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NEWS FROM THE FINANCIAL ECONOMICS INSTITUTE AT CLAREMONT MCKENNA COLLEGE

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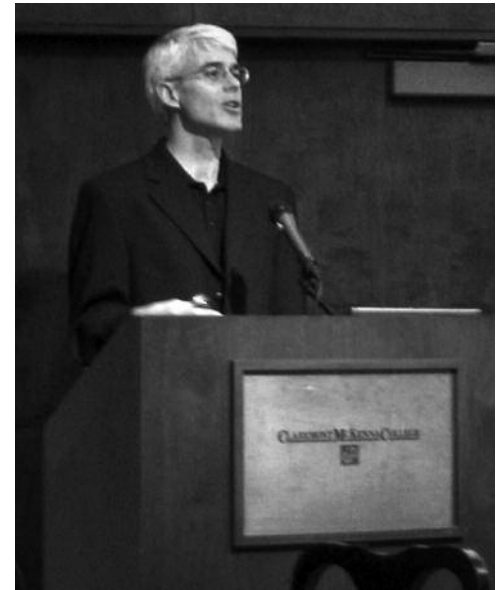
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Policy Issues Facing the Credit Derivatives Market

Darrell Duffie, Stanford University Graduate School of Business
By Maria Löhner '10, FEI Student Research Analyst

ON MONDAY APRIL 13, 2009, DARRELL Duffie, the Dean Witter Distinguished Professor of Finance from Stanford University's Graduate School of Business, spoke at the Athenaeum as the FEI Speaker Series spring 2009 featured lecturer. The topic of Professor Duffie's talk was credit default swaps (CDS) and potential policy changes in the market for those instruments in lieu of the current financial crisis. According to the Financial Times, CDS are a type of "insurance against non-payment of corporate debt," intended to make a debt-obligation whole. CDS buyers are often debt-holders who buy insurance (the CDS) that pays them if borrowers default on their obligations. These securities are exchanged over the counter and are generally custom-designed.

Professor Duffie explained that in the current market, buyers do not need to own the debt to buy the CDS, making the market more risky since the number of CDS can significantly exceed the number of bonds. This has resulted in CDS purchases



Darrell Duffie

sometimes being construed as speculation. For example, if one counterparty (such as AIG) wrote all of the CDS, they would be

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The Financial Economics Institute fosters education and research in financial economics by offering a unique undergraduate curricular program, the Financial Economics Sequence, supporting state-of-the-art databases, and encouraging student-faculty interaction on research.

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responsible for many times the value of the remaining payments on the underlying bonds.

George Soros suggests that this is a poor policy, because it encourages speculation, volatility, and frailty of the financial markets. While Professor Duffie believed that this was a “reasonable” argument, he disagrees with this belief. He thinks that if one had to own the bond, it would decrease the liquidity in the market, which would be analogous to banning short-selling. In other words, there is information available based on the more speculative trades, but Soros believes there is a downside as well.

Professor Duffie proposed that we should use “clearinghouses” which would provide an intermediary for buyers and sellers. For example, the clearinghouse would act as an intermediary to mitigate the downside by pooling the risk. With the presence of a clearinghouse standing between buyers and sellers, counterparties could be less weary of a default by their trading partners as long as the clearinghouse is well-capitalized and has strong operating controls. Additionally, clearinghouses would eliminate current inefficiencies because they would be able to “net” opposite trades between two parties. This is a very important point since the problem is that without netting, the probability of default somewhere can be much greater. This probability depends on the number of counterparties and the amount of netting.

This proposal would, naturally, only work for more standardized CDS contracts. Unfortunately, some contracts are customized (such as at AIG) so this creates another problem because no proposals exist that address all of these concerns. The clearinghouse proposal, however, would diminish the currently “enormous” counterparty risk by pooling the risk.

Historically, the oversight for these clearinghouses has come from many different regulators in the United States including the Federal Reserve and the Securities and Exchange Commission. The clearinghouses that have been permitted so far in the United States are the ICE and CME. In comparison, there are currently more than five clearinghouses in Europe.

Professor Duffie argued that having more than one clearinghouse will always be worse, never better, due to the inefficiencies and operational control issues that could arise. More broadly, Professor Duffie believes that the clearinghouses should be harmonized internationally into a single clearinghouse in order to increase efficiency. In fact, he argued that multiple clearinghouses can actually decrease efficiency and cause more problems than if there were no clearinghouses at all. He emphasized that the optimal structure would be a single clearinghouse, and that the optimal number of clearinghouses would be determined by politics rather than efficiency. Citing examples from Hong Kong and France, he noted the danger a centralized

clearinghouse poses if the entire organization folded. He still suggests that clearinghouses would work in the US, as the government would likely always provide support.

