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SAIF 上海高级金融学院
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China-Focused Academic Research by SAIF Faculty

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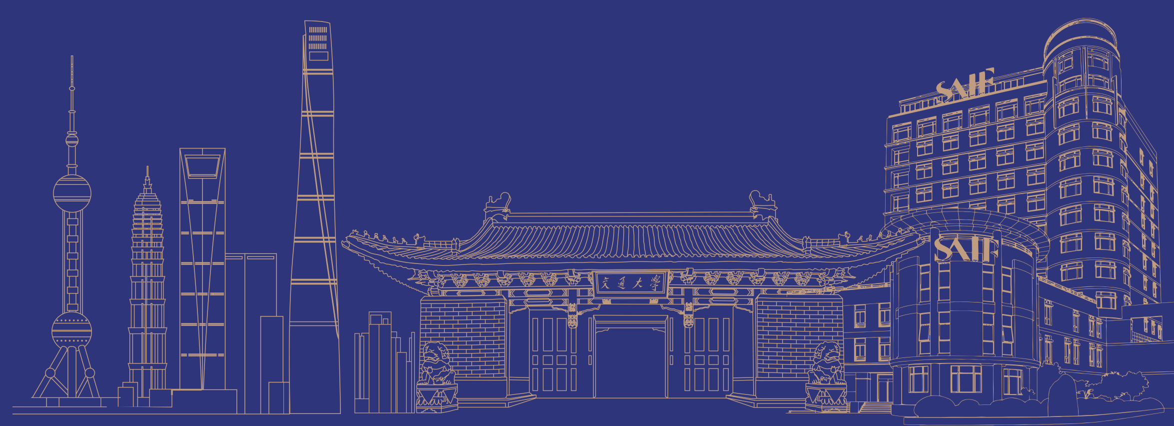

Published Papers

No.	Title	Author	Publication	Publication Year
1	Fintech Platforms and Mutual Fund Distribution	**Claire Yurong Hong**, Xiaomeng Lu, and **Jun Pan**	Management Science	2024
2	Gender and Bureaucratic Corruption: Evidence from Two Countries	Francesco Decarolis, Raymond Fisman, Paolo Pinotti, Silvia Vannutelli, and **Yongxiang Wang**	Journal of Law, Economics, and Organization	2023
3	SOEs and Soft Incentive Constraints in State Bank Lending	Yiming Cao, Raymond Fisman, Hui Lin, and **Yongxiang Wang**	American Economic Journal: Economic Policy	2023
4	Superstition and Risk Taking: Evidence from "Zodiac Year" Beliefs in China	Ray Fisman, Wei Huang, Bo Ning, Yue Pan, Jiaping Qiu, and **Yongxiang Wang**	Management Science	2023
5	The Effect of Government Reference Bonds on Corporate Borrowing Costs: Evidence from a Natural Experiment	Mark J. Flannery, **Claire Yurong Hong**, and Baolian Wang	Management Science	2023
6	The SOE Premium and Government Support in China's Credit Market	Zhe Geng and **Jun Pan**	Journal of Finance	2023
7	Transporting Transparency: Director Foreign Experience and Corporate Information Environment	Guanmin Liao, Mark (Shuai) Ma, and **Xiaoyun Yu**	Journal of International Business Studies	2022
8	Panda Games: Corporate Disclosure in the Eclipse of Search	Kemin Wang, **Xiaoyun Yu**, and Bohui Zhang	Management Science	2022
9	Air Pollution, Affect, and Forecasting Bias: Evidence from Chinese Financial Analysts	Rui Dong, Raymond Fisman, **Yongxiang Wang**, and Nianhang Xu	Journal of Financial Economics	2021

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10	Chinese Capital Market: An Empirical Overview	Grace Xing Hu, **Jun Pan**, and **Jiang Wang**	Critical Finance Review	2021
11	Hometown Ties and the Quality of Government Monitoring: Evidence from Rotation of Chinese Auditors	Jian Chu, Raymond Fisman, Songtao Tan, and **Yongxiang Wang**	American Economic Journal: Applied Economics	2021
12	Property Rights, Land Misallocation, and Agricultural Efficiency in China	Amalavoyal Chari, Elaine M. Liu, Shing-Yi Wang, and **Yongxiang Wang**	Review of Economic Studies	2021
13	The Externalities of Corruption: Evidence from Entrepreneurial Firms in China	Mariassunta Giannetti, Guanmin Liao, Jiaxing You, and **Xiaoyun Yu**	Review of Finance	2021
14	What Motivates Non-democratic Leadership: Evidence from COVID-19 Reopenings in China	Raymond Fisman, Hui Lin, Cong Sun, **Yongxiang Wang**, and Daxuan Zhao	Journal of Public Economics	2021
15	Social Ties and the Selection of China's Political Elite	Raymond Fisman, Jing Shi, **Yongxiang Wang**, and Weixing Wu	American Economic Review	2020
16	Access to Migration for Rural Households	Cynthia Kinnan, Shing-Yi Wang, and **Yongxiang Wang**	American Economic Journal: Applied Economics	2018
17	Social Ties and Favoritism in Chinese Science	Raymond Fisman, Jing Shi, **Yongxiang Wang**, and Rong Xu	Journal of Political Economy	2018
18	Something in the Air: Pollution and the Demand for Health Insurance	Tom Y. Chang, Wei Huang, and **Yongxiang Wang**	Review of Economic Studies	2018

