EDHEC PhD in FINANCE

Two recent doctoral theses

“Essays in Banking Sector Stability” by Vaidyanathan Krishnamurthy

A Theoretical Framework for Deregulation of Entry and Stability of the Banking Sector: Does deregulation of entry enhance the stability of the banking sector or exacerbate its fragility? While popular narrative concludes that deregulation in general exacerbated banking sector instability, we show theoretically and empirically that deregulation of entry enhances banking sector stability. We develop a simple theoretical model and calibrate using simulated method of moments. The model predicts that deregulation reduces the likelihood of systemic bank failures if the proportion of good quality firms in the economy is sufficiently high. We provide new empirical evidence for the model predictions using staggered deregulation by U.S. states to identify the effect of deregulation on systemic bank failure. We find strong evidence that deregulation enhances bank stability by lowering likelihood of systemic bank failure. The salutary effects persist for close to a decade.

Re-examining Revisionist History of the Biggest Capital Purchase: This paper examines the impact of Troubled Asset Relief Program (TARP)’s funding injection on commercial banks’ financial health using Fed’s CAMELS framework. We theoretically and empirically demonstrate that the default risk of banks that received TARP funding increases more than that of banks that did not receive such funding. In the theoretical model, we argue that banks receiving capital assistance hoard cash instead of making new loans. We find empirical evidence supporting this hypothesis. Such hording defeats the primary intent of the TARP program. A key policy implication of our study is that during a banking crisis, capital incentives by governments for healthy banks enhances loan supply in the economy relatively more than infusing capital into weak banks.

“Chimerica and Expected Return of Stocks" by Jasmine Z. Yu

Chimerica and Expected Return of Chinese Stocks: Using various econometrics methods with varying degrees of success, my research finds that the Chimerica phenomenon possibly exists in expected return of Chinese stocks, reflecting the symbiotic macroeconomic linkage between the two countries. The larger the corporation, the more “Chimerica” it is. Chimerica is a noticeable factor that exhibits itself in the stock return and is being distinctively priced from the well-known Fama-French three factors. Chinese stocks that were the least exposed to the U.S., and had the smallest market capitalization and the most growthy style performed the best in the decade between 2005 and 2015. The Chimerica premium was about 0.5% per annum. Sector portfolios based on forward-looking analyst forecasts could deliver more dramatic Chimerica premium at 1-2%. The best time to acquire and accumulate these stocks of low Chimerica exposure seems to be during down markets when others prefer to own companies with more geographically diversified exposure, i.e. of higher Chimerica scores.

Chimerica and Expected Return of US Stocks: This paper develops a scorecard to proxy for “Chimerica” and to measure the anomalous return associated with US firms’ overseas expansion in Greater China. Based upon ‘Chimerica’, the symbiotic relation between the People’s Republic of China and the United States of America, this paper uses a variety of approaches, some of which return-based such as regression analysis and Fama MacBeth estimation while others, fundamentalbased such as Claus/Thomas earnings analysis, and illustrates little success in proving that the US stock market has actually rewarded companies for doing business in China. The Chimerica premium was about 0.43% per annum from 2006 to 2010. Sector portfolios based on forward-looking analyst forecasts could deliver more dramatic Chimerica premium at 1-2%. However, results are mixed and not always consistent across approaches, especially after advanced econometric modelling and testing. Down-market protection seems to stand out though, for the higher himerica-scored companies and proves the benefit for global diversification of revenue streams in periods of market stress.