VANDERBILT
Owen Graduate School of Management

FINANCIAL MARKETS

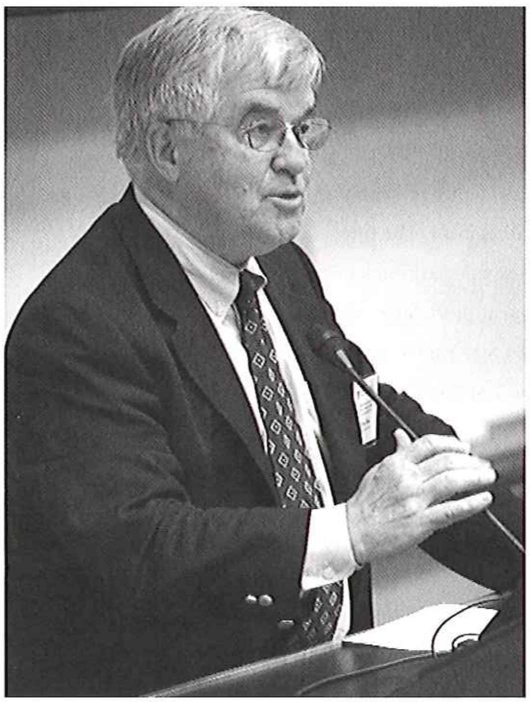
CONTENTS

FINANCIAL MARKETS RESEARCH CENTER • 2010

Conference on

Regulatory Change in the Global Financial System

The global financial system and the world economy are still recovering from the global credit crisis which began in the spring of 2007 and continued through 2009. The sources of the crisis are many: poor mortgage lending standards, opaqueness of securitized financial products (CMOs), credit rating agencies failures, poorly capitalized banks, poorly managed OTC derivative contracts, compensation which created the wrong incentives, inadequate risk management, decline in asset prices, to name a few. It is not that we could not do better, but rather that perverse incentives riddled the financial system and a lack of transparency hid the problems.



Mark Olson discussing financial reform legislation.

The 23rd annual conference, sponsored by the Financial Markets Research Center (FMRC) at Vanderbilt University and held April 22 -23, dealt with the sources of the crisis and the regulatory changes that might reduce the chances of a similar crisis in the future. Participants in the conference included academics, regulators and industry leaders. As usual, the Dewey Daane Invitational Tennis Tournament took place Friday afternoon following the conference.

Jim Bradford, Dean of the Owen School, welcomed conference participants. **Hans Stoll**, director of the FMRC described the upcoming sessions and introduced the keynote speaker, **Mark Olson**, Co-Chairman of Corporate Risk Advisors, who has also held positions as Chairman of the Public Company Accounting Oversight Board, Governor of the Federal Reserve Board, and President of the American Bankers Association. Olson discussed the sources of the crisis, the recent developments in financial markets that contributed to the crisis, and the legislative process to produce a bill that may or may not be optimal.

The next session, chaired by **Ron Masulis**, Frank Houston Professor of Finance at the Owen School, dealt with the behavior of banks in the crisis. The first speaker, **René Stulz**, Everett Reese Professor at The Ohio State University, gave a paper (with Andrea Beltratti), "Why Did Some Banks Perform Better During the Credit Crisis? A Cross-Country Study of the Impact of Governance and Regulation." He found that bank performance in July 2007 to December 2008 varied cross-sectionally with the dependence on short term financing but not with differences in governance or regulation. Next, **Luc Laeven**, Deputy Chief of Research Division, IMF, spoke on accounting discretion of banks during the financial crisis. In a paper (with Harry Huizinga), "Bank Valuation and Regulatory Forbearance during a Financial Crisis," he concludes that "banks overstate the value of distressed assets and their regulatory capital…" According to

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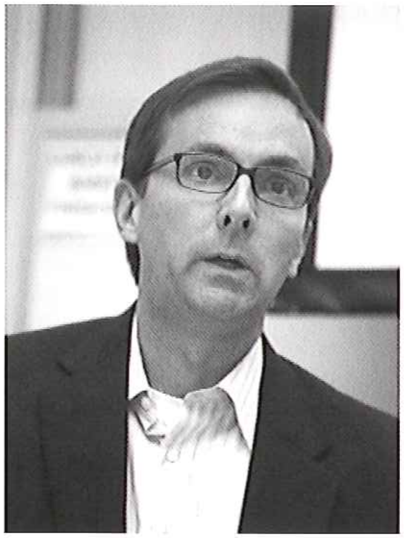
Regulatory Change Conference *(continued)*



Chuck Vice commenting on developments in derivatives clearing.

Laeven, the effect is that the banks' financial health is distorted.

After a coffee break, attendees returned for a session chaired by **Duke Chapman**, Chairman, Prime Insurance Holdings, former Chairman of the CBOE, and a veteran of distinguished service in the securities industry. The first speaker, **Bob Davis**, Executive Vice President of the American Bankers Association, discussed the state of the U.S. banking system and the regulatory outlook. He supported increased capital requirements and an end to "too big to fail," and opposed a new consumer financial protection agency. **Erik Heitfield**, Economist at the Federal Reserve Board, spoke next on mortgage backed securities and the failure of the rating system to inform investors properly.

