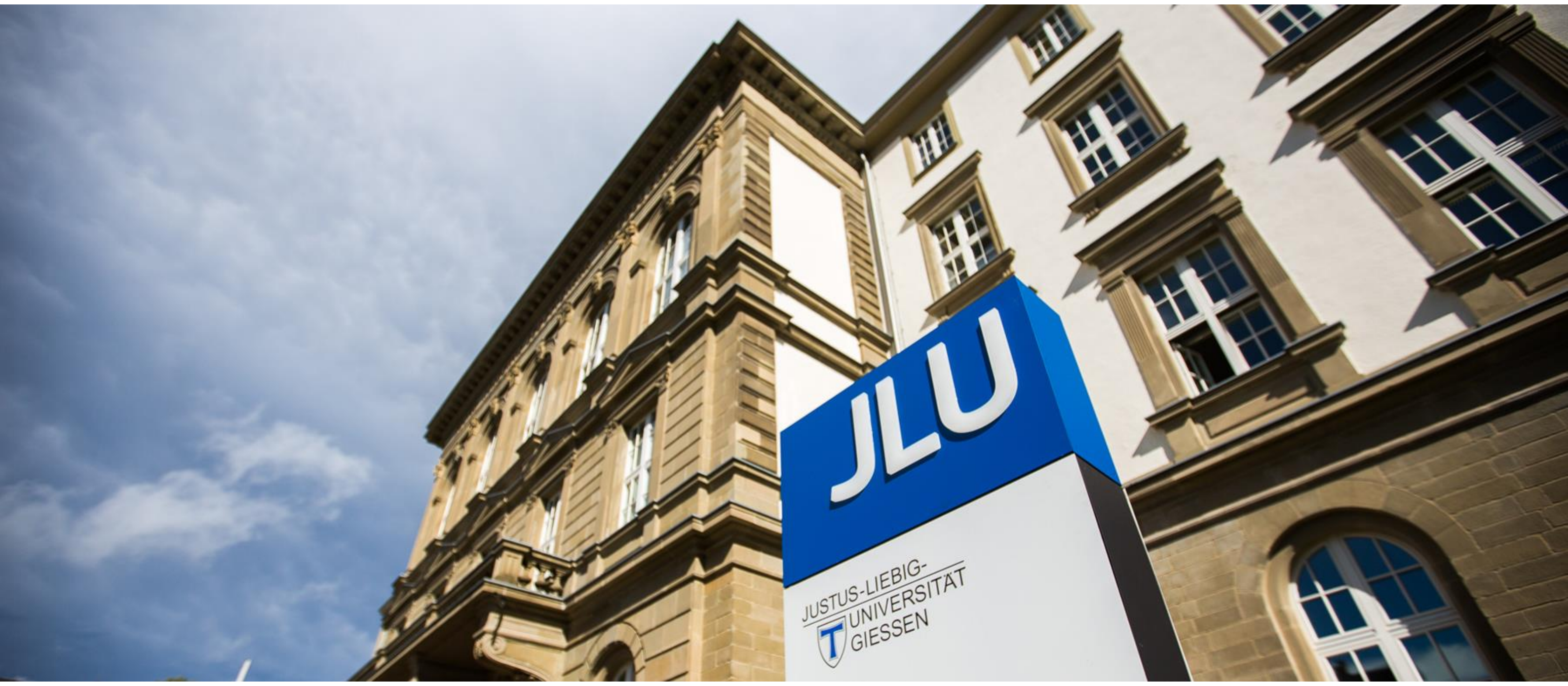
JUSTUS-LIEBIG-UNIVERSITÄT GIESSEN



BFGA 2024

BFGA CONFERENCE 2024

6TH CONFERENCE ON BEHAVIORAL RESEARCH IN FINANCE, GOVERNANCE AND ACCOUNTING

BFGA 2024

Giessen Graduate Center for Social Sciences, Business, Economics and Law
Research Section Accounting, Finance, Economics & Sustainability

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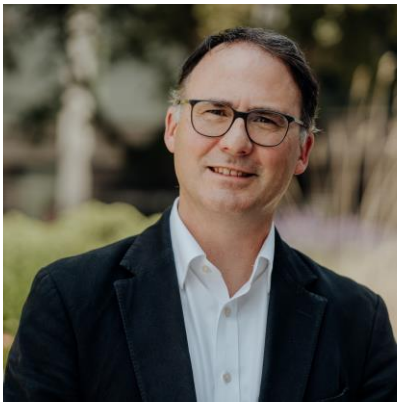
FB02 | ECONOMICS AND BUSINESS STUDIES

RESEARCH SECTION
ACCOUNTING, FINANCE,
ECONOMICS & SUSTAINABILITY

CONTENTS

ACCOUNTING, FINANCE, ECONOMICS & SUSTAINABILITY

BFGA CONFERENCE 2024



DEAR COLLEAGUE,

On behalf of Justus Liebig University, we are pleased to welcome you to the 6th Conference on Behavioral Research in Finance, Governance, and Accounting.