One relevant recent market trend that Professor Duffie explored in his research was the increase in the transparency of collecting the data, thereby allowing a “trace” for corporate and municipal bonds. The public could therefore know what the prices are and negotiate future contracts with this knowledge. Recently, data has shown that we are getting prices that are inconsistent with the trade-by-trade prices. Overall, these are highly important policy implications.

Professor Duffie has been a member of the Stanford finance faculty since receiving his PhD at Stanford in 1984. He is also the author of *Security Markets: Stochastic Models, Futures Markets, Dynamic Asset Pricing Theory, and Credit Risk: Pricing, Measurement, and Management*.

His recent research focuses on asset pricing, credit risk, fixed-income securities, and over-the-counter markets. Professor Duffie is the Vice President of The American Finance Association, a Fellow of the Econometric Society, a Research Associate of the National Bureau of Economic Research, a member of Moody’s Academic Research Committee, the 2003 IAFE/Sunguard Financial Engineer of the Year, and a member of the American Academy of Arts and Sciences. He is currently on the editorial boards of *Econometrica* and *The Journal of Financial Economics*, among other journals. ▲

Congratulations to the FEI Summer 2009 RAs:

ALEX BONNETT '09, Economics major

RAGHAV DHAWAN '10, dual major in Economics and Mathematics

NOAH FRANZ '10, Economics major

HANNAH GREGG '12, Economics major

WUNNA HLAING '10, Economics-Accounting major

JENNIFER VOLK '11, Economics major

SCOTT YINGLING '11, Economics-Accounting major

ERIC ZACHARIAS '11, Economics major

Congratulations to the 2009-2010 BGI/Larson Asset Management Fellows:

KYLE CASELLA '10, Economics-Accounting major

HARSHVARDHAN CHOWDHARY '10, Economics-Accounting major

RAJAT GUPTA '11, dual major in Economics and Mathematics

NIKOLAS MILLER '10, dual major in Mathematics and Economics

NICHOLAS SPARKS '10, dual major in Economics and Literature

2009 New York City Networking Trip

By Maria Löhner '10, FEI Student Research Analyst

DURING THE WEEK OF JANUARY 12, 2009, the Financial Economics Institute sponsored the sixth annual New York City Networking Trip which provided an invaluable learning experience for sixteen sophomores, juniors, and seniors who aspire to work in finance after graduation. The students participated in company visits and alumni networking events which enabled them to establish relationships with CMC Alumni while learning more about the various job opportunities available in finance.

During the week, the students visited five firms including: Kohlberg Kravis Roberts & Co., J.P. Morgan, Atalaya Capital, Deloitte Consulting, and Goldman Sachs. They also participated in a Q&A session with a panel of young alumni from the Claremont Colleges.

The week in NYC began with an introductory reception and dinner that was hosted by Julie Spellman Sweet '89 at Cravath Swaine & Moore. At the reception, students interacted with several FEI Board Members and alumni who graciously answered the students' questions about life in the world of finance. The dinner was followed by a presentation featuring Prof. Eric Hughson, *Can a Lender of Last Resort Stabilize the Financial Markets?*

On Tuesday morning, the students enjoyed breakfast with Henry Kravis '67 in the breathtaking boardroom at KKR. Mr. Kravis, co-founder of KKR, discussed the history of his firm and the evolution of KKR from a firm that could barely raise a fund in 1976 to the most successful private equity firm in the world. He also answered numerous questions that students had prepared in order to learn more about private equity and KKR. Mr. Kravis was particularly interested in new technologies available to students and how we are utilizing them today.

Following the visit to KKR, the students attended a young alumni panel featuring Asaf Bernstein HMC '08, Chris Urban CMC '07, and Justin Hance CMC '06. The three alums provided helpful advice on the interview process, anecdotes about work after CMC, and three unique perspectives. Asaf works for a large investment bank; Chris works for a hedge fund; and Justin works for an asset management firm.

On Tuesday evening, the students

attended a CMC Alumni Association reception hosted by Kristen Edgreen '98 at The Yale Club. The reception drew many members of the CMC community including current students, alumni, parents, and CMC faculty. The evening gave students an excellent opportunity to interact with alumni, establish contacts, and openly ask questions outside of a formal business setting.