After lunch, in a brief interruption of the conference, **Nick Bollen**, Bronson Ingram Professor of Finance, made a brief presentation on the Owen School's new Master of Science in Finance (MSF) program. He noted that students in the program learn a great deal of finance in one year, and he urged attendees to hire the graduates of the program. The group then turned to the next session, "Risk Management in Practice," chaired by **Bill Christie**, Frances Hampton Currey Professor of Management. The three panelists are all experienced implementers of risk management procedures. **Tom Ho**, president of Tom S.Y. Ho Company and Research Professor of Finance at Owen, discussed the task his company undertook to determine the needed capital of over 800 thrift institutions regulated by the OTS. Under a contract with the OTS, the

Ron Masulis and Rene Stulz before their session.

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VANDERBILT UNIVERSITY
OWEN GRADUATE SCHOOL OF MANAGEMENT

Financial Markets Research Center 2010
401 Twenty-first Avenue South • Nashville, TN 37203
615-322-3671 • www.owen.vanderbilt.edu/fmrc/

Hans R. Stoll, Director
Robert E. Whaley, Co-Director
J. Dewey Daane, Senior Advisor
Paul Chaney, Data Coordinator
Christoph Schenzler, Research Associate and Data Base Manager
Pat Scott, Administrator

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 23 years include the following:

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* indicates current member
** indicates current lead member

FROM THE DIRECTOR

Hans R. Stoll

In the 23 years since the FMRC's founding much has happened and much has changed in financial markets. Several financial crises dominated those years – the crash of 1987, the Asian banking and currency crisis of 1997, the LTCM crisis of 1998 and, the most severe crisis of all, the credit crisis of 2007 – 2009. At the same time longer term issues, such as the structure of equity trading, global imbalances, and the role of derivatives, seemed to be ever present. The FMRC has participated in understanding these events and issues through its conferences and research. The conferences, typically held in April, bring together academics, industry leaders, regulators, and students in a mix intended to lead to new insights, or at least to better understanding of policy issues. Conference topics by year were as follows:

1988 – The Stock Market Crash of 1987: What Have We Learned?
1989 – Dewey Daane Conference on International Financial Policy.
1990 – Volatility and Market Structure.
1991 – Securities Markets Transaction Costs.
1992 – World Trading Markets.
1993 – Risk Management.
1994 – Global Risk.
1995 – Financial Markets Reform.
1996 – Investing Internationally.
1997 – Ten Years since the Crash.
1998 – Financial Markets and the Corporation.
1999 – Coping with Global Volatility.
2000 – Financial Markets, Information Technology, and Electronic Markets.
2001 – Market Quality.
2002 – Innovation in Finance.
2003 – Corporate Behavior and Financial Markets.
2004 – Exchange Governance and Securities Market Structure.
2005 – Honoring Hans Stoll's Contributions to the Field of Finance.
2006 – Conflicts of Interest in Financial Markets.
2007 – Developments in Financial Markets
2008 – Securitization
2009 – Financial Markets and Financial Policy, Honoring Dewey Daane on his 90th birthday
2010 – Regulatory Change in the Global Financial System

In October 2009, the Center began a new annual conference series focused on more narrowly defined research issues than is the case in the spring conference. The first fall research conference was organized by **Alexei Ovtchinnikov** on the topic, "The Role of Government Regulation in Corporate Finance." A brief description of that conference appears elsewhere in this newsletter. The next conference in this series is being organized by **Miguel Palacios**, Assistant Professor of Finance at Owen, on the topic, "Human Capital and Finance. The conference will take place October 9th at Vanderbilt.

A word about changes in the Center faculty: We are delighted to announce the addition of **Thomas S.Y. Ho** as a Center faculty member. Tom has been appointed to the Owen faculty as Research Professor of Financial Markets. Tom will be in residence at Owen for one week periods approximately every month. Two colleagues are on leave: **Craig Lewis**, Madison Wigginton Professor, is on leave to the Securities and Exchange Commission. **Ron Masulis**, Frank K. Houston Professor, is on leave to the University of New South Wales in Australia. **Kate Barraclough** has been appointed Program Director for the MSF program. She has been a visiting professor at Owen and will continue to teach in the program albeit at a lesser amount. Her responsibilities will include student placement, admissions, program design and other matters related to the MSF program. ■

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. ■

Regulatory Change Conference *(continued)*

The panel of Tom Ho, Oliver Jakob and Chuck Lucas discussing risk management in practice.

company gathered data on the assets and liabilities of each thrift and valued each asset, including those with complex option components. The minimum capital was then determined as a function of the variability of the bank portfolio. **Oliver Jakob,** managing director for risk control at UBS, spoke about some of the complex securities that made risk control difficult. Like the other speakers, he noted the importance of involvement of senior management in risk control. Management must be willing to reject deals that do not pass the risk control screen. **Chuck Lucas,** who resigned as head of market risk management at AIG about 3 years ago, spoke on his experience at AIG. He noted that under Hank Greenberg, risk management was effective. After Greenberg left, operating units, such as Financial Products, gained independence and paid less attention to proper risk management.

