Proposed Honours Topics 2006

**Supervisor: Pascal Nguyen**

Recent empirical research has found a significant increase in idiosyncratic return volatility (and drop in synchronicity). The hypothesis is that firms have become more focused and therefore efficient (Campbell et al, JF2001)

The objective of this research will be investigate the link between idiosyncratic risk and value creation. For that purpose, the student will have to construct a sample of mergers and acquisitions, calculate the abnormal return around the announcement date, calculate the change in the risk components (systematic, idiosyncratic), evaluate the strength of the relationship, provide a rationale for the results, examine the change in accounting-based performance measures

Competencies involved: SDC Mergers database, Datastream stock prices and financial information; Decomposition of risk with market model and Fama-French (1993) model

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**Supervisor: Peter Swan**

1. Market microstructure and the design of stock markets-particularly from a transparency-opacity aspect. This project is supported by the Australian Research Council. Could be theoretical or empirical, or both. Data base is for 33 exchanges with nearly two million daily observations constructed from intraday data

2. Asset pricing and illiquidity. Possible theoretical extensions of the Swan model and new empirical tests.

3. Impact of the recent decision by the ASX to abolish the provision of the identity of the broker to other brokers prior to trade
execution-empirical microstructure study using SIRCA intraday data.

4. Impact on performance and pay of executive incentives for Australian managers using a new/exclusive database on managerial pay for the top 500 Australian companies.

5. Why do larger firms pay executives more? While this has been known for nearly 100 years the reasons for it are not well understood. A new theoretical model has been developed and a series of empirical tests need to be carried out using an exceedingly detailed US database with over 100,000 executive years of data.

6. Funds management issues addressed in conjunction with David Gallagher and his unique daily Australian funds management database

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**Supervisors:  Peter Swan and Kingsley Fong**

Tax-Loss Selling and Institutional Trading

Details to be discussed with prospective student

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**Supervisor:  Vince Hooper**

Emerging Markets: Volatility and Integration

Details to be discussed with prospective student
Supervisor:  **David Gallagher**

Funds Management Topic in conjunction with Colonial First State Global Asset Management.

Details to be discussed with prospective student

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Supervisor:  **Julia Henker**

My general area of research interest is behavioural finance, and I would be happy to discuss any behavioural finance topic ideas with interested honours students. At the moment, my focus has been on order imbalance and asset prices.

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Supervisors:  **Julia Henker and Thomas Henker**

A series of papers out of Georgetown University shows some success in forecasting foreign exchange rates based on “information” derived from customer order flow. Currencies trade much more often, and prices are much more volatile, than there are changes in the fundamentals included in most currency pricing models. The same has been said for stocks. I would like apply a combination of results from the existing order imbalance literature for equities and from the Georgetown papers to develop and test our own model of stock prices based on order flow. The topic would require significant maths ability to read and interpret the models, and I anticipate that the student would have to have, or acquire, some programming ability in order to work with large data sets.
**Supervisor: Thomas Henker**

My areas of research interest are market microstructure, portfolio management and alternative investments. I would be happy to discuss any topic in these areas with interested honours students.

**Supervisors: Professor Philip Brown and Dr Sian Owen**

To investigate the relationship between corporate governance and firm performance, measured using accounting and share market variables. The aim is to develop a more comprehensive database of corporate governance attributes and an index of corporate governance "quality", as in Gompers et al. (2003) and Brown and Caylor (2004). An Australian study needs to be more comprehensive than the existing studies, in terms of method of measuring performance, sample of companies and time span covered. The key papers here are Gompers et al. (2003) and Brown and Caylor (2004) in the USA. In addition there is also an inconclusive Australian study by Linden and Matolcsy (2004), based on a very limited set of data relating to large firms only, whereas many corporate governance "problems" are believed to arise among the smaller listed companies. Interested students should contact Dr Sian Owen for more details.