On Wednesday, students began their day with a visit to J.P. Morgan. Amanda Wilson '98, Managing Director of Asset Management, started off the visit with an overview of the firm's private equity group, in particular discussing its strategy and evaluation methods. Next, Chris Scheuermann, a Municipal Bonds Analyst, described his role at J.P. Morgan, while explaining the process of finding valuations for bonds. Finally, Tim Galbraith '87, a Managing Director, outlined the problems in the current economy, specifically highlighting the Madoff scandal. The visit to J.P. Morgan was especially helpful because it portrayed three distinct career paths in finance.

The students then traveled to Atalaya Capital where Ivan Zinn '96, the firm's President and Founder, hosted the group for lunch and a presentation. He talked about the start of Atalaya as well as their investment strategy and the effects of the current market downturn. Mr. Zinn was very gracious in answering questions related to the current financial crisis and shared suggestions detailing how students should reach out to the CMC network to maintain contacts with alumni. At the conclusion of his presentation, Mr. Zinn had a contest that resulted in several CMC students returning home with some Atalaya gear. After visiting Atalaya, students enjoyed free time to explore New York City on Wednesday evening.

On Thursday, the final day of activities in New York City, students began their day by visiting Deloitte Consulting. Celia Ramos, a Senior Manager, and Randi Brosterman, a Principal, hosted the students at Deloitte. Following a presentation which provided an overview of the consulting industry, students participated in an analyst panel, which



Sixteen CMC students toured Wall Street in January 2009.

featured Rishi Reddy '07 and enabled students to ask candid questions. The visit to Deloitte provided a great opportunity for the students to learn about the differences between consulting and banking.

The final visit was to Goldman Sachs where David Alvilarr '01, a Vice President in Capital Structure Finance Trading, and Jerry Lin '07, an Investment Banking Analyst, hosted the students. Mr. Alvilarr introduced students to the organization and culture of Goldman Sachs as well as an array of opportunities within the bank. He was joined by Eric Kramer, a Vice President in Fixed Income Sales, who also shared his experiences at Goldman. The visit to Goldman Sachs provided the students with firsthand knowledge of the inner-workings of a large, distinguished investment bank.

Following the visit to Goldman Sachs, the week concluded with Brian Dennis '97, Assistant Director of the FEI, taking the students to dinner at Luna Piena.

The sixth annual New York City Networking Trip was a great success and provided students with exposure to a variety of financial firms and potential career paths. The students learned about consulting, investment banking, sales and trading, asset management, private equity, and hedge funds. They will undoubtedly benefit from these visits as well as the opportunity to meet extensively with CMC alumni who have established themselves in successful careers in New York. These relationships and this experience will be invaluable for the students as they continue at CMC and after graduation. Ongoing alumni support for the Financial Economics Institute not only reflects the strength of the CMC community and the advantages of a CMC education, but is ultimately responsible for the success of endeavors such as the New York City Networking Trip. ▲

What Does CEOs' Personal Leverage Tell Us About Corporate Leverage?

Paper written by: Henrik Cronqvist, Claremont McKenna College

Anil K. Makhija, The Ohio State University

Scott E. Yonker, The Ohio State University

Summarized by Jennifer Volk '11, FEI Student Research Analyst

BEGINNING WITH THE WORK OF Modigliani and Miller, economists have attempted to explain differences in the capital structure of firms. There is extensive literature reporting the results of investigations of the effects of certain firm characteristics, such as transaction costs, agency costs, and taxes, on capital structure decisions. However, there has not been much exploration into the effects of managerial characteristics on capital structure. In fact, in most empirical studies, CEOs are assumed to be homogeneous in behavior—CEOs are considered to be perfect substitutes that have no effect on capital structure decisions. Cronqvist, Makhija, and Yonker are among the first to consider the differences in CEOs' personal behavior and their effect on capital structure decisions. In the paper, *What Does CEOs' Personal Leverage Tell Us About Corporate Leverage?*, they investigate the relationship between corporate leverage and CEO's personal leverage.