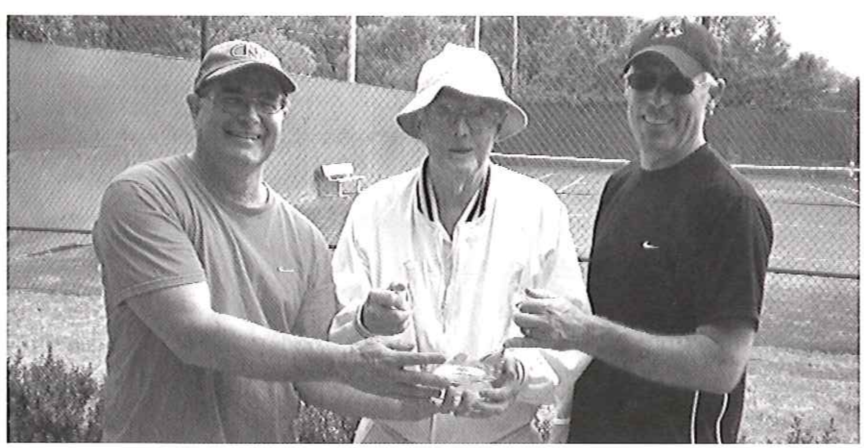
The final panel of the day, chaired by **Craig Lewis,** Madison Wigginton Professor of Finance at Vanderbilt, also dealt with risk and risk control. **Simon Babbs,** Head of Quantitative Risk Management at the Options Clearing Corporation, described risk management at the OCC. He noted that the CBOE weathered the financial crisis without great difficulty. Volume increased dramatically, but all contracts were met and only two small firms were shut down. **Roy Henriksson,** Chief Investment Officer of Advanced Portfolio Management Company, spoke on the lessons for risk management provided by the crisis.

The first session on Friday, chaired by **Eric Noll,** Executive V.P. at the NASDAQ OMX Group, dealt with developments at derivatives exchanges. **John Damgard,** President of the Futures Industry Association, commented on the discussions of how derivatives should be regulated and where they should be traded. He noted that the exclusivity clause of the Commodity Futures Trading Act of 1974 clarified what should be traded on organized futures markets and who should regulate the contract. **Chuck Vice,** President of the upstart Intercontinental Exchange (ICE), spoke on recent developments at the ICE, including advances in automation, clearing swap contracts, and other issues. **Mike Cahill,** President of the Options Clearing Corp, discussed the developments in clearing new contracts, noting they are clearing equity futures products in addition to their options business.

The last session of the conference on the topic of regulatory developments was chaired by **Jim Cochrane,** former Senior V.P. at the NYSE. The first speaker, **Jeff Harris,** professor at the University of Delaware and former Chief Economist at the CFTC, discussed regulatory issues in energy markets. **Jim Overdahl,** Vice President at NERA and former Chief Economist at the SEC, reviewed the SEC's short selling ban during the crisis in 2008 and concluded the ban was counterproductive. ■

Dewey Daane Invitational Tennis Tournament

Dewey Daane continues to oversee his tournament, which is played in the beautiful setting of the Belle Meade Club. Winner this year was Craig Lewis and runner-up was Ken Suttrick. Congratulations gentlemen! ■



Dewey Daane holding the Daane Cup with the help of runner-up, Ken Suttrick, and tournament winner, Craig Lewis.

Conference on

The Role of Government Regulation in Corporate Finance

On October 10, 2009, **Alexei Ovtchinnikov**, Assistant Professor at Owen, organized a conference on the role of government regulation in corporate finance. The conference was sponsored by the FMRC, and its aim was to bring together leading researchers in economics, finance, financial accounting, law, and political science to debate the effect of government regulation on corporate finance issues and the corporate responses to these regulatory changes. Renewed interest in the role of regulation in corporate finance has been fueled by the Enron scandal of 2001 and, more recently, by the banking crisis and the bailout of AIG. These developments have led to renewed calls for increased government regulation of corporate governance, executive compensation, firm investment, and financing policies as well as more comprehensive regulation of financial intermediaries.

Conference Organizer, Alexei Ovtchinnikov

The conference consisted of four sessions, each with two or three academic papers. (Copies of all presented papers may be found at http://www2.owen.vanderbilt.edu/fmrc/Conference/conferences-fall-2009.html). Two morning sessions focused on the role of government regulation for firm policies. In the first morning session, **Vojislav (Max) Maksimovic**, University of Maryland, presented a paper that documented that government corruption acts as a tax on firm innovation. **Simon Gervais**, Duke University, presented a paper that studied the role of the legal system in facilitating the interaction of investors and financial intermediaries in the retail financial markets. **Ross Levine**, Brown University, presented a paper that documented that bank deregulation had a positive impact on income distribution in the US by increasing income in the lower part of the income distribution. In the second morning session, **Christian Lundblad**, University of North Carolina, and **Amit Seru**, University of Chicago, presented papers on the regulation of financial intermediaries.

Two afternoon sessions focused on the role of corporate lobbying on government regulation. **Alexei Ovtchinnikov**, Vanderbilt University, presented a paper that documented that firms that make political contributions earn higher stock returns. **Hui Chen**, University of Colorado, presented a paper where she similarly found that firms involved in corporate lobbying have better operating performance. **Eitan Goldman**, Indiana University, presented a paper where he found that politically connected firms receive more procurement contracts. Finally, **Felix Meschke**, University of Minnesota, presented a paper where he found that firms making political contributions are characterized by more serious agency problems. ■

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 2009-2010 the following researchers presented work on finance topics:

09/11/09 – **Dan Dhaliwal**, *University of Arizona*: "Banks' Asset Securitization and Information Uncertainty"

09/25/09 – **Matt Spiegel**, *Yale University*: "Mutual Fund Risk and Market Share Adjusted Fund Flows"

12/11/09 – **Tom Ho**, *Thomas Ho Company Ltd*: "Valuing Contingent Claims on Natural Gas Contracts"

01/07/10 – **Mikhail Simutin**, *University of British Columbia*: "Excess Cash and Mutual Fund Performance"

01/12/10 – **Nicholay Grantchev**, *University of Pennsylvania*: "The Costs of Shareholder Activism: Evidence from a Sequential Decision Model"

01/15/10 – **Michael Michaux**, *University of Pennsylvania*: "Pass-through, Exposure, and the Currency Composition of Debt"

01/19/10 – **Alexi Savov**, *University of Chicago*: "Free for a Fee: The Hidden Cost of Index Fund Investing"

01/22/10 – **Sara B. Holland**, *University of California, Berkeley*: "The Welfare Implications of Health Capital Investment"

01/26/10 – **Christopher Hrdlicka**, *University of Chicago*: "Trading Volume and Time Varying Betas"

1/29/10 – **Vanitha Ragunathan**, *University of Queensland, Australia*: "Is the Cross-Listing Premium an SEO Effect?"