This year's BFGA conference will bring together participants from around the world to discuss and share their research. We look forward to engaging presentations and lively discussions, whether you are joining from home or the office.

The "behavioral" approach has become a key focus in economics and business research, examining how perceptual biases and deviations from rational behavior shape economic decision-making. This perspective goes beyond individual preferences, encompassing broader social influences like cultural norms, moral concepts, language, religion, and ideologies that impact decision-making.

The GGS-section “Accounting, Finance, Economics & Sustainability" analyzes relevant issues across these interconnected fields, with a commitment to expanding knowledge and practical insights. Integrating these disciplines fosters strategies that support financial transparency, economic efficiency, and sustainable development. We are pleased to contribute to this forward-thinking research through our conference.

We appreciate the remarkable response to our call for papers, resulting in a selection of 20 research papers to be presented. We would like to express our gratitude to all colleagues who submitted their research and those who will present their work or participate as session chairs. We would also like to acknowledge our sponsors: the Giessen Graduate Centre for Social Sciences, Business, Economics and Law; Union Investment; EB-Sim, and the departmental Alumni Association. A special highlight of this year’s conference will be our keynote lecture by Prof. Michael Weber, Ph.D., Associate Professor of Finance at the University of Chicago Booth School of Business.

We hope the conference offers participants a rewarding space for meaningful discussions and insights that enhance their research.

Prof. Dr. Andreas Walter and the **Organizing Committee**

JUSTUS-LIEBIG-UNIVERSITY (JLU)

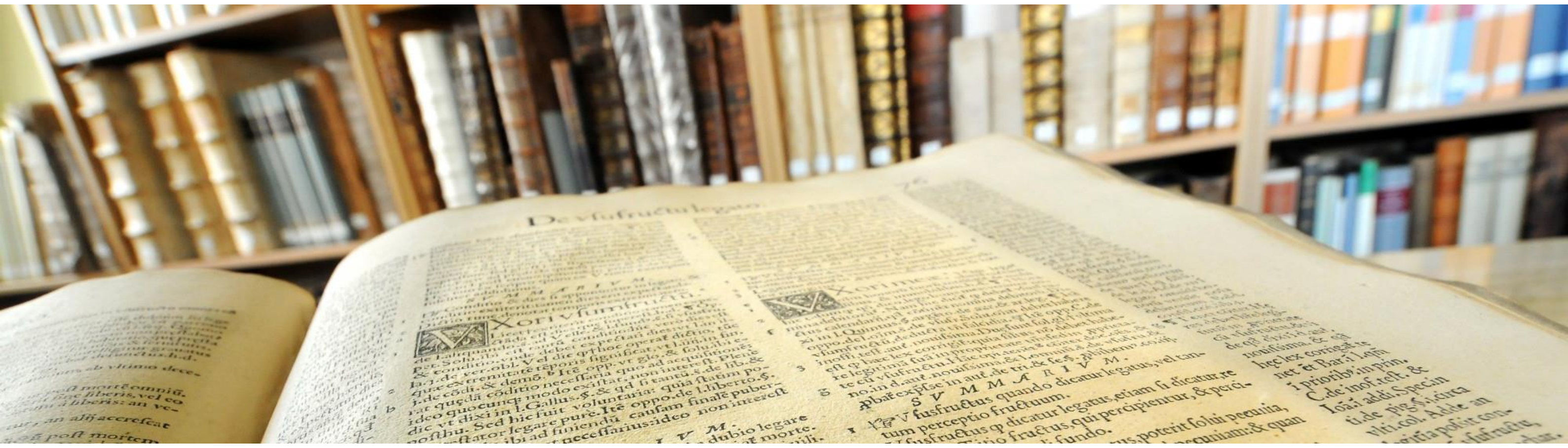
JLU is one of Germany's top research universities featuring an extraordinarily broad range of subjects. Both rich in tradition and highly innovative, JLU is host to a number of projects which are beacons of German research. What is more, its unique range of subjects and its high-profile international cooperation programs in the areas of research, teaching and study ensure JLU's competitiveness at both national and international level.
The university is dedicated to excellent research and teaching with a distinct profile in cultural studies and the life sciences. In keeping with Justus von Liebig's principle of "research training through research", JLU is highly committed to excellent interdisciplinary postgraduate education in all disciplines.
After 400 years of innovative teaching and research, JLU is not only embedded in international partnerships and networks, it is also deeply interwoven with the city of Giessen, the city with the highest student ratio of all university towns in Germany.

