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BOOK OF ABSTRACTS

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KEYNOTE SPEAKER

BOOMS AND BURSTS: IT IS LENDERS AND NOT THE INVESTORS

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ABSTRACT

The many recent crashes are always attributed to investors. Irrational exuberance, fraud, panic, as seen by investors try to explain the phenomenon. My Leverage Cycle Theory identifies the Lenders. Most investments are made by borrowed money and the Lenders have a bigger incentive to act when uncertainty goes up than the buyers do. The credit surface and the monetary policy should emphasize on the understanding by the central banks what effect their interventions in the riskless interest rate will have the whole credit surfaces.

Keywords: Booms, Bursts, Lenders, Investors

SYMPOSIASTS

GREEN INVESTMENT AND KANTIAN MORALITY

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Abstract

Responsible investment is on the rise and cannot be explained solely by standard utilitarian behaviour. Morality rules have already been applied to consumption and voluntary provision of public goods, but no attempts have been made at modelling moral investments. In this paper we develop a model of ethical investment driven by Kantian morality. We derive a first best (Pareto Efficient) asset pricing relation, which contains a pollution premium. This asset pricing relation is contrasted with those of Kantian equilibria, and the consequences for equilibrium pollution are shown. We also analyse the role of wealth inequality and preference heterogeneity on portfolio holdings. We show that when all investors (even if heterogeneous) are Kantian, the equilibrium is Pareto efficient, i.e. the externality is internalised. We next analyse the situation when only a fraction of the population is Kantian. Under Inclusive Kantianism the equilibrium may generate less pollution than what is Pareto Efficient, while under Exclusive Kantianism the equilibrium is characterised by excess pollution.

Keywords: Kantian morality, Pollution, Ethical investment, Asset Pricing

JEL classification: D62; D64; G11; G12

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ENVIRONMENTAL INCIDENTS AND SUSTAINABILITY PRICING‡

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Abstract

We investigate whether lenders employ sustainability pricing provisions to manage borrowers' environmental risk. Using unexpected negative environmental incidents of borrowers as exogenous shocks that reveal information on environmental risk, we find that lenders manage borrowers' environmental risk by conventional tools such as imposing higher interest rates, utilizing financial and net worth covenants, showing reluctance to refinance, and demanding increased collateral. In contrast, the inclusion of sustainability pricing provisions in loan agreements for high environmental risk borrowers is reduced by 10 percentage points. Our study suggests that sustainability pricing provisions may not primarily serve as risk management tools but rather as instruments to attract demand from institutional investors and facilitate secondary market transactions.

Keywords: Environmental Risk, Bank Monitoring, Sustainability Pricing Provisions, Institutional Investors

JEL classification: G21, G28, K21.

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Streitz, and seminar participants at the IWH. Declarations of interest: none.

CREATING AN ESG INDEX LINKING ESG EFFICIENCY AND FINANCIAL HEALTH: EVIDENCE FROM EUROPEAN FINANCIAL INSTITUTIONS

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Abstract

During previous studies we were led to the need to create an additional ESG performance indicator[1] for European banking institutions, which would link the data resulting from the annual ESG reports, with any irregularities and controversies for the period 2015-2021. Observing at Refinitiv's Earnings Quality Score as a measure of financial health, we would quantify the relationship between ESG performance and earnings quality in a sample of 61 listed banking institutions. The ESG Performance Index will be based on two pillar scores: the Refinitiv ESG Weighted Score (ESGW) and the ESG Combined Score (ESGC), which takes into account both positive and negative ESG factors. An additional finding established at the beginning of our research is that the ESG efficiency index introduced and used in this study accurately predicted the financial health of banking institutions. In particular, Credit Suisse received a low score based on the above index and it was subsequently found that it was one of the European banks that faced significant financial health problems, resulting in default. This suggests that the ESG performance index can be a valuable tool for predicting financial health in general, touching on other aspects of it such as default in the banking industry. Using panel data regression[2], we analyze and examine the relationship between ESG performance index and earnings quality. In this way we contribute to the understanding of how ESG policies and practices affect financial performance in the banking industry. Our findings may provide insights both for the same companies and managements who practice corporate governance and wish to improve

ESG performance, as well as in the event that they seek to attract sustainable long-term investors.

Keywords: ESG, ESG Controversies, ESG Efficiency, Financial Health, Earnings Quality, Panel Data Regression, European Banking Institutions, Refinitiv, ESG Weighted Score, ESG Combined Score, Credit Suisse, Default, Sustainable Investment.

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[1]An index combining environmental, social, and governance (ESG) factors to evaluate the ESG performance

[2] A statistical method used to analyze data that involves observations over a period of time for the same entities. It helps in identifying the effects that vary across entities and time.

PRODUCING AI INNOVATION AND ITS VALUE IMPLICATIONS

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Abstract

We document that artificial intelligence accounts for a significant and growing share of aggregate innovation produced during the past three decades, and is now diffuse across industries and technology fields. We then study publicly traded firms, finding that firms direct their production of innovation toward AI, motivated by their own, and their customers', labor's exposure to AI technology. We interact exogenously measured innovation capacity and AI exposure to instrument actual AI production. Our central findings are that producing AI increases a firm's future stock returns, supported by both higher profitability and lower risk. The results suggest that AI production increases firm value.

Keywords: Artificial Intelligence, Innovation, Technology Diffusion, Human Capital, Productivity, Firm value, Asset pricing, Corporate investment

JEL classification: G12, G31, G32, J21, J24, O31, O32, O33

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