02/26/10 – **Michael Clement**, *University of Texas at Austin*: "The Relative Profitability of Analysts' Stock Recommendations: What Role Does Investor Sentiment Play?"

03/19/10 – **David Robinson**, *Duke University*: "What Does Financial Literacy Training Teach Us?"

04/08/10 – **Darrell Duffie**, *Stanford University*: "How Big Banks Fail and What to do About It"

04/16/10 – **Guojin Gong**, *Penn State University*: "Relative Performance Evaluation and Related Peer Groups in Executive Compensation Contracts"

05-07-10 – **Pietro Veronesi**, *University of Chicago*: "Uncertainty about Government Policy and Stock Prices" ■

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 2009-2010 academic year were:

Patrick Barron, First Vice-President, *Federal Reserve Bank of Atlanta*

Steve Brereton, Consul General of Canada

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

Peter Coors, Chairman, *Molson Coors Brewing Company* and *MillerCoors LLC*

G. William Hoagland, Vice President of Public Policy, *Cigna Corporation*

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

Douglas Holtz-Eakin, President, *DHE Consulting, LLC*

Donald L. Kohn, Vice Chairman, *Board of Governors of the Federal Reserve System*

Catherine L. Mann, Professor of Economics, *Brandeis University*; and Visiting Fellow, *Peterson Institute for International Economics*

Martin J. Mauro, Vice President: Fixed Income Strategist, *Merrill Lynch*

Mark W. Olson, Co-Chairman, *Corporate Risk Advisors* (former President, ABA and former Governor, FRB)

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*

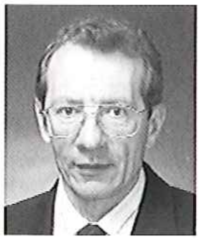
John G. Walsh, Chief of Staff and Public Affairs, *Office of the Comptroller of the Currency*

Kevin Warsh, Member, *Board of Governors of the Federal Reserve System*

Gary Weed, Vice President, *Exxon Mobil Corporation*

Lawrence Yun, Chief Economist and Senior Vice President, *National Association of REALTORS* ■

Current Activities of Center Faculty



CLIFFORD A. BALL, Professor of Finance and Statistics and Faculty Director of the PhD Program. MSc, Nottingham 1975, PhD (mathematics), University of New Mexico 1980.

Current 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.

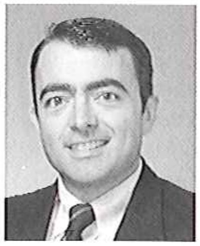
During the past year, Professor Ball taught a two-module sequence in Financial Econometrics designed for MSF students, Risk Management, and Investments. He serves as Director of Graduate Studies for the Owen PhD Program and has participated in the "PhD Project," a program designed to attract students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

Professor Ball's paper, "Contagion in the Presence of Stochastic Interdependence" (with Walter Torous), is under review at the *Review of Financial Studies.*

KATHRYN BARRACLOUGH, Visiting Lecturer in Finance, PhD, Australian National University 2007.

Current research interests include asset pricing, derivatives, and bond markets.

Professor Barraclough teaches classes in derivatives and bond markets at the Owen School. She is currently working on three research papers, "Failure to exercise put options and the short stock interest strategy" (with Robert E. Whaley), "Special dividends and stock option contract adjustments" (with Hans R. Stoll and Robert E. Whaley) and "Using option prices to infer overpayments and synergies in M&A transactions" (with David Robinson, Tom Smith and Robert E. Whaley).



NICOLAS P.B. BOLLEN, The E. Bronson Ingram Associate Professor of Finance and Faculty Director of the MS Finance Program. MBA, PhD, Duke University 1997.

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

Professor Bollen was promoted to full Professor in the Spring of 2010 and received the Owen School's Research Impact award in 2009.

Professor Bollen's research on hedge funds has resulted in five papers published or accepted for publication since 2008, including two papers in the *Journal of Finance* and one in the *Journal of Financial and Quantitative Analysis.* He secured a research grant from the Centre for Hedge Fund Research at Imperial College London to support work on liquidity in hedge fund investments, and spoke at hedge fund conferences in 2009 in Paris, Oxford, and Rotterdam. In addition, he presented research over the 2009-2010 period at American University, the Commodity Futures Trading Commission, the Institute for Financial Research (Stockholm), Rice University, SUNY Buffalo, and the University of Warwick. In October 2010 he will present research at five universities in Hong Kong and Singapore.

Bollen's current research projects include a study on predicting hedge fund fraud, in which he establishes an empirical link between the presence of suspicious patterns in hedge fund returns and the likelihood of subsequent charges of legal or regulatory violations. He is also collaborating with Professor Robert Whaley on a study of the market for derivatives on volatility.

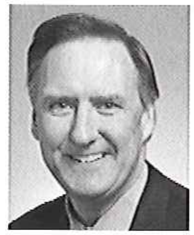
Bollen was honored to receive the Distinguished Referee Award from the *Review of Financial Studies* at the 2010 WFA Annual Meeting in Victoria, BC.