GIESSEN GRADUATE CENTRE FOR SOCIAL SCIENCE, BUSINESS, ECONOMICS AND LAW (GGS)

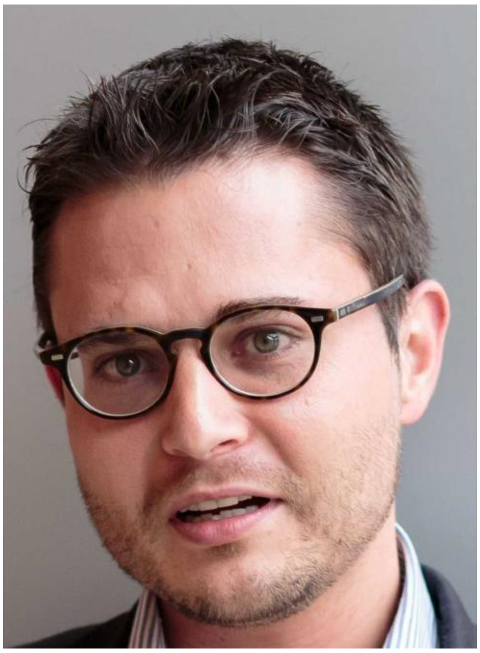
The GGS was founded in 2012 and excellently complements the existing university research and networking landscape.
It has created a unique and outstanding environment for research and convivial exchange that brings together doctoral students and postdocs from JLU as well as from around the globe in order to support them on their way towards an academic career.
Through their extensive offer of workshops and programs, the GGS strives to provide answers to the various needs of PhD candidates and postdocs.
Additionally, members are supported in opening up new channels for interdisciplinary exchange and networking. Here, the GGS financially supports and assists in the formation of inter- and interdisciplinary research cooperations.
The GGS has set as their goal to enable all members to complete their dissertations on a high-quality level and at the same time to gain essential qualifications for both academic and non-academic career paths.

GGS SECTION ACCOUNTING, FINANCE, ECONOMICS & SUSTAINABILITY (AFES)

The "Accounting, Finance, Economics, and Sustainability" (AFES) research section is dedicated to advancing knowledge and practical applications across these four interconnected fields. By integrating these areas, AFES seeks to develop comprehensive strategies that promote financial integrity, economic efficiency, and sustainable development. The section highlights connections between accounting, finance, and economics. Additionally, the section publishes a digital working paper series that highlights current research by affiliated professors and researchers. AFES also hosts regular events, including semesterly brown-bag sessions, the annual BFGA Conference each fall with financial support from the GGS, and a general meeting at the end of each year.



KEYNOTE SPEAKER



Prof. Michael Weber, Ph.D.

Associate Professor of Finance
at the University of Chicago Booth School of Business

Research interests:

- Asset Pricing
- Macroeconomics
- International Finance
- Household Finance

Outstanding publications in:

- American Economic Review
- Review of Economic Studies
- Review of Financial Studies
- Journal of Financial Economics

Keynote speech:

„Inflation, Household Balance Sheets, and Trading“

Friday, November 29th 2024
02:00pm – 03:00pm

Stay tuned:

In addition to the virtual event, we would like to accompany the conference on social media as well.
Follow us on **Twitter** @BFGAConference, **LinkedIn** @BFGA-Conference and **Instagram** @bfga_conference and stay tuned for additional information about the sessions, presenters and much more.
You are also very welcome to be a part and post about our conference by using the hashtag **#BFGA2024**!

SUPPORTERS

Union Investment
EB-Sim
GGS
Alumni Association

UNION INVESTMENT

For over 60 years now the Union Investment Group has been a reliable asset management partner to both retail and institutional investors. What distinguishes the company as a portfolio management expert throughout the cooperative financial network is its strong partnership ethos and the exceptional professionalism in everything it does. More than five million investors have placed their trust in its wealth of experience, making Union Investment one of Germany's leading providers, with some €497,4 billion in assets under management. Offering a total of 1,328 investment funds, the company delivers solutions involving equity funds, fixed-income funds, money market funds, mixed funds, funds of funds, guarantee funds and open-ended real estate funds.

More details on
https://www.union-investment.de

EB-SIM

EB–Sustainable Investment Management GmbH (EB-SIM) is one of the leading asset managers for sustainable investments. The company, which is a subsidiary of Evangelische Bank, is based in Kassel and has additional offices in Frankfurt and Cologne. For more than 30 years, value-based asset management was one of EB's core business areas until it was spun off into EB-SIM as an independent subsidiary in December 2018. EB-SIM employs over 82 people and manages assets of approximately 6,15 billion euros. It offers institutional clients and, via wholesale distribution, private clients exclusively sustainable investments in equity, bond and multi-asset strategies, as well as private debt and real assets. Its investment strategies are consistently aligned with the United Nations' Sustainable Development Goals(SDGs) and the European Union's climate goals.

More details on
https://www.eb-sim.de

GIESSEN GRADUATE CENTER

The GGS supports the AFES section and their doctoral student members by providing trainings, further education programs and the chance to establish a national and international network during the early phase of scientific qualification. Through the financial support, the GGS enables doctoral students of the AFES section to organize and host the annual BFGA conference on their own behalf.