To quantify CEOs' personal leverage, the authors utilize the CEOs' debt ratios—the mortgage to purchase price ratio of their primary residence. This measure is used to indicate CEOs' preference for debt financing. 942 CEOs of S&P 1,500 companies were used in the analysis. The authors hypothesized that their results would follow either the “hedging” view or the individual preferences of the CEOs. Under the “hedging” view, CEOs with high personal leverage, i.e., a high mortgage to purchase price ratio, would underlever their firms. Along those lines, CEOs with little or no personal debt would overlever their firms. The hedging view predicts an inverse relationship between a CEO's personal leverage and corporate leverage. However, if the results show a positive relationship, this means that a CEO's debt preferences are innate. Therefore, if a CEO has high personal leverage, the firm he manages will also be highly levered.

The authors present two explanations for a positive relationship between personal and corporate leverage. First, CEOs are expected to be more influential in a firm

with a weak corporate governance system. Therefore, CEO preferences are more likely to be reflected in their firm's capital structure. Second, the matching model can explain a positive relationship. The matching model takes into account the fact that firms very frequently choose CEOs who have similar traits as the firm. Therefore, a firm that prefers to be highly levered hires a CEO who prefers the same. When investigating these explanations, Cronqvist, Makhija, and Yonker found that the positive relationship between CEOs' personal leverage and firm capital structure is stronger in firms with weaker corporate governances (and therefore stronger CEO influence). This suggests that the matching model is not the only explanation for the positive relationship.

It was found that there is a strong, statistically significant relationship between CEOs' personal leverage and corporate leverage. In fact, the relationship is so strong that a firm with a CEO with 100 percent home leverage has a debt ratio which is 7.0 percentage points higher than a similar firm with a CEO with zero debt. The strength and significance of the results did not change even when controlling for such factors as profitability, industry leverage, and the market-to-book ratio. Another important aspect to consider is the difference in managerial characteristics besides personal leverage preferences. Such factors include the CEO's age, tenure and personal wealth. Still, when the authors controlled for these factors, there was no effect on the relationship between personal and corporate leverage.

Next, the authors explored an alternative explanation for the positive relationship: reverse causality. That is, do the personal leverage preferences of the CEO affect the corporate leverage or does the corporate leverage affect the personal leverage preferences of the CEO? Reverse causality was ruled out for two reasons. First, the reverse causality explanation most likely predicts an inverse relationship—if a firm had substantial leverage, a CEO would attempt to offset it personally. Second, the



▲ **HENRIK CRONQVIST** is an Assistant Professor of Economics at CMC. He specializes in empirical corporate finance and governance and behavioral finance.

authors found CEOs' debt ratios to be higher in home purchases after becoming CEOs. Therefore, reverse causality does not explain the result of a positive relationship between personal and corporate leverage.

Cronqvist, Makhija, and Yonker found that CEOs' personal leverage preferences affect the capital structure of the firms they manage. Specifically, there is a positive relationship between these two factors. If a CEO prefers less debt in his personal finances (he has a low mortgage-to-purchase price ratio), the firm he manages is more likely to be less levered. There are two explanations for the positive relationship that prove to be statistically significant. First, a weaker corporate governance structure means more CEO influence and, second, that companies match CEOs to their leverage preferences. Research about the effect of CEOs' characteristics, such as levels of CEO confidence and optimism and CEOs' past experiences, has been conducted. However, Cronqvist, Makhija, and Yonker are the first to investigate whether or not CEOs' personal leverage has an effect on the capital structure of the firms they manage. ▲

Financial Economics Institute

Spring 2009 Student Research Analysts

During the spring 2009 semester, eighteen Student Research Analysts assisted faculty members with research projects. The following is a list of students, the topics they researched, and their faculty advisors:

SCOTT ARNOLD '09, *Corporate Culture Clash and Mergers & Acquisitions* with Professor Eric Hughson

ALEX BONNETT '09, *What Does CEOs' Personal Leverage Tell Us About Corporate Leverage?* with Professor Henrik Cronqvist

CHRISTOPHER BRIGHAM '09, *Portability of Star Winemakers' Performance* with Professor George Batta and Professor Joshua Rosett

NICK BURNETT '09, *Investigating Sarbanes-Oxley 404 Disclosures* with Professor Joshua Rosett

HARSHVARDHAN CHOWDHARY '10, *Constructing a Database of Individual Component Credit Spreads for the CDX Index, a Credit Market Index of 125 North American Investment-Grade Issuers* with Professor Janet Smith and Professor Fan Yu

DOUGLAS FAGAN '09, *The Effect of the Establishment of the Federal Reserve on Exchange Rate Volatility* with Professor Eric Hughson

