### Abstracts – 2019 Fall Finance Conference – The University of Texas at Dallas – October 4th – 5th, 2019

**Speaker – 25 Minutes; Discussant – 15 Minutes; Audience Questions – 10 Minutes**

### FRIDAY, October 4, 2019

**Friday, 6:30 PM**

**Dinner**

Ten50 BBQ, Richardson, TX

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### SATURDAY, October 5, 2019

**Saturday, 7:30 AM – 8:15 AM**

**Continental Breakfast**

Room 11.206

**Saturday, 8:15 AM – 8:30 AM**

**WELCOME – Dr. Hasan Pirkul – Dean, Jindal School of Management**

**Saturday, 8:30 AM – 9:20 AM**

**Morning Session Chair – Jean-Marie Meier**

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**The Great Depression, Business Dynamism, and the Resilience of Innovation**

**Presenter:** Dr. Asaf Bernstein, University of Colorado at Boulder  
**Discussant:** Dr. Scott Weisbenner, University of Illinois at Urbana-Champion

The effects of severe economic distress driven by financial crises on innovation and subsequent business dynamism is an unsettled and important question for economic growth, but one difficult to answer with modern data. Using a differences-in-differences design surrounding the biggest financial crisis of the past century—the Great Depression—we are able to obtain plausible variation in local shocks to innovative ecosystems, cleanly identify technological entrepreneurs, and examine the long-run impact of their inventions. We find a sudden and persistent decline in patenting by the largest organizational form of innovation at this time—industrial inventors. The declines in these start-up like organizations occur within every major technology class and last until present times. Despite the substantial decline in patenting, we find no reduction in total future citations by patents building off these inventions. In contrast to prior evidence for large externally finance-dependent firms with R&D labs, we find that independent inventors actually experience a dramatic rise in the quality of their inventions. We also find that declines observed for the quantity of patents are not driven by geographic migration across counties, but at least partially explained by organizational migration of independent inventors into firms. These transitions may explain the more muted aggregate county-level response by firms. Overall, the more efficient resource allocation towards high quality patents highlights the resilience of innovation and business dynamism to economic shocks.

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**Bank Entrepreneurs**

**Presenter:** Dr. Kristoph Kleiner, Indiana University  
**Discussant:** Dr. Taylor Begley, Washington University in St. Louis

This paper provides the first analysis of entrepreneurs chartering deposit-insured banks in the U.S. By merging hand-collected biographical data on entrepreneurs of De Novo banks with detailed call reports, we directly connect entrepreneurial characteristics to corporate policy and firm outcomes. First, we find strong evidence that bank entrepreneurs are driven by local opportunities, bring significant banking and managerial experience, have the networks necessary to raise local funding, and extend past lending practices. Second, to better identify the value of each individual in our study, we confirm that a new bank’s lending policies are strongly predicted by the prior employment experiences of the bank’s entrepreneurs. Exploiting these relationships, we illustrate the entrepreneur has a causal effect on loan and bank performance, as well as the likelihood of failure.
Firms that underutilize their capital are riskier. A quantitative model with production and flexible capacity utilization predicts a return spread between low and high utilization firms of above 5% p.a. Consistent with the model, we establish this utilization spread in the data as a novel empirical fact. Beyond the utilization premium, we show that a model without utilization yields many counterfactuals, such as investment's dispersion being too low, and its skewness bearing the wrong sign. Flexible utilization can addresses these moments by endogenously substituting large adjustment costs. Overall, utilization tightens the link between firms' production and valuation.

We propose new methodology to estimate arbitrage portfolios by utilizing information contained in firm characteristics for both abnormal returns and factor loadings. The methodology gives maximal weight to risk-based interpretations of characteristics' predictive power before any attribution to abnormal returns. We apply the methodology in simulated factor economies and to a large panel of U.S. stock returns from 1965-2014. The methodology works well in simulation and when applied to U.S. stocks. Empirically, we find the arbitrage portfolio has (statistically and economically) significant alphas relative to several popular asset pricing models and annualized Sharpe ratios ranging from 1.35 to 1.75.

We study the effect of shocks to household balance sheets on employment choices and their long-term effects. Using a novel data set of workers in the film industry, we estimate the impact of changes in housing wealth following the housing crisis on the labor outcomes of homeowners within the same occupation and county. We find that individuals who experience a housing wealth decline reduce participation in films with other high-profile talents (individuals that have won prestigious awards), in high-budget productions, that are positively rated, that are likely to win awards, and increase involvement in small films. These shocks have negative long-term consequences on individuals’ popularity and the probability of landing leading roles. We account for local labor demand shocks by comparing neighboring homeowners to renters. Overall, our results suggest that wealth shocks distort non-salaried workers’ labor decisions due to liquidity concerns and impact individuals’ career paths.
**Spillover Effects of the Opioid Epidemic on Consumer Finance**

Presenter: Dr. Mark Jansen, University of Utah  
Discussant: Dr. Mehmet Canayaz, Penn State University

I examine the impact of the opioid epidemic on subprime auto lending. Using a difference-in-differences framework, I find that a 10% increase in county-level opioid abuse causes a 2.9% increase in loan defaults. Moreover, the resulting higher default rates and weaker predictive performance of traditional credit measures (e.g., FICO score) generates a negative externality for borrowers in opioid-afflicted areas. In these areas, loan costs for subprime borrowers are 4.4% higher.

**BREAK**

**Equity Financing Risk**

Presenter: Dr. Bernardino Palazzo, Federal Reserve Board  
Discussant: Dr. Mindy Z. Xiaolan, University of Texas at Austin

We develop a model of equity financing risk (EFR) to study the joint effects of precautionary savings and research and development (R&D) investments on expected equity returns. Our evidence confirms the model's predictions: (1) financial slack (i.e., liquid assets relative to R&D) lowers EFR exposure and thereby expected returns, (2) equity issuance lowers expected returns by increasing financial slack, and (3) these effects are concentrated among unprofitable firms. An EFR-based factor subsumes the Fama-French (2015) and Hou-Xue-Zhang (2015) investment factors, helps explain anomalies related to R&D and operating profitability, and offers an alternative interpretation for assets' growth-based risk factors.

**Does the CAPM Predict Returns?**

Presenter: Dr. Charles Martineau, University of Toronto  
Discussant: Dr. Guofu Zhou, Washington University in St. Louis

We provide strong empirical evidence that asset excess returns can be predicted using the dynamic CAPM. When predicting next month excess returns, the dynamic CAPM yields an out-of-sample $R^2$ of about 4% across all portfolios and of about 2.7% across all S&P 500 stocks. That is, the predictive power of the market return predictor transmits to the product of the asset's dynamic beta and the dynamic risk premium of the market. As a consequence, strategies exploiting the predictive power of the dynamic CAPM have Sharpe ratios up to 100% larger than those of the corresponding buy-and-hold strategies.