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

Research interests include auditor reputation, the quality of earnings, earnings management, and audit pricing.

Professor Chaney's paper, "The Quality of Accounting Information in Politically Connected Firms" (with David Parsley and Mara Faccio), was accepted for publication in the *Journal of Accounting and Economics.* Earlier in the year, he wrote an article for the Phi Kappa Phi Forum entitled, "April 15: A Taxing Spring Day," that speculates on why April 15th was chosen for tax day.

Professor Chaney serves on the editorial boards of *The Accounting Review, The International Journal of Accounting*, and *Auditing: A Journal of Practice and Theory.*

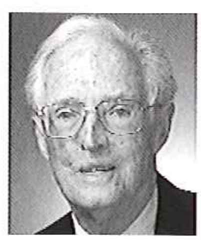


WILLIAM G. CHRISTIE, The Frances Hampton Currey Professor of Management, Faculty Director of the Executive MBA Program, and Professor of Law. MBA, PhD, Chicago 1989.

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

Professor Christie continues in his role as the Executive Editor of *Financial Management*, the flagship journal of the Financial Management Association. He served as co-chair of the third annual UC Davis/FM Conference on Financial Markets that was held at the Cakebread Winery in Yountville, CA. His term as editor ends on December 31, 2011.

Christie completed his three-year term as an Owen School Senator on the Faculty Senate and continues to serve as Faculty Director of the EMBA program. In addition, Christie served on the Curriculum Committee, Student Achievement Committee, chaired the Clinical and Adjunct Appointment Committee, and remains the faculty advisor to the Max Adler Student Investment Club. He has also stepped in as interim area coordinator while Professor Lewis visits at the Securities and Exchange Commission.



J. DEWEY DAANE, The 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 2009, Professor Daane attended the 12th Annual International Conference on "The International Financial Crisis: Have the Rules of Finance Changed?" hosted by the Federal Reserve Bank of Chicago and the World Bank. In October, he attended the 54th Economic Conference, "After the Fall," at the Federal Reserve Bank of Boston, and in April

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Faculty Activities *(continued)*

2010, he participated in the Financial Markets Research Center Conference on "Regulatory Change in the Global Financial System" at Vanderbilt. In May, he attended the 46th Bank Structure & Competition Conference on "Future of the Financial Services Industry" at the Federal Reserve Bank of Chicago.

Professor Daane at 92 is still a regular contributor to the *Wall Street Journal*'s monthly economic survey and has earned a spot in their annual US economic-forecasting rankings. He also contributes to the *USA TODAY*'s quarterly economic forecast.

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

During the past year, Professor Froeb gave talks to the Office of Fair Trading in London (Mergers Increase Output: the Curious Case of Hotels), to the European Commission in Brussels (Antitrust as a Solution to the Problem of Patent Ambush), and was a featured speaker at a conference in Budapest, "Behavioral Antitrust and Merger Control." In addition, he was asked to weigh in on a local zoning dispute and produced a report that was presented to the Urban Land Institute and to politicians, developers, and regulators in Nashville. Professor Froeb continues to do research, consulting, and you can follow his thoughts on business and economics at his blog, ManagerialEcon.com. In addition, he has posted a series of mini lectures from his textbook on YouTube.

KARL E. HACKENBRACK, Associate Professor of Accounting and Faculty Director of the Master of Accountancy Program. PhD, The Ohio State University 1989, CPA.

Research interests include audit service production and mandated corporate disclosure. Current research topics include mandatory disclosure of auditor-sourced non-audit services, audit committee oversight of the financial reporting process, and auditor selection. Hackenbrack teaches the assurance-related courses in the Master of Accountancy program.

Professor Hackenbrack is active in numerous academic and professional conferences, including the PricewaterhouseCoopers Accounting and Auditing Symposium, the KPMG Audit Committee Roundtable, the KPMG National Symposium, and American Accounting Association meetings.

As faculty director of the Master of Accountancy (MAcc) program, Hackenbrack is exploring the feasibility of adding a valuation track to the existing MAcc program. The goal is to develop talent at the nexus of accounting and finance, entry-level talent uniquely positioned to contribute to a variety of public accounting firm service lines. He also serves on the editorial board of *Auditing: A Journal of Practice and Theory* and is a referee for numerous academic journals.

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

Professor Ho is engaged in two research projects: (1) A model of the flow of risk and the principles of regulation; (2) A model of the financial sector. In these projects, the flow of funds framework is extended to incorporate the flow of risks. The financial sector is modeled as a network of agents providing a special service of transforming risks from the household sector to the capital markets and back to the household sector. This network is linked to a real sector using a general equilibrium consumption and investment model. This framework enables us to investigate the mechanisms of the financial network in light of real sector production uncertainty. This framework can be used to evaluate the regulation of financial institutions.

Professor Ho recently contributed a chapter, "Business Models: Applications to Capital Budgeting, Equity Value and Return Attribution," to the *Handbook of Quantitative Finance and Risk Management* edited by Cheng-Few Lee and Alice C. Lee. His papers "A Unified Credit and Interest Rate Arbitrage-Free Contingent Claim Model" and "Valuation of Credit Contingent Claims: An Arbitrage-Free Credit Model" were published in the *Journal of Fixed Income* and the *Journal of Investment Management* respectively.

Ho continues to consult in the areas of risk management and fixed income analysis.

--- **NICOLE THORNE JENKINS,** Associate Professor of Accounting, PhD, University of Iowa 2002, CPA.