HANNAH GREGG '12, *Founder Characteristics and Firm Behavior* with Professor Henrik Cronqvist

KRISTINE GRIGSBY '09, *Global Repercussions of the U.S. Credit Crisis: A Portfolio-Balance Model of Cross-Border Financial Instability* with Professor Sven Arndt

KEVIN HESLA '09, *Laboratory Experiments on Investor's Reliance on Information Disclosure* with Professor Ananda Ganguly

FREYA LEE '09, *Ranking Economics Departments at Liberal Arts Colleges* with Professor Janet Smith

MARIA LÖHNER '10, *The Value of Tort Suit Preemption in the Pharmaceutical Industry* with Professor Eric Helland

NIKOLAS MILLER '10, *Laboratory Experiments on Investor's Reliance on Information Disclosure* with Professor George Batta and Professor Ananda Ganguly

JANE PAN (HMC) '09, is working on two projects: *Designing and Modifying the Trust Game in Z-Tree* and *Conducting Testing Experiments on the Asset Market Bubble Program* with CGU Professor Paul Zak

ALEXANDER REICHERT '11, *Global Repercussions of the U.S. Credit Crisis: A Portfolio-Balance Model of Cross-Border Financial Instability* with Professor Sven Arndt

NICHOLAS SPARKS '10, is working on two projects: *Beta Estimation Techniques* and *An Event Study of Bond Downgrades on Bond Prices, Credit Default Swap Prices, and Stock Prices* with Professor Eric Hughson

JENNIFER VOLK '11, *The Impact of LBOs on Executive Compensation Contracts* with Professor Henrik Cronqvist

BRITNEY WATSON '09, *Examining the Effects of Inflation Targeting on Asset Prices in Developing Countries* with Professor Eric Hughson

SOPHIE ZENG '09, *Balance Sheet Disclosures and Stock Holder's Reactions During Quarterly Reviews* with Professor Joshua Rosett



Back row, from left: Nikolas Miller '10, Alexander Reichert '11, Nicholas Sparks '10, Harshvardhan Chowdhary '10. Front row, from left: Freya Lee '09, Hannah Gregg '12, Maria Löhner '10, Kristine Grigsby '09, Brittney Watson '09.

Where Will FEI Students Be Working?

CONGRATULATIONS TO THE FOLLOWING JUNIORS AND SENIORS COMPLETING THE FINANCIAL ECONOMICS Sequence who have notified the FEI that they have secured a full-time job, placement in graduate school, or a summer internship. This list identifies the students' major(s) and their place of employment.

Graduating Financial Economics Sequence Seniors:

SCOTT ARNOLD '09, Economics, Banc of America Securities Investment Banking (Los Angeles, CA)

ALEXANDER BONNETT '09, Economics, Attending The Robert Day School Master's Program in Finance (Claremont, CA)

CHRISTOPHER BRIGHAM '09, Economics, Merrill Lynch Equity Trading (London)

NICHOLAS BURNETT '09, Economics-Accounting, Ernst & Young Auditing (San Francisco, CA)

RUSSELL CHIDESTER '09, Economics, Merrill Lynch Investment Banking (Los Angeles, CA)

RISHI DESAI '09, Economics, Merrill Lynch Investment Banking (Palo Alto, CA)

JOHN ENGLAND '09, Economics-Mathematics, Attending The Robert Day School Master's Program in Finance (Claremont, CA)

DOUGLAS FAGAN '09, Economics, Cascade Investment (Kirkland, WA)

BRIAN FUERST '09, Economics-Accounting/Government, Rothstein Kass (Beverly Hills, CA)

TEJAS GALA '09, Mathematics-Economics, Deutsche Bank Legal, Risk & Capital (New York, NY)

KEVIN HESLA '09, Economics, Analysis Group (Los Angeles, CA)

CLARE HOVE '09, Economics, Merrill Lynch Investment Banking (Chicago, IL)

MARYA HUSAIN '09, Economics, Ernst & Young (Los Angeles, CA)

FREYA LEE '09, Economics-Mathematics, Southern California Edison (Los Angeles, CA)

PETERIS LIEPINS '09, Economics, LECG (Los Angeles, CA)

PETER MCGAH '09, Economics-Classical Studies, Cascade Investment (Kirkland, WA)

SCOTT METCALF '09, Economics, Attending The Robert Day School Master's Program in Finance (Claremont, CA)

KYLE MILLER '09, Economics, Obtain OWSI Scuba Instructor license and work as a diving instructor (Fiji)