More details on
https://www.uni-giessen.de/fbz/zentren/ggs

ALUMNI ASSOCIATION

"WiWi-Verein" is the alumni association of the faculty Economics and Business Studies at Justus Liebig University Giessen. The main goal of WiWi-Verein is supporting the faculty in its teaching, research and event activities. The association also helps alumni maintain connections to their educational institution and fellow graduates.

More details on
https://alumni.wirtschaft.uni-giessen.de

PROGRAM

Friday, November 29, 2024			
9:00am – 9:10am	**Welcome speech** Prof. Dr. Arnt Wöhrmann Virtual room A	2:00pm – 3:00pm	**Keynote Speech** Prof. Michael Weber, Ph.D. Virtual room A
9:10am – 10:40am	**Session 1A: Accounting** Virtual room A **Session 1B: Behavioral Economics** Virtual room B	3:00pm – 3:15pm	Coffee break
		3:15pm – 4:45pm	**Session 3A: Economics** Virtual room A **Session 3B: Behavioral Finance** Virtual room B
10:40am – 11:00am	Coffee break		
11:00am – 1:00pm	**Session 2A: Sustainable Finance** Virtual room A **Session 2B: Corporate Finance & Governance** Virtual room B	4:45pm – 5:00pm	**Best Paper Awards** Sponsors: EB-SIM, Union Investment Virtual room A
		5:00pm – 5:15pm	**Closing remarks** Prof. Dr. Andreas Walter Virtual room A
1:00pm – 2:00pm	Lunch break		

Stay tuned:

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SESSION 1A – ACCOUNTING

CHAIR: PROF. DR. ARNT WÖHRMANN

1. Industry Expert Analysts and KPI Forecasts

09:10am – 09:40am
Authors: Roberto Vincenzi, Wanli Zhao
Presenter: Roberto Vincenzi, Bocconi University
Discussant: Shushu Jiang

Abstract: We explore the mechanism through which analyst industry expertise facilitates analysts' forecasting performance. Utilizing a unique dataset of industry-specific Key Performance Indicator (KPI) estimates issued by equity analysts, our analysis reveals that analysts with relevant pre-analyst industry experience exhibit superior KPI forecasting abilities compared to similar non-industry-expert analysts. This inference is robust to a stringent set of fixed effects and an identification strategy based on brokerage house closure and analyst retirement. The benefit of industry expertise becomes more pronounced in industries with higher uncertainty and technological change. Furthermore, when categorizing KPIs into monetary and volume categories, we find that the benefit of industry expertise is more pronounced with monetary KPIs, especially during periods of unexpected inflation. Capital market tests indicate that industry expert analysts' KPI forecast revisions contain more information than those of non-experts. Path analysis reveals that the positive effect of industry expertise on EPS forecast accuracy documented in Bradley et al. (2017) is partially driven by a KPI forecasting channel. Our study enriches the understanding of a specific type of non-financial disclosure.

2. Bank Social Media Disclosure During a Banking Crisis

09:40am – 10:10am
Authors: Shushu Jiang, Yibin Liu; Rachel Xi Zhang, Luo Zuo
Presenter: Shushu Jiang, National University of Singapore
Discussant: Alex Li

Abstract: We investigate banks' strategic use of social media during the 2023 U.S. regional banking crisis. Drawing on a comprehensive dataset of tweets and employing a difference-in-differences (DID) design, we find that banks with higher pre-crisis uninsured deposit ratios are more likely to issue tweets aimed at restoring stakeholder confidence ("confidence tweets") during the crisis period, but not before or after the crisis period. Additionally, we examine third-party Twitter users' reactions to these tweets. Using ChatGPT-4 to classify user tweets as either information- driven (e.g., discussing banks' fundamentals) or non-information-driven (e.g., spreading rumors), we observe that confidence tweets increase information-driven discussions, with no significant impact on non-information-driven conversations. This pattern suggests that bank tweets guide Twitter users toward more information-based discussions. The effect is particularly pronounced for banks with a history of discussing their fundamentals on Twitter, and when bank tweets are more informative and attract greater user engagement. Our findings underscore the critical role of bank social media disclosures in mitigating panic contagion during a banking crisis.

3. Are Private Firms Disadvantaged vis-à-vis Public Firms in the Trade Credit Market?

10:10am – 10:40am
Authors: Alex Li
Presenter: Alex Li, University of Hong Kong
Discussant: Roberto Vincenzi

Abstract: I find that private firms in the European Union receive significantly less supplier credit than public firms, contrary to conventional view that private firms rely more on it for financing. I posit that public listing commits firms to higher-quality disclosure, reducing suppliers' perceived risk and raising their willingness to extend credit. Using the mandatory adoption of IFRS for public firms as a shock enforcing this commitment, I find a significantly negative spillover effect on supplier credit for private firms, particularly those with higher default risk and greater credit demand. The finding cannot be explained by the incremental information effect alone, suggesting the dominant role of commitment effect under this context. Reverse regulatory shocks that enhance private firms' commitment show negative but weaker spillover effects on public firms. Together, these findings suggest that disclosure commitment disadvantages private firms in the trade credit market, revising the understanding of their access to credit and reconciling debates on the role of public disclosure in trade credit decisions.