**References:**


**Supervisors: Professor Philip Brown and Dr Sian Owen**

To investigate the relationship between corporate governance quality and the long-run investment performance of firms issuing shares. The fundamental idea is that better corporate governance will restrict managerial hubris, which is one possible explanation for the long run underperformance of firms that grow by issuing additional equity capital. A start on this project was made by Michael Cho but the dataset was too limited in time span and coverage of companies to be conclusive (a copy of his thesis can be obtained from Dr Sian Owen). The student who works on this project will co-operate with the student involved on the first project supervised by Professor Brown and Dr Owen (above) to develop a more comprehensive and reliable Australian database on the "quality" of Australian firms' corporate governance. The student will also be able to take advantage of the database of capital histories being assembled by research assistants working on the Brown-Owen-Walter ARC-funded project on the equity issue anomaly. Interested students should contact Dr Sian Owen for more details.

**References**


To investigate the relationship between changes in managerial compensation and firm performance in periods before and after large takeovers and mergers and acquisitions, measured using accounting and share market variables. Interested students should contact Dr Terry Walter for more details. Detailed disclosure of compensation payments (salary, bonuses, executive option grants etc) to senior managers in listed Australian firms have been provided for ASX listed firms since 1998. While the regulations in relation to disclosure have changed frequently over the years, the overall objective is to ensure accurate and consistent disclosure of a listed company's remuneration for its Directors and most highly-paid officers.

Generally, the remuneration report should include:

- remuneration details for each director and up to 10 executives who receive the highest remuneration
- discussion of board policy for determining remuneration of directors, secretaries and senior managers
- discussion of the relationship between such policy and the company’s performance
- discussion of any performance conditions that must be met by individual directors or executives
- an indication of the value of options and securities granted as part of the remuneration package.

This project will investigate whether executive compensation payments are affected by major M&A transactions. In particular the project will test to see if there is an association between increases in executive compensation and shareholder wealth creation, and whether CEO power influences compensation payments. Signal G can be used to identify compensation payments (if these data cannot be sourced from elsewhere), and SDC will be used to identify the M&A transactions.

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**Supervisors: Suk-Joong Kim & Eliza Wu**

Currency Volatility and Asian Financial Market Developments. In recent years, there has been much concern on the exchange rate policies adopted by export-reliant Asian economies, most notably in China. The aim of this project is to investigate the influence of currency volatility on the development and integration of capital markets in Asian countries. We will use both time-series and cross-sectional econometric techniques to investigate the potential relationships. This research will be important for both policy makers, investment managers and other financial market participants by adding to our knowledge on the fast-growing Asian region.

**Supervisor: Suk-Joong Kim**

Decoding the time varying effects of Bank of Japan’s Yen intervention. Bank of Japan (BOJ) is one of the remaining central banks that still conducts regular interventions in the foreign exchange market for a variety of reasons. A contentious issue has been to ascertain intervention effectiveness. It is shown in Kim (2006) that the BOJ’s interventions have been successful in moving Yen in the ‘right’ direction and reduce volatility. Furthermore, these intended effects are more visible during offshore (overnight) trading hours. This project will investigate this issue further by utilizing tick by tick quote data over 24-hour trading periods on intervention days with a view to identifying the intradaily patterns of Yen behaviour on the days on intervention.
Supervisor: Kathy Walsh

Long before the Fama French 3 factor model, the size premium was a well known asset pricing anomaly. However researchers trying to exploit this anomaly have reported negative returns (see Horowitz Loughran and Savin (2000), Dimson and Marsh (2001) and Roll (1994)). A relevant question for investors is whether we can identify the market conditions where the size premium is negative. The ex ante size premium can be directly tested as an inequality whilst conditioning on observable information. Identifying states where the premium is negative should lead to an economically significant trading rule.

Supervisor: Michael Aitken

Exploring the Relationship between the Efficiency and Integrity of Securities Markets.