CHRISTOPHER MOY '09, Economics, Dean and Deluca (Napa Valley, CA)

MICHAEL SHAMBON '09, Economics, Citigroup Investment Banking (New York, NY)

ADAM SHERMAN '09, Economics, McMaster-Carr (Los Angeles, CA)

BRITTNEY WATSON '09, Economics-Accounting, Ernst & Young Auditing (Los Angeles, CA)

Financial Economics Sequence Juniors – Summer Positions:

KYLE CASELLA '10, Economics-Accounting, Morgan Stanley Sales & Trading (New York, NY)

NOAH FRANZ '10, Economics, FEI Research Analyst (Claremont, CA)

WUNNA HLAING '10, Economics-Accounting, FEI Research Analyst (Claremont, CA)

TRAVIS HULL '10, Economics, Disney Finance Department (Los Angeles, CA)

ANDREW JARMON '10, Economics, Mark IV Capital (Los Angeles, CA)

YU-YU LIN '10, Economics-Accounting, Deutsche Bank Legal, Risk & Capital (New York, NY)

MARIA LÖHNER '10, Economics, Citigroup Investment Banking (Los Angeles, CA)

ALEKSANDER LYNG '10, Economics-Mathematics, Barclays Capital (New York, NY)

JAMIE MATUSIAK '10, Economics-Accounting/Mathematics, Beach Fleischman & Co. (Tucson, AZ)

NIKOLAS MILLER '10, Economics-Accounting/Mathematics, Cascade Investment (Kirkland, WA)

THOMAS MOSS '10, Economics, Gallagher (Los Angeles, CA)

NATACHA PETERSEN '10, Economics, Horses Help (Phoenix, AZ)

ROBERT RANIERI '10, Economics-Accounting, Bloomberg LP (New York, NY)

NICHOLAS SPARKS '10, Economics-Literature, UBS Investment Banking (Los Angeles, CA)

JANICE TAN '10, Economics-Accounting, Neptune Orient Lines (Singapore)

MICHAEL WIDMANN '10, Economics, Credit Suisse Healthcare Investment Banking (San Francisco, CA)

YANG (AMANDA) YANG '10, Economics-Mathematics, Goldman Sachs Investment Banking (San Francisco, CA)

YUCHEN ZHANG '10, Economics-Mathematics, Western Asset Management Company (Pasadena, CA)

Darren Filson, Associate Professor, Robert Day School of Economics and Finance & Graduate Director, RDS Master's Program in Finance

By Nikolas Miller '10, FEI Student Research Analyst



Darren Filson

FIRST OF ALL, CONGRATULATIONS ON BECOMING A TENURED PROFESSOR HERE AT CMC! WHAT CLASSES ARE YOU TEACHING THIS YEAR?

Thank you. I taught two sections of 101 (Intermediate Micro-economics) in the fall, and this semester I'm teaching Industrial Organization at CMC, Game Theory at CGU, and Corporate Financial Management at KGI. Next fall, I'll be teaching Financial Econometrics in the new graduate program, and I'll be offering one of the Seminars in Research Methods for our seniors.

WHAT IS YOUR FAVORITE AREA OF RESEARCH? ARE THERE ANY NEW AREAS OF RESEARCH THAT YOU HAVE NOT BEEN INVOLVED WITH IN THE PAST BUT ARE LOOKING TO GET INVOLVED WITH IN THE FUTURE?

I enjoy developing computable dynamic models to analyze strategic behavior and the impacts of public policies in particular industries or other micro-level settings. In recent work, I've been developing models of the evolution of the pharmaceutical industry with the goal of estimating the impacts of intellectual property rights policies on alliance formation, the flow of new drugs, firm value, and consumer welfare. I am constantly tempted to explore new areas of research, but it's hard to find the time! In general, I tend to be intrigued by topics involving strategic behavior in evolving environments in which uncertainty plays an important role.

CAN YOU DESCRIBE YOUR INVOLVEMENT WITH THE DEVELOPMENT OF THE NEW ROBERT DAY SCHOOL OF ECONOMICS AND FINANCE?

All of us in RDS have been working in various ways to contribute to the development of the School. We benefit from Janet Smith's great leadership and an excellent support staff. Along with several others, I've helped reinvigorate our working paper series and improve the design of our web pages, and we've all been involved in recruitment efforts

to build up our faculty. My main role, lately, has been in the development of the new Master's Program in Finance.