SESSION 1B – BEHAVIORAL ECONOMICS

CHAIR: PROF. DR. PETER TILLMANN

1. Populism, Institutional Trust, and Monetary Policy: A Firm-Level Analysis

09:10am – 09:40am

Authors: Nora Lamersdorf

Presenter: Nora Lamersdorf, Frankfurt School of Finance and Management

Discussant: Yevheniia Bondarenko

Abstract: This paper examines how populism influences the transmission of monetary policy to firms' credit demand. Using credit-registry data from Germany and voter shares for the populist party AfD, I find that firms in districts with higher AfD voter shares exhibit weaker adjustments in credit demand in response to monetary policy shocks. Firm survey data reveal that low trust in the ECB is associated with similarly muted credit demand responses, highlighting trust as a potential channel. Inflation expectations also play an essential role: firms in high-populism districts or with low central bank trust report higher inflation expectations and adjust them less in response to monetary policy shocks. To explore the role of the media, I analyze AfD-affiliated tweets and find that these sources often fail to convey accurate information on monetary policy, potentially contributing to biased perceptions. To rationalize these findings, I extend a New Keynesian model to incorporate biased perceptions of monetary policy. The model demonstrates how distorted perceptions weaken policy transmission and exacerbate adverse shocks, posing significant challenges for central banks aiming to sustain policy effectiveness in environments marked by strong populist sentiment.

2. Geopolitical Risk Perceptions

09:40am – 10:10am

Authors: Yevheniia Bondarenko, Vivien Lewis, Matthias Rottner, Yves Schüler

Presenter: Yevheniia Bondarenko, Deutsche Bundesbank

Discussant: Dzung Bui

Abstract: Geopolitical risk cannot be measured in a universal way. We develop new geopolitical risk indicators relying on local newspaper coverage to account for different perceptions. Using Russia as a case study, we demonstrate that local geopolitical risk shocks have significant adverse effects on the Russian economy, whereas geopolitical risk shocks identified from English-language news sources do not. We control for restricted press freedom by analyzing state-controlled and independent media separately. Employing a novel Russian sanctions index, we illustrate that geopolitical risk shocks propagate beyond the sanctions channel. Still, sanctions worsen the inflationary impact of geopo- litical risk shocks substantially.

3. The Relationship between Inflation Expectations and Consumption in Exceptional Times: Evidence from Thailand and Vietnam during the Covid-19 Pandemic

10:10am – 10:40am

Authors: Dzung Bui; Bernd Hayo

Presenter: Dzung Bui, University of Marburg

Discussant: Nora Lamersdorf

Abstract: Using representative household surveys conducted during the COVID-19 pandemic in two emerging economies, Thailand and Vietnam, we examine the relationship between inflation expectations and consumption. In both countries, our results show an insignificant relationship between expected inflation and durable consumption intentions. In addition, we rigorously test whether the null overall effect of inflation expectations on consumption is due to heterogeneity across different groups of households. However, we cannot reject the homogeneity restriction and conclude that we find no evidence to support either the widely accepted intertemporal optimisation theory or the competing 'stagflationary' view of consumption.

SESSION 2A – SUSTAINABLE FINANCE

CHAIR: PROF. DR. OSCAR STOLPER

1. Sustainable finance literacy predicts investment behavior beyond general financial literacy: Evidence from two representative Austrian samples

11:00am – 11:30pm

Authors: Marcel Seifert, Stefan Palan, Aja Ropret Homar, Florian Spitzer, Erich Kirchler, Katharina Gangl
Presenter: Marcel Seifert,
Institute for Advanced Studies Vienna (IHS)
Discussant: Adrian Gawęda

Abstract: We investigate sustainable finance literacy (SFL) as a complementary concept to general financial literacy. Study 1 uses a representative sample (N = 1,047) to develop a well-founded SFL inventory and confirms a relationship to self-reported sustainable investments. Study 2 uses an incentivized, framed field experiment (N = 1,510) to demonstrate that SFL is related to greater stock market investments and sustainable investments, and lower potentially greenwashed investments. SFL has more explanatory power than does general financial literacy. This is true for both experienced investors and non-investors. Our results underscore the pivotal theoretical and practical role of SFL for informed investments.