Research interests include corporate finance and financial accounting with specific emphasis on the quality of accounting information. Current research topics include an investigation of how informed trading (insider trading, repurchases, and issuances) provides a valuation context in which the market is better able to interpret restatements as well as an examination of risk premia in audit fees.

Professor Jenkins's work has been published in top academic journals, including the *Journal of Accounting and Economics, The Accounting Review,* and *The Review of Accounting Studies.* In the past year Jenkins has presented her research at Hong Kong University, Singapore Management University, University of Illinois, Texas A&M University, University of Texas, George Mason University, and the AAA annual conference. During the past year she has attended many academic conferences and has served as a referee for several accounting and finance journals. Professor Jenkins is currently teaching intermediate and advanced courses in financial reporting.

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 teaches financial accounting at Owen, and she taught in Executive Programs for TVA in 2009 and Bridgestone in 2010. She and coauthor Paul Chaney have recently revised their textbook, *Advanced Accounting,* for its fourth edition, published in 2010 by John Wiley & Sons Inc., publishers). She is currently serving on the Editorial Boards of *The Accounting Review* and *International Journal of Accounting, Auditing, and Performance Evaluation,* and as an Associate Editor for *Issues in Accounting Education*.

Jeter's paper, "The Association between Client and Industry Investment Opportunities, Auditor Industry Specialization, and Audit Fees" (with S. Cahan, J. Godfrey and J. Hamilton), was presented at the 2010 Conference of the Accounting & Finance Association of Australia and New Zealand (AFAANZ) and at the 32nd Annual Congress of the European Accounting Association in April 2009. She had two papers presented at the annual AAA meeting in August 2009: "Analysts and Audit Quality: Forecast Revisions during the Meltdown of Arthur Andersen" (with S. Cahan, P. Chaney, and W. Zhang) and "Client-level Audit Fees, Specialist Premiums, and the Investment Opportunity Set" (with S. Cahan, J. Godfrey, and J. Hamilton). Another paper, "Are All Industry Specialists the Same?" (with S. Cahan and V. Naiker), was presented at the 21st Asia-Pacific Conference on International Accounting Issues in November 2009. In 2010, she presented "The Market Reaction to Eliminating the Reconciliation Requirement for U.S. Foreign Private Issuers" (with Paul Chaney and Richard Willis) at the University of Kentucky and at the University of Auckland.

CRAIG M. LEWIS, The Madison S. Wiggington Professor of Management in Finance. MS, PhD, Wisconsin 1986, CPA.

Research interests include equity analyst behavior, the security issue process, corporate financial policy, and the time series properties of stock market volatility. Current research topics include the estimation of expected bankruptcy costs, the specification of option pricing models when assets follow Levy processes, and convertible debt security design. Professor Lewis teaches courses in company valuation and corporate financial policy and serves as Finance Area Coordinator when at Owen. He is currently on leave to the Securities and Exchange Commission..

RONALD W. MASULIS, Professor in Finance, Australian School of Business, UNSW and The Frank K. Houston Professor of Finance and Professor of Law, Vanderbilt University. MBA, PhD, Chicago 1978.

Research interests include corporate finance, corporate governance, investment banking, venture capital, and international finance. Professor Masulis teaches courses in mergers and acquisitions, law and finance of mergers & acquisitions, venture capital, corporate finance theory and evidence, and corporate value management. He is currently on leave from Owen to teach at the Australian School of Business.

Masulis is a research associate at the European Corporate Governance Institute. He serves as associate editor of the *Journal of Financial and Quantitative Analysis* and the *Pacific Basin Finance Journal*, and he is a referee for numerous other finance journals. During the past year, Masulis participated in many conferences including the FMA, WFA and the EFMA Symposium on Asian Finance. He was a guest contributor at the Harvard Law School Forum on Corporate Governance and Financial Regulation. He has presented his papers at various conferences all over the world and has recently had three accepted for publication.

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. Ovtchinnikov came to Owen in 2007 from the Pamplin College of Business at Virginia Tech. His work in the field of corporate finance has appeared in such leading publications as the *Journal of Finance*, the *Journal of Financial Economics*, the *Journal of Financial and Quantitative Analysis*, and the *Journal of Investment Management*. He teaches Corporate Valuation and Empirical Methods in Finance.

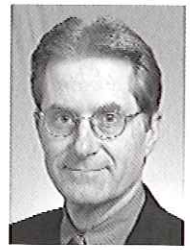
Professor Ovtchinnikov's paper, "What is the best way to trade using the January Barometer?" has been accepted for publication in the *Journal of Investment Management*. His paper, "Corporate Political Contributions and Stock Returns" (with Michael J. Cooper and Huseyin Gulen), has been published in the April 2010 volume of the *Journal of Finance*. His paper, "Capital Structure Decisions: Evidence from Deregulated Industries," has been published in the February 2010 volume of the *Journal of Financial Economics*.

Ovtchinnikov serves as referee for *Financial Management*, the *Journal of Banking and Finance*, the *Journal of Corporate Finance*, the *Journal of Financial and Quantitative Analysis*, and the *Review of Financial Studies*.

MIGUEL PALACIOS, Assistant Professor of Finance. 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 Corporate Financial Policy.

Professor Palacios is working on two projects related to the value and risk of aggregate human capital. The first is "Human Capital as an Asset Class," where he finds that traditional equilibrium models predict that human capital is more valuable than usually quoted, comprising around 85% of all wealth, and less risky than stocks. The second project, "Mobility, Human Capital, and Firm Risk" (with Esther Eiling and Andrés Donangelo), shows how differences in mobility for particular types of human capital affect the risk of human capital and firm risk. On a third project (with Gregorio Caetano and Harry Patrinos), he surveyed students about their preferences for financial aid, studying whether "debt-aversion" exists. This study found that students indeed avoid debt, even when the alternative is clearly more expensive.