WHAT WILL YOUR ROLE BE WITH THE NEW MASTER'S PROGRAM IN FINANCE?

As Director of the Master's Program, I've been involved in everything from student recruiting to designing the student handbook to getting accredited by the Western Associate of Schools and Colleges. I've had a great experience so far. We have a great group of professors and an outstanding curriculum backed up by several dedicated administrators and the extremely generous

from the data and employing the information to make optimal decisions. Strategic Econometrics provides the toolkit, and as the firm's name suggests, econometrics is the primary tool employed. A recent book by Ian Ayres reveals I'm far from the only one who has recognized this opportunity: see *Super Crunchers: Why Thinking-by-Numbers is the New Way to Be Smart* (Bantam Books, 2007).

WHAT ADVICE CAN YOU GIVE TO CMC STUDENTS, ESPECIALLY GIVEN THE CURRENT ECONOMIC SITUATION?

CMC alum Jonathan Rosenberg '83 (now a Senior VP at Google), recently spoke at the Ath, and I believe I'm either quoting or paraphrasing him when I say: "Don't lose heart. Times of great volatility are times of great opportunity, and recessions end with booms." Now, more than ever, we need leaders in business and finance who understand the impacts of commerce on society and have an appreciation for the broader economic and institutional context that firms operate in, and we need leaders with strong ethics and better judgment than what we've seen in the recent past. The training in economics and finance at CMC, which is grounded in the liberal arts but has the depth that only the best business schools offer, is ideal.

“Don't lose heart. Times of great volatility are times of great opportunity, and recessions end with booms.”

Jonathan Rosenberg '83

financial support of Robert Day. We're admitting a high quality inaugural class, and I'm looking forward to getting started in August!

CAN YOU TALK A LITTLE BIT ABOUT THE CONSULTING FIRM THAT YOU FOUNDED IN 2004, STRATEGIC ECONOMETRICS LLC?

Yes! Most of what I do is an experiment of one sort or another, and my company is no exception. Happily, it has worked out pretty well so far. With the diffusion of information technology, many firms have access to large amounts of proprietary and public data that can potentially inform their resource allocation decisions. The missing link within most firms is a high quality analytical toolkit for extracting information

WHAT ARE SOME OF YOUR HOBBIES OR THINGS THAT YOU ENJOY OUTSIDE OF ACADEMIA?

When I'm not working, I spend most of my time with my 2-year-old son, Eric. It's pretty exhausting. If any of your readers ever figure out how to bottle the energy of a 2-year-old, be sure to let me know. My wife just gave birth to our second son, Aidan, on April 6, and I'm also enjoying spending time with him. And, getting even more exhausted.

IF YOU COULD RECOMMEND ONE BOOK TO A STUDENT IN ECONOMICS OR FINANCE WHAT WOULD IT BE AND WHY?

I mentioned *Super Crunchers*, and it's worth a look. Another interesting read is Nassim Nicholas Taleb's *Fooled By Randomness: The Hidden Role of Chance in Life and in the Markets*, 2nd ed. (Thomson, 2004). ▲

Congratulations Class of 2009!

THE FINANCIAL ECONOMICS INSTITUTE WOULD LIKE TO CONGRATULATE the graduating seniors of 2009. The following is a list of seniors who completed the Financial Economics Sequence and the titles of their theses:

SCOTT ARNOLD, *Mergers & Acquisitions and Corporate Culture Clash*

ALEXANDER BONNETT, *Changes in Corporate Debt Structures Following IPOs*

CHRISTOPHER BRIGHAM, *Risky Business: The Effect of Mood on Financial Decision Making and Risk Taking*

NICHOLAS BURNETT, *Sarbanes-Oxley Section 404: Curse or Cure?*

RUSSELL CHIDESTER, *Venture Capital Influence on Underpricing From 1999 Through 2007*

RISHI DESAI, *The Performance of Reverse Leveraged Buyouts*

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Upcoming Events

End-of-Year Luncheon

MAY 14, 2009

The Financial Economics Institute will celebrate the conclusion of another successful year with a luncheon that will include an acknowledgement of graduating seniors and a student presentation.

New York City Networking Trip

JANUARY 11-15, 2010

Fifteen CMC students will visit prestigious firms in NYC to gain exposure to various job opportunities in the financial markets and to establish relationships with CMC alumni working at these companies. Applications for the trip will be available from Bauer Center 321 in October.



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