Recent empirical research (Aitken and Siow, 2003) has found only a weak positive relationship between efficiency and integrity for a sample of 20 international securities markets casting doubt on the “received view” that markets that are more efficient (liquid) should be less prone to problems of insider trading and market manipulation.

This is a somewhat surprising result and the object of this proposed research is to explore whether the previous results are driven by differences in the nature of stocks listed on each exchange. For example, it may be that the larger numbers of relatively illiquid securities in some markets may drive some of the earlier results.

The objective of this research is to re-explore the hypothesis that there is a strong positive relationship between efficiency and integrity.

Competencies involved: Market microstructure background with and interest in issues such as insider trading and market manipulation.
The project seeks to investigate the economic disturbance theory of takeovers on Australian industries. Several papers have examined the impact that shocks (e.g., technology, energy, foreign competition) have on industry structure. These papers generally find that in response to shocks industries are more likely to restructure via takeovers and other forms of corporate restructuring. This project seeks to explain (1) what broad economic and specific industry factors help explain corporate restructuring in Australia; (2) what impact does corporate restructuring have within an industry, related industries and on rival firms; and (3) does corporate restructuring lead to efficiency gains within the industry or does it simply facilitate collusion.

The data on corporate restructuring will be sourced from SDC Platinum and data provided by the supervisors. The identification of firms/industries impacted by corporate restructuring will be sourced from Australian input-output (IO) accounts. IO accounts provide a detailed picture of the flows of products and services across firms (industries) and so provide a better understanding of firms (industries) affected by restructuring compared to standard industry classification schemes. Accounting and market-based data will be sourced from Aspect Financial and SIRCA.

**Supervisors: Kingsley Fong & Eliza Wu**

The Rise of Asian Bond Markets

The Asian Bond Fund (ABF) was first set up in July 2003 with seed funding from the reserves of eleven central banks and monetary authorities as a key policy initiative to stimulate the development of domestic debt markets in the Asian region. This project aims to assess the effects of the ABF on the development and performance of Asian Bond Markets. Specifically, we aim to examine whether the regional co-operative arrangements in developing Asian bond markets have significantly changed aspects like: bond market liquidity, volatility and spillovers, credit spreads and also bond market integration within the region and with world capital markets. The ABF is also expected to have catalytic effects on foreign institutional participation in Asian capital markets.

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**Supervisor: Kingsley Fong**

Extracting Information from Analyst Forecasts and Recommendations.

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**Supervisor: Jianxin Wang**

Measuring asymmetric information in financial markets (Market Microstructure)

Traditionally the level of information asymmetry is measured by trade variables, e.g. direction and size of transactions, time between trades, etc. However empirical evidence shows that these measures do not perform very well, i.e. they appear to be uncorrelated with other asymmetric information variables such as volatility and dispersion of earnings forecasts. This study proposes to construct a new measure that reflects information contained in high-frequency intraday trades as well as low-frequency accounting data.
The performance of the new measure will be investigated in comparison with existing measures.

**Supervisor: Jianxin Wang**

Asymmetric information in the foreign exchange markets

An honours student is required to extend the thesis of Carpenter (2002, first class honours with university medal) on heterogeneous agents in the foreign exchange markets. Details to be discussed with prospective students.

**Supervisors: Raymond Liu and Peter Pham**

The objective of this research is to extract the time-varying variance of the unobserved efficient return process through separating the variance of the unobserved microstructure noise based on the methodology proposed by Bandi and Russell (Journal of Financial Economics, forthcoming). Although this research project is empirically-driven, mathematical and statistical skills (particularly time-series econometrics) are necessary for the candidate to be capable to understand the relevant literature. We also expect the candidate to have basic programming skills to handle large dataset. Detail to be discussed with the prospective student.