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19	The Effect of Mandatory CSR Disclosure on Firm Profitability and Social Externalities: Evidence from China	Yi-Chun Chen, Mingyi Hung, and **Yongxiang Wang**	Journal of Accounting and Economics	2018
20	Value Creation and Value Capture in Governing Shareholder Relationships: Evidence from a Policy Experiment in an Emerging Market	Nan Jia, Jing Shi, and **Yongxiang Wang**	Strategic Management Journal	2018
21	Cultural Proximity and the Processing of Financial Information	Qianqian Du, Frank Yu, and **Xiaoyun Yu**	Journal of Financial and Quantitative Analysis	2017
22	The Distortionary Effects of Incentives in Government: Evidence from China's "Death Ceiling" Program	Raymond Fisman and **Yongxiang Wang**	American Economic Journal: Applied Economics	2017
23	The Dynamics of Political Embeddedness in China	Heather A. Haveman, Nan Jia, Jing Shi, and **Yongxiang Wang**	Administrative Science Quarterly	2017
24	The Mortality Cost of Political Connections	Raymond Fisman and **Yongxiang Wang**	Review of Economic Studies	2015
25	Corruption in Chinese Privatizations	Raymond Fisman and **Yongxiang Wang**	Journal of Law, Economics, and Organization	2015
26	The Brain Gain of Corporate Boards: Evidence from China	Mariassunta Giannetti, Guanmin Liao, and **Xiaoyun Yu**	Journal of Finance	2015

Published Papers

No.	Title	Author	Publication	Publication Year
27	Information from Relationship Lending: Evidence from Loan Defaults in China	**Chun Chang**, Guanmin Liao, **Xiaoyun Yu**, and Zheng Ni	Journal of Money, Credit and Banking	2014
28	Nationalism and Economic Exchange: Evidence from Shocks to Sino-Japanese Relations	Raymond Fisman, Yasushi Hamao, and **Yongxiang Wang**	Review of Financial Studies	2014
29	Coinsurance within Business Groups: Evidence from Related Party Transactions in an Emerging Market	Nan Jia, Jing Shi, and **Yongxiang Wang**	Management Science	2013
30	Privatization and Risk Sharing: Evidence from the Split Share Structure Reform in China	Kai Li, **Tan Wang**, Yan-Leung Cheung, and Ping Jiang	Review of Financial Studies	2011
31	Profiting from Government Stakes in a Command Economy: Evidence from Chinese Asset Sales	Charles W. Calomiris, Raymond Fisman, and **Yongxiang Wang**	Journal of Financial Economics	2010

Working Papers

No.	Title	Author	Version
1	Financial Inclusion via FinTech: From Digital Payments to Platform Investments	**Claire Yurong Hong**, Xiaomeng Lu, and **Jun Pan**	2024
2	The Pre-Announcement Drift in China: Government Meetings and Macro Announcements	**Jun Pan** and **Qing Peng**	2024
3	Social Priorities, Institutional Quality, and Investment	Amar Gande, Kose John, Guanmin Liao, Lemma Senbet, and **Xiaoyun Yu**	2024
4	Leveling Up Your Green Mojo: The Benefits of Beneficent Investment	Xiting Wu, Jiaxing You, **Xiaoyun Yu**, and Qing (Clara) Zhou	2024
5	Failure to Jettison: The Cost of Labor on the Path to Recovery	Guanmin Liao, **Xiaoyun Yu**, Yaya Yu, and Zihan Zhang	2024
6	Green Credit, TFP Heterogeneity and Resource Allocation	**Yushan Xu** and **Hong Yan**	2024
7	The Costs and Benefits of Clan Culture: Elite Control Versus Cooperation in China	Shuo Chen, Raymond Fisman, Xiaohuan Lan, **Yongxiang Wang**, and Qing Ye	2023
8	Predicting Mutual Fund Performance in China: A Machine Learning Approach	Zezhou Xu, **Hong Yan**, and **Chao Zi**	2023