2. Inside the Blackbox of Firm Environmental Efforts: Evidence from Emissions Reduction Initiatives

11:30am – 12:00pm

Authors: Catrina Achilles, Peter Limbach, Michael Wolff, Aaron Yoon
Presenter: Peter Limbach,
University of Bielefeld and Centre for Financial Research, Cologne
Discussant: Jennifer Brunne

Abstract: Using project-level data from the Carbon Disclosure Project, we show how firms actually reduce greenhouse gas emissions. Most firms take on projects that require small investments (median $127,000) and have short payback periods (at most three years). Firms experiencing short-term performance pressure, smaller in size, and with shorter decarbonization horizons are more likely to implement such projects. Short-term projects are mostly related to energy efficiency (e.g., LED upgrades) rather than involving transformative technology. They yield more annual CO_2e and monetary savings and have greater NPVs than the average longer-term project, but exhibit less total CO_2e savings over the projects' lifetime. Firms with a greater share of short-term projects exhibit higher future environmental ratings, but it is a combination of short- and long-term projects that generates the most CO_2e savings. Our evidence suggests that a typical firm's climate engagements are not costly nor long-term oriented. In sum, firms tend to mitigate rather than adapt to climate change.

SESSION 2A – SUSTAINABLE FINANCE

CHAIR: PROF. DR. OSCAR STOLPER

3. The Role of Information Provision for Sustainable Investing

12:00pm – 12:30pm
Authors: Jennifer Brunne
Presenter: Jennifer Brunne,
FernUniversität in Hagen
Discussant: Peter Limbach

Abstract: This paper provides a new perspective on the role of information provision and investors' preferences concerning sustainability and profit when making investment decisions. In a sequential discrete choice experiment, potential investors need to decide between a sustainable and unsustainable investment with either low, medium or high returns. Individuals are randomly assigned to two treatment groups and receive either additional unspecific or specific information on the climate consequences of investment decisions. Specific information is presented in 1) graphical or 2) textual format or 3) via an external web page. The main study was conducted for a representative US sample (N =1003). The results show that the decision making process regard- ing sustainable investment is affected by the information provision on climate consequences of investment decisions especially for those with high values for climate protection and climate concern.

4. Does environmental, social, and governance performance really elevate firm value? International evidence

12:30pm – 01:00pm
Authors: Adrian Gawęda
Presenter: Adrian Gawęda,
University of Lodz
Discussant: Marcel Seifert

Abstract: The impact of a company's environmental, social, and governance performance (ESGP) on firm value is a widely discussed question; however, the findings are not conclusive. Using panel analysis on 5,540 listed companies from 43 countries between 2018 and 2022, we explore the impact of composite ESGP and its individual pillars on firm value. We also investigate how a country's level of economic and sustainability development moderates this relationship. Drawing on shareholder and institutional theories, our findings reveal two key points: (i) there is a negative association between ESGP and firm value, and (ii) this effect is more pronounced in more developed countries. Investors' perceptions of ESGP vary across countries, although there may be a universal tendency to value it negatively. We contribute to the literature by incorporating external factors into the debate on the relationship between ESGP and firm value.

SESSION 2B – CORPORATE FINANCE & GOVERNANCE

CHAIR: PROF. DR. ANDREAS WALTER

1. The 52-Week High and M&A Deals: International Evidence

11:00am – 11:30am
Authors: Pascal Büsing, Paul F. Hark, Nils Lohmeier, Hannes Mohrschladt
Presenter: **Nils Lohmeier,**
University of Münster
Discussant: **Bing Xu**

Abstract: We study the effect of targets' 52-week highs on offer prices in a global sample of mergers and acquisitions across 33 countries. Our results confirm that targets' past stock price peaks serve as an anchor in merger negotiations, albeit at varying magnitudes across different countries. We explain these cross-country differences through a simple framework in which target shareholders incentivize managers to consider an economically immaterial anchor. As predicted by our theoretical framework, the effect of a target's 52-week high on its offer price is most pronounced in countries characterized by stringent corporate governance, stronger legal protections for shareholders, and cultures prone to anchoring. Our results illustrate how corporate governance can exacerbate inefficiencies in the market for corporate control when shareholder beliefs are biased.

2. Capital Gains Taxes and Acquisition-Motivated IPOs: The Value of Stock as Acquisition Currency

11:30am – 12:00pm
Authors: Benjamin Yost, Enshuai Yu
Presenter: **Enshuai Yu,**
Boston College, Carroll School of Management
Discussant: **Jingshu Wen**

Abstract: We hypothesize that high capital gains tax rates motivate firms to go public for the purpose of making nontaxable, stock-financed acquisitions. Public acquirers have the option of offering their own stock to target shareholders in nontaxable deals; a valuable benefit when capital gains tax rates are high and one for which target shareholders are willing to accept a lower takeover price (i.e., acquirers obtain a relative discount). Employing variation in U.S. federal tax rates, we find that firms undertake IPOs earlier in their life-cycle and are less likely to withdraw announced IPOs when tax rates are high. Moreover, under high tax rate regimes, newly public firms conduct more stock-financed acquisitions and conduct them sooner after IPO, consistent with firms using relatively low-cost equity to grow early in their life-cycle. We corroborate our main findings using tax rate variation among (1) U.S. states, and (2) OECD countries. One implication of our findings is that the presence of high capital gains tax rates favors publicly listed firms by imposing a friction that public acquirers can circumvent but private acquirers generally cannot.