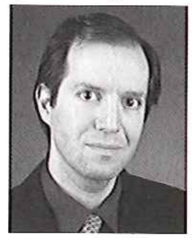


DAVID C. PARSLEY, The E. Bronson Ingram Professor of Economics and Finance. AM, Indiana 1979, PhD, California, Berkeley 1990.

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.

In May 2009, Professor Parsley was a Visiting Scholar at the Hong Kong Institute of Monetary Research, and in September he was a Visiting Scholar at the South Africa Reserve Bank. While visiting these institutions, he made presentations at Yonsei University, Lingnan University, Hong Kong University of Science and Technology, Stellenbosch University, the University of Cape Town, as well as at the South African Reserve Bank.

Three papers were either published or accepted for publication during 2009-10. His paper, "Sudden Deaths: Taking Stock of Geographic Ties" (with Mara Faccio), was published in the *Journal of Financial and Quantitative Analysis* in June 2009. Another paper, "Understanding Real Exchange Rate Movements with Trade in Intermediate Products" (with Helen Popper), was published in the *Pacific Economic Review* in May 2010, and a third paper, "The Quality of Accounting Information in Politically Connected Firms" (with Paul Chaney and Mara Faccio), is forthcoming in the *Journal of Accounting and Economics*.



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

Faculty Activities *(continued)*

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* and other highly regarded journals such as the *Journal of Financial Economics* and *The Review of Financial Studies*. His research has been recognized with numerous grants and distinctions, including awards from the Research Grants Council of Hong Kong and the National Institute on Aging (NIA). He previously served as assistant professor of finance at the Haas School of Business at the University of California, Berkeley.

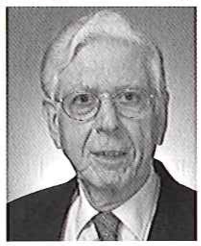
This past academic year, Professor Sagi was invited to present his work at the University of Missouri-Columbia, the Australian National University, the University of New South Wales, the University of Queensland, the University of Melbourne, Washington University in St. Louis, the 2010 Jackson Hole Finance Conference, the 2010 Vienna Workshop in Honor of D. Ellsberg, the 2010 JET Symposium on Inequality and Risk, and the 2010 D-TEA Paris Conference.

His paper, "Liquidity and Closed-End Funds" (with Martin Cherkes and Richard H. Stanton), which was winner of the "Best Paper" award at the 2006 Utah Winter Finance Conference, is published in the *Review of Financial Studies*. His paper, "Small Worlds: Modeling Attitudes Towards Sources of Uncertainty" (with Chew Soo Hong), was published in 2008 as the lead article in the *Journal of Economic Theory*.

Professor Sagi is on the program committee of the Utah Winter Finance Conference, the IDC Conference in Herzliya, Israel, and the Tel Aviv Finance Conference. He is a referee for numerous journals and serves as Associate Editor for *Emerging Markets Review*.

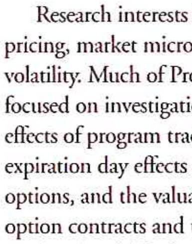
HANS R. STOLL, The Anne Marie and Thomas B. Walker Professor of Finance and Director of the Financial Markets Research Center. MBA 1963, PhD 1966, University of Chicago.

Research interests include market microstructure, derivatives, and other aspects of financial markets. Stoll teaches in the areas of international finance, derivatives and financial markets. His paper, "Commodity index investing and commodity futures prices," was recently featured in the *Journal of Applied Finance*. A shorter version entitled "Commodity Index Investing: Speculation or Diversification" will appear in the *Journal of Alternative Investments*. He recently completed a working paper, "Special dividends and stock option contract adjustments" (with Kate Barraclough and Bob Whaley). In January, Stoll attended the Fellows dinner of the American Finance Association. In March, Stoll gave the keynote address, "Market Microstructure: Theory and Practice, Retrospect and Prospect," at the 4th annual microstructure meeting held at the University of Sydney, and he met with various faculty. In July 2010, he participated in the meeting of the Financial Economists Roundtable held in Newport Rhode Island. Stoll is a past president of the American Finance Association. He currently serves on the editorial boards of 5 academic finance journals. He recently stepped down as a public director of the Options Clearing Corporation.



H. MARTIN WEINGARTNER, The 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*.

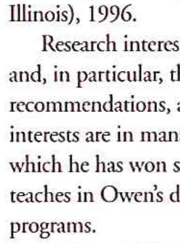


ROBERT E. WHALEY, The Valere Blair Potter Professor of Management (finance) and Co-Director of the Financial Markets Research Center. PhD, University of Toronto 1978.

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 effects of program trading on stock prices, the expiration day effects of index futures and options, and 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.

Whaley's recent research includes "Understanding the VIX," *Journal of Portfolio Management* 35 (Spring 2009), "Common divisors, payout persistence, and return predictability" (with J.G. Powell, J. Shi, and T. Smith), *International Review of Finance* 9 (December 2009), "Commodity index investing and commodity futures prices," (with Hans R. Stoll), *Journal of Applied Finance* (Spring 2010), and "Commodity index investing: Speculation or diversification?" (with H.R. Stoll), *Journal of Alternative Investing* (forthcoming 2010). "Understanding the VIX" won the 11th Annual Bernstein Fabozzi/Jacobs Levy Award for the Best Article published in *Journal of Portfolio Management* in 2008-09.