**Supervisor: Zhian Chen**

Economic sources of gain in stock repurchases

Details to be discussed with prospective student
**Supervisor: Jerry Parwada and Alfred Yawson**

Back door listing involves private firms acquiring public listed companies. The acquisition gives them instant public exposure and listing on the stock exchange. The student will examine why firms choose this route to gain public exposure rather than the traditional IPO. The study will also examine the short and long-term performance of such firms.

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**Supervisor: Jonathan Reeves**

Topic: Volatility Forecasting

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**Supervisor: Jerry Parwada**

Feedback from analyst forecasts to firm operations: Evidence from the investment management industry

“Most line managers … scramble to redo budgets to reflect the new levels of earnings stipulated by senior management who are, in turn, driven by the earnings game they are involved in with Wall Street analysts”. (Jensen, 2003). In the large earnings management literature very little, if any, evidence exists on how financial firms alter their business unit-level operations in relation to published analyst forecasts on their earnings. In this project we attempt to fill this gap by examining the portfolio management operations of large investment management firms before and after the release of earnings forecasts. We seek evidence that the opinions of security analysts reliably influence managerial actions outside the accounting manipulations the literature alleges.
**Supervisor: David Feldman**

One of Robert J. Aumann, 2005 Nobel Laureate in Economics, seminal works/theorems investigates “Agreeing to Disagree.” Extensive research in financial economics pursued equilibria and partial equilibria under heterogeneous beliefs. In view of Aumann’s theorem, we would survey these works and ask whether agents are rational in holding heterogeneous beliefs. We will then characterize these equilibria.

**Supervisor: Donghui Li**

Topic I: Globalization, Diversification, and Firm Value
Details to be discussed with prospective student

Topic II: Post-IPO capital expenditure and market feedback
Details to be discussed with prospective student

**Supervisors: Vic Edwards and Ram Bhar**

1. Modeling corporate failure/performance of companies in Australia. Vic Edwards has special permission to use the Corporate Scorecard Group’s (CSG) Company Database 1989-2004 and also the UBS Warburg database 1989-98 for research and will be looking at a number of different evaluation methods from simple ratio approaches to Artificial Neural Networks and Fuzzy Networks. (viz. Altman, E and others). A/Professor Bhar will also be looking at a completely new model based upon Kalman Filtering (KF). This requires use of unobserved component model to capture time varying nature of the relevant predictors of default.
2. Analysing the relations between credit ratings and stock returns. This would involve using the ASX and SIRCA databases for stock information. From the abovementioned CSG database, students may also look at the relations between EVA and stock returns.

Interested students should make an appointment to discuss their proposal with A/Prof. Bhar or Vic Edwards.

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**Supervisors: Fariborz Moshirian**

- International Financial Services and Financial Markets Integration
- Bank stock prices and economic growth
- Forced CEO turnover and institutional ownership changes in Australia

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**Supervisor: Jason Zein**

Topic: Does Globalisation of Firms Destroy Value? - New Evidence

The growing prominence of multinational corporations has been a striking feature of the modern world economy. During the 1990s US corporations were responsible for approximately $66 billion of foreign direct investments. Moreover, in 1999, US multinationals owned and operated more than $1.1 trillion worth of assets abroad. The increased importance of the multinational corporation has drawn academic attention to analysing and understanding the distinctive characteristics of these types of firms. The focus of research in this regard has been, in the most part, to examine whether multinationalisation of firms creates value for shareholders. This question still remains to be convincingly addressed.
Many empirical studies on this topic have come to conflicting conclusions, some suggesting that globalisation is another example of an agency type 'empire building' problem and thus destroys value, while others suggest it creates value because firms are able to exploit their comparative advantages on global markets. All of these studies use data provided by the COMPUSTAT database to measure the extent of a firm's multinationalisation, which is limited in that it only reports a maximum of 4 foreign countries that a multinational might operate in. This carries potential biases because multinational firms can sometimes operate in up to 40 or more countries. This study will explore this question using new data obtained directly from companies’ annual reports that provides information on a corporation's true extent of globalisation.