SESSION 2B – CORPORATE FINANCE & GOVERNANCE

CHAIR: PROF. DR. ANDREAS WALTER

3. Connections over Competence: The Impact of Political Ties on Sell-Side Research

12:00pm – 12:30pm
Authors: : Kaizhao Guo, Yanghua Shi, Jingshu Wen
Presenter: Jingshu Wen,
University of Oxford
Discussant: Enshuai Yu

Abstract: We show that Chinese state-owned (SOE) brokerage managers and board members may hire analysts connected with financial regulators to increase their promotional prospects. Using textual measures for analyst performance and kinship scores based on facial features, we find that politically connected analysts have less industry knowledge, lower recommendation profitability, and a higher tendency to plagiarize and follow trends compared with merit-based hires, while SOE brokerage officials are more likely to be promoted after hiring them. After China's anti-corruption campaign reaches the financial sector, research quality improves, and informational efficiency increases for firms most intensely covered by politically connected analysts. Contrary to the view that corruption merely redistributes resources to bureaucrats, our results suggest that corrupt hiring of financial intermediaries distorts the allocation of employment opportunities, reduces market efficiency, and imposes real costs on investors.

4. Do Director Skill Sets Affect Firm ESG Responsibilities?

12:30pm – 01:00pm
Authors: Bing Xu
Presenter: Bing Xu,
University of Oklahoma
Discussant: Nils Lohmeier

Abstract: This study investigates the relationship between the environmental, social, and governance (ESG)-related skill sets of firms' board directors and corporate ESG performance. Looking at S&P 1500 firms from 2009 to 2022 which includes the years of heightened ESG awareness, our analysis does not support the notion that directors' ESG skills enhance firms' ESG performance, and we uncover a prevalent trend of "competency washing" among firms. Specifically, when examining ESG dimensions including environmental, human capital, and others, we find no evidence that directors' skill sets contribute to improved corporate ESG performance; in fact, such skill sets may even lead to worse firm ESG outcomes. However, we do reveal evidence indicating that director skill sets in ESG matters increase the likelihood of incorporating ESG objectives into CEO contracts. Additionally, when segmenting our sample into S&P 500 firms and those outside the index, we find that firm size matters — directors' ESG skill sets are more influential in affecting CEO contracts within S&P 500 firms.

SESSION 3A – ECONOMICS

CHAIR: PROF. DR. PETER TILLMANN

1.Does High Speed Home Internet Improve Access to Credit? Evidence from a Google Fiber Rollout

03:15pm – 03:45pm

Authors: David G. Kenchington, F. Dimas Peña-Romera, Roger M. White
Presenter: **Roger White,** Arizona State University
Discussant: **Johannes Zahner**

Abstract: We investigate whether and how high-speed home internet access improves individuals' access to credit. To do so, we examine home mortgage refinance loan applications around the rollout of Google Fiber in Huntsville, Alabama, where the network was introduced in 80% of census tracts over a staggered three-year period. We find results on both the extensive and intensive margins. On the extensive margin, refinance loan applications and originations surge after Google Fiber rolls out in a tract. On the intensive margin, we find that Google Fiber's introduction predicts individual loan applications being approved at higher rates and left incomplete at lower rates, as well as prospective borrowers being less likely to accept subprime interest rates. These treatment effects only emerge in racially mixed and majority-minority census tracts, which are also the only census tracts that see meaningful improvement in connectivity from Google Fiber rollouts. Broadly, our results suggest that high-speed home internet facilitates financial prudence and access to credit for a set of homeowners that frequently face race-related housing cost disparities.

2. Central banks sowing the seeds for a green financial sector? Causal market reactions to green monetary policy

03:45pm – 04:15pm

Authors: Lion Fischer, Marc Steffen Rapp, Johannes Zahner
Presenter: **Johannes Zahner,** Goethe University Frankfurt
Discussant: **Liudmila Galiullina**

Abstract: In December 2017 a group of central banks and supervisory authorities launched the "Network for Greening the Financial Sector" (NGFS) to address challenges and risks posed by climate change to the global financial system. By 06/2023 an additional 69 central banks have joined the network. Using entrance into the NGFS as an instrument for green preferences, we show that participation is closely associated with the fulfilment of price stability and output objectives. Next, we exploit the unexpected nature of NGFS expansions to isolate the causal market response to these green monetary policy announcements. This allows us to assess market reaction for such policies. Our event study shows a significant market response exceeding the response to the Paris Agreement. We then conduct a firm- level event study focusing on the Federal Reserve's accession, showing that firms with higher emission scores and lower levels of emission intensities exhibit higher returns. This allows us to examine the heterogeneous effects of climate monetary policy across firms and to compare these findings with the US Inflation Reduction Act of 2022. Finally, we show that NGFS membership for advanced economies is associated with an increase in green bond issuance in NGFS member countries after they join.