Whaley holds a number of editorial positions, serves as a referee for many journals and granting agencies, and is a former member of the Board of Directors of the Western Finance Association and the American Finance Association. He 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, 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 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 presented his paper, "The Market Reaction to Eliminating the Reconciliation Requirement for U.S. Foreign Private Issuers" (with P. Chaney and D. Jeter), at the University of British Columbia in November 2009.

Willis is on the editorial board of *The Accounting Review* and serves as a referee for numerous accounting and finance journals. ■

Faculty Research Papers

Current working papers, completed or revised since January 1, 2009, are listed below.

"Contagion in the Presence of Stochastic Interdependence," **Clifford A. Ball** and Walter Torous, 2010

"Using option prices to infer overpayments and synergies in M&A transactions," **Kathryn Barraclough**, David Robinson, Tom Smith and **Robert I. Whaley**, June 2009

"Special dividends and stock option contract adjustments," **Kathryn Barraclough, Hans R. Stoll** and **Robert E. Whaley**, November 2009

"Failure to exercise put options and the short stock interest strategy," **Kathryn Barraclough** and **Robert E. Whaley**, July 2010

"Suspicious patterns in returns and the risk of hedge fund fraud," **Nicolas P.B. Bollen** and Veronika Krepely Pool, 2010

"A Classification of Firms Based on Earnings Attributes," **Paul K. Chaney**, Bruce Cooil and **Debra C. Jeter**, 2010

"Self-Selection Models and Choice Variables in Accounting Research: The Case of Audit Pricing," **Paul K. Chaney, Debra C. Jeter** and L. Shivakumar, 2010

"Damaged Auditor Reputation and Analysts' Forecast Revision Frequency," S. Cahan, **Paul K. Chaney, Debra C. Jeter** and W. Zhang, 2010

"The Market Reaction to Eliminating the Reconciliation Requirement for U.S. Foreign Private Issuers," **Paul K. Chaney, Debra C. Jeter** and **Richard Willis**, 2010

"Mergers among Firms that Manage Revenue," **Luke M. Froeb**, Arturs Kalnins and Steven Tschantz, 2010

"Mergers in Auctions with an Incumbent Advantage," **Luke M. Froeb**, Mikhael Shor and Steven Tschantz, 2010

"Local Competition," **Karl Hackenbrack** and Mike Shor, April 2010

"Relevant but Undisclosed Information," **Karl Hackenbrack, Nicole Jenkins** and Mikhail Pevzner, August 2010

"Pricing of Contingent Claims on Natural Gas," **Thomas S.Y.Ho** and Sang Bin Lee, October 2009

"Informed Trading and the Market Reaction to Accounting Restatements," B. Badertcher, S.P. Hribar and **Nicole Jenkens**, Spring 2010

"Put Your Money Where Your Mouth Is...Treasury Stock as Currency," **Nicole Thorne Jenkins** and **Alexei Ovtchinnikov**, July 2010

"The Role of Auditor Specialization in relation to Financial Statement Quality," J. Godfrey, **Debra C. Jeter** and J. Hamilton, 2009

"Executive Pay and Firm Performance after Enron and Other Accounting Scandals," H. Chen, **Debra C. Jeter** and Y. Yang, 2009

"Do Regulatory Policies regarding Auditing and Financial Reporting Affect Executive Pay?" H. Chen, **Debra C. Jeter** and Y. Yang, 2009

"Audit Fees and Quality of High Market Share Auditors," S. Cahan, **Debra C. Jeter** and V. Naiker, 2010

"Asset Specificity and the Ownership of Buildings," **Debra C. Jeter**, J. Wong and N. Wong, 2010

"The Pricing of Industry Specialization by Auditors in New Zealand," David Hay and **Debra C. Jeter**, 2010

"The Association among Client and Industry Investment Opportunities, Auditor Industry Specialization, and Audit Fees," S. Cahan, J. Godfrey, J. Hamilton and **Debra C. Jeter**, 2010

"Do Underwriters or Venture Capitalists Restrain Earnings Management by IPO Issuers?" Gemma Lee and **Ronald W. Masulis**, January 2010

"Comparing CEO Employment Contract Provisions: Differences between Australia and the US," J. Hill, **Ronald W. Masulis** and R. Thomas, April 2010

"Globalizing the Boardroom – The Effects of Foreign Directors on Corporate Governance and Firm Performance," **Ronald W. Masulis**, Cong Wang and Fei Xie, May 2010

"Are All Inside Directors the Same?" **Ronald W. Masulis** and Shawn Mobbs, June 2010

"Merger Waves Following Industry Deregulation," **Alexei Ovtchinnikov**, July 2010

"Human Capital as an Asset Class: Implications from a General Equilibrium Model," **Miguel Palacios**, March 2010

"Mobility, Human Capital, and Firm Risk," Esther Eiling, Andrés Donangelo and **Miguel Palacios**, 2010

"Information Content of Public Firm Disclosures and the Sarbanes-Oxley Act," Bryan Routledge, **Jacob S. Sagi**, Shimon Kogan and Noah Smith, 2010

"Do Fund Managers Make Informed Asset Allocation Decisions?" Bradyn Breon-Drish and **Jacob S. Sagi**, 2010

"A Neoclassical Model of Managed Distribution Programs: Theory and Evidence," Martin Cherkes, **Jacob S. Sagi** and Jay Wang, 2010

"Dynamic Corporate Capital Stocks: Cross-sectional and Inter-temporal Stock Return Patterns," **Jacob Sagi**, Matthew Spiegel and Masahiro Watanabe, 2010 ■

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