

2012, and *Fear and Volatility: Six Facts about VIX* where he was the keynote speaker at 2012 Berkeley-Haas Finance Conference "Opportunities in Volatile Times," University of California, Berkeley, March 2012.

Whaley holds a number of editorial positions, serves as a referee for many journals and granting agencies, and is currently a member of the International Advisory Board of the University Centre for Financial Engineering at the National University of Singapore.

RICHARD H.



WILLIS, Anne Marie and
Thomas B. Walker, Jr.
Associate Professor of
Accounting. BS, University
of South Alabama 1983,
MAS, Ohio State
University 1984, MBA,

Duke University 1992, PhD, University of
Chicago 1998, CPA (State of Illinois), 1996.

Research interests include security analysts and, in particular, their earnings forecasts, stock recommendations, and target prices. Teaching interests are in managerial accounting, courses for which he has won several teaching awards. He teaches in Owen's daytime and executive MBA programs.

Professor Willis's paper, "Does Investor Sentiment Affect Sell-Side Analysts' Forecast Bias and Forecast Accuracy?" (with B. Walther at Northwestern University), is forthcoming in the *Review of Accounting Studies*. His paper, "Security Analysts, Cash Flow Forecasts, and Turnover," (with S. Pandit of the University of Illinois at Chicago and L. Zhou of the University of New Mexico) is forthcoming in the *International Journal of Forecasting*. In August 2012 he will serve as a discussant at the American Accounting Association annual meeting in Washington, DC.

Willis's research has been published in top academic journals, including the *Journal of Accounting and Economics*, the *Journal of Financial Economics*, and *The Accounting Review*. He also serves on the editorial board of *The Accounting Review* and is as a referee for numerous accounting and finance journals. ■

Faculty Research Papers

Current working papers, completed or revised since January 1, 2011, are listed below.

“Contagion in the Presence of Stochastic Interdependence,” **Clifford A. Ball** and **Walter Torous**, 2011

“Using option prices to infer overpayments and synergies,” **Kathryn Barraclough**, **David T. Robinson**, **Tom Smith** and **Robert E. Whaley**, 2012

“Contagious Capital: A Network Analysis of Interconnected Intermediaries,” **Jesse Blocher**, 2012

“Connecting Two Markets: An Equilibrium Framework for Shorts, Longs and Stock Loans,” **Jesse Blocher**, **Adam Reed** and **Ed Van Wesep**, 2012

“The Long and the Short of it: Evidence of Year-End Price Manipulation by Short Sellers” **Jesse Blocher**, **Joey Engelberg** and **Adam Reed**, 2012

“Send in the clones? Hedge fund replication using futures contracts,” **Nicolas P. Bollen** and **G. Fisher**, 2012

“Preference Heterogeneity and Survival in Long-Run Risk Models,” **Nicole Branger**, **Ioana Dumitrescu**, **Vesela Ivanova**, and **Christian Schlag**, 2011

“What Is the Equilibrium Price of Variance Risk? A Long-Run Risk Model with Two Volatility Factors,” **Nicole Branger** and **Clemens Völkert**, 2011

“The Role of Volatility Shocks and Rare Events in Long-Run Risk Models,” **Nicole Branger**, **Paulo Rodrigues** and **Christian Schlag**, 2011

“Learning, Information Quality, and the Cross Section of Equilibrium Returns,” **Nicole Branger**, **Patrick Konermann**, and **Julian Thimme**, 2011.

“The Fine Structure of Variance: Consistent Pricing of VIX Derivatives,” **Nicole Branger** and **Clemens Völkert**, 2011.

“Two Trees the EZ Way,” **Nicole Branger**, **Ioana Dumitrescu**, **Vesela Ivanova**, and **Christian Schlag**, 2011.

“Pricing Two Trees when Mildew Infests the Orchard: How Does Contagion Affect General Equilibrium Asset Prices?” **Nicole Branger**, **Holger Kraft**, and **Christoph Meinerding**, 2011.

“Partial Information about Contagion Risk, Endogenous Self-Exciting Processes and Portfolio Optimization,” **Nicole Branger**, **Holger Kraft**, and **Christoph Meinerding**, 2012.

“Robust Portfolio Choice with Uncertainty about Jump and Diffusion Risk,” **Nicole Branger** and **Linda Sandris Larsen**, 2012.

“The Impact of Risk Premia on Expected Option Returns,” **Nicole Branger**, **Alexandra Hansis**, and **Christian Schlag**, 2012

“Are CSR Disclosures Credible? Cross-Country Evidence,” **Steven F. Cahan**, **Charl de Villiers**, **Debra Jeter**, **Vie Naiker**, and **Chris van Staden**, 2012

“Pay-Performance Sensitivity before and after SOX,” **Hui Chen**, **Debra Jeter**, and **Ya-wen Yang**, 2012

“The Association between Client-specific Investment Opportunities and Audit Fees of Industry Specialists,” **Steven F. Cahan**, **Jayne M. Godfrey**, **Jane Hamilton**, and **Debra Jeter**, 2012

“Asset Specificity and the Decision to Lease or Own: Insights into the Accounting for Buildings Leases,” **Jilnaught Wong**, **Norman Wong**, and **Debra Jeter**, 2012

“Merger waves following industry deregulation,” **Alexei V. Ovtchinnikov**, 2012

“Human Capital as an Asset Class: Implications from a General Equilibrium Model,” **Miguel Palacios**, 2012

“Training and its impact on wage and industry risk,” **Miguel Palacios** and **Alex Stomper**, 2012

“General Equilibrium Implications of Labor Mobility,” **Andres Donangelo**, **Esther Eiling**, and **Miguel Palacios**

“Debt Aversion: An Experiment among Student Loan Candidates,” **Gregorio Caetano**, **Miguel Palacios** and **Harry A. Patrinos**, 2012

“Predictable Demographic Change and Human Capital Returns,” **Miguel Palacios**, 2012

“Do Fund Managers Make Informed Asset Allocation Decisions?” **Jacob Sagi** and **Bradyn Breon-Drish**, 2011

“Managed Distribution Policies in Closed-End Funds and Shareholder Activism,” **Martin Cherkes**, **Jacob Sagi** and **Jay Wang**, 2011

“Information Content of Public Firm Disclosures and the Sarbanes-Oxley Act,” **Shimon Kogan**, **Bryan Routledge**, **Jacob Sagi** and **Noah Smith**, 2011

“Are Order Imbalances Indicative of Private Information?” **Sukwon Kim** and **Hans Stoll**, 2012

“Trading volatility: At what cost?” **Robert E. Whaley**, 2012

“Equity Method Accounting and Sell-Side Analysts’ Information Environment,” **S. Lee**, **S. Pandit** and **Richard H. Willis**, August 2011

“Shareholder Litigation and Bank Loan Contracting,” **S. Deng**, **L. Xu** and **Richard H. Willis**, August 2011 ■



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