3. Motivational effects of tiny shocks to the academic grades

04:15pm – 04:45pm

Authors: Liudmila Galiullina
Presenter: **Liudmila Galiullina ,** Maastricht University
Discussant: **Roger White**

Abstract: The effects of the academic grading on student motivation and effort still remain largely unknown. The main focus of this paper is to estimate the effects of the exact values of the students' initial grades on their further learning outcomes. To approach this problem empirically, one needs a fluctuating academic standard, and a working identifi- cation strategy. I suggest a straightforward way of assessing the marginal grading effects on student effort by using available observational data (school transcripts) and exploiting a grade rounding shock as a source of exogenous variation. I introduce a university data set, and use a rounding shock to the Master's students' first-study-period grade point average (GPA) to identify the grading effects on the students' subsequent dropout deci- sions, course choices, and grades. The results show that the students are generally not sensitive to the tiny grading shock, except that the learning outcomes of some of the high-achieving international males seem to have been remarkably affected.

SESSION 3B – BEHAVIORAL FINANCE

CHAIR: PROF. DR. ANDREAS WALTER

1. Can ChatGPT Forecast Stock Price Movements? Return Predictability and Large Language Models

03:15pm – 03:45pm

Authors: Alejandro Lopez-Lira, Yuehua Tang
Presenter: Alejandro Lopez-Lira, University of Florida
Discussant: Matteo Vacca

Abstract: We document the capability of large language models (LLMs) like ChatGPT to predict stock price movements using news headlines, even without direct financial training. ChatGPT scores significantly predict out-of-sample daily stock returns, subsuming traditional methods, and predictability is stronger among smaller stocks and following negative news. To explain these findings, we develop a theoretical model incorporating information capacity constraints, underreaction, limits-to-arbitrage, and LLMs. The model generates several key predictions, which we empirically test: (i) it establishes a critical threshold in AI capabilities necessary for profitable predictions, (ii) it predicts that only advanced LLMs can effectively interpret complex information, and (iii) it forecasts that widespread LLM adoption can enhance market efficiency. Our results suggest that sophisticated return forecasting is an emerging capability of AI systems and that these technologies can alter information diffusion and decision-making processes in financial markets. Finally, we introduce an interpretability framework to evaluate LLMs' reasoning and accuracy, contributing to AI transparency and economic decision-making.

2. Striking Out: Biases and Losses of Retail Option Traders

03:45pm – 04:15pm

Authors: Aleksi Pitkäjärvi, Matteo Vacca
Presenter: Matteo Vacca, Aalto University School of Business and Hanken School of Economics
Discussant: Ilaria Piatti

Abstract: Analyzing over 15 years of account-level trading records from Finland, we show that option features—expiration, moneyness, and the strike price—influence the behavior of retail investors and exacerbate their behavioral biases. Retail investors selectively exploit the expiration feature of options to mitigate the psychological costs associated with selling losing positions, generating a strong disposition effect especially for out-of-the-money options. They also use the strike price of an option as an objective, instrument-specific reference point when making their selling decisions. Behavioral biases contribute to heterogeneity in option trading performance, with the worst performance concentrated among investors with the strongest biases.

3. Subjective Risk Premia in Bond and FX Markets

04:15pm – 04:45pm

Authors: Daniel Pesch, Ilaria Piatti, Paul Whelan
Presenter: Ilaria Piatti, Queen Mary University of London
Discussant: Alejandro Lopez-Lira

Abstract: We measure subjective risk premia from professional forecasters' beliefs about sovereign bond yields and exchange rates. Survey-implied risk premia are (i) negative for bonds and funding currencies, positive for investment currencies, (ii) negatively correlated with subjective macro expectations, (iii) positively linked to future returns, but significantly different from those implied by statistical models. This suggests that subjective risk premia follow a classical risk-return trade-off, despite deviations from rationality. A standard asset pricing model with a wedge between physical and subjective measures matches these findings and allows us to quantify belief distortions in terms of a positive bias in long-run growth.

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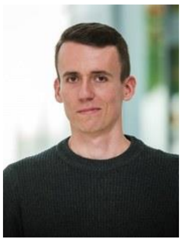
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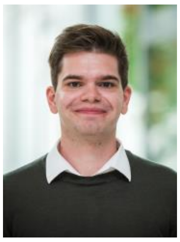
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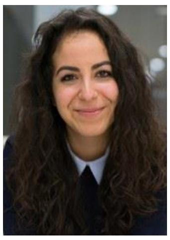
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