Published Papers

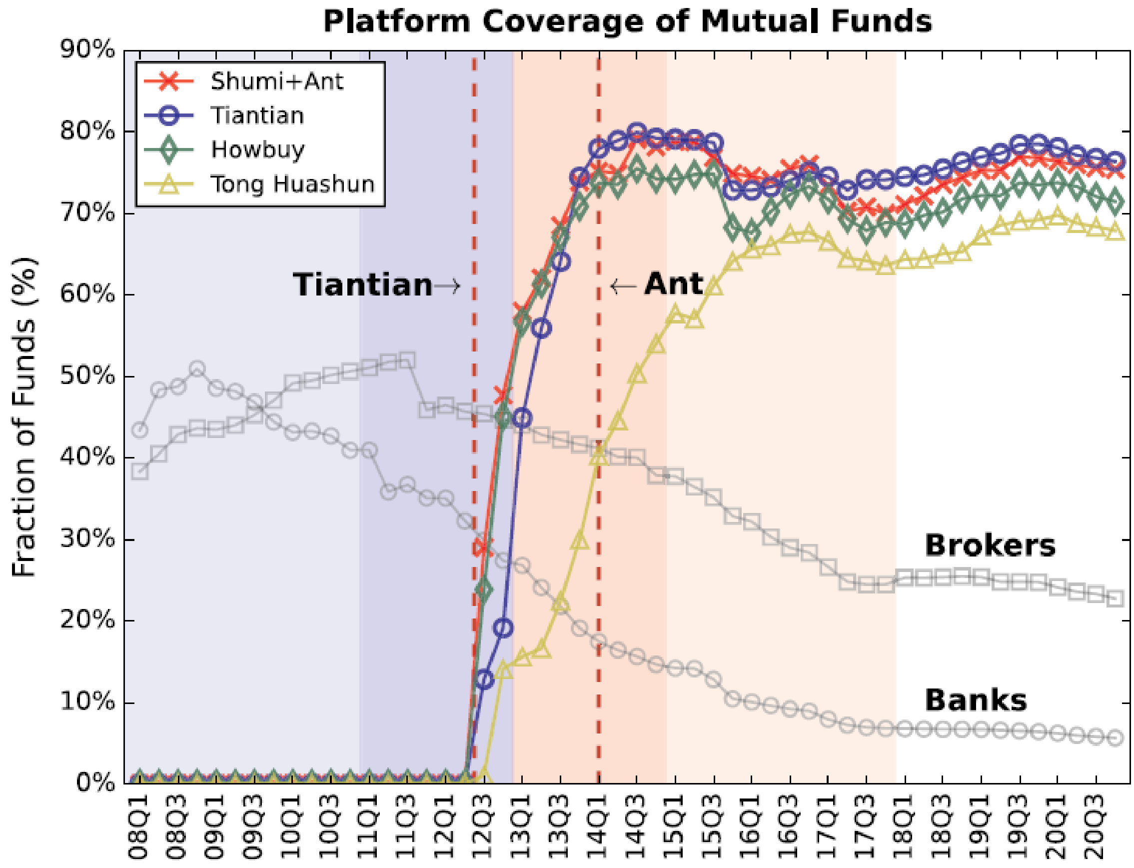
Fintech Platforms and Mutual Fund Distribution

Claire Yurong Hong, Xiaomeng Lu, and **Jun Pan**

Management Science, 2024

Abstract

We document a novel platform effect caused by the emergence of fintech platforms in the intermediation of financial products. In China, platform distributions of mutual funds emerged in 2012 and grew quickly into a formidable presence. Utilizing the staggered entrance of funds onto platforms, we find a marked increase of performance chasing driven by the centralized information flow unique to fintech platforms. This pattern is further confirmed using proprietary data from a top platform. Examining the platform impact on fund managers, we find that incentivized by the amplified performance chasing, fund managers increase risk-taking to enhance their probability of getting onto the top ranking.



Gender and Bureaucratic Corruption: Evidence from Two Countries

Francesco Decarolis, Raymond Fisman, Paolo Pinotti, Silvia Vannutelli, and **Yongxiang Wang**

Journal of Law, Economics, and Organization, 2023

Abstract

We examine the correlation between gender and bureaucratic corruption using two distinct datasets, from Italy and from China. In each case, we find that women are far less likely to be investigated for corruption than men. In our Italian data, female procurement officials are 22% less likely than men to be investigated for corruption by enforcement authorities; in China, female prefectural leaders are 81% less likely to be arrested for corruption than men. While these represent correlations (rather than definitive causal effects), both are very robust relationships, which survive the inclusion of fine-grained individual and geographic controls, and based on Oster's (2019. "Unobservable Selection and Coefficient Stability: Theory and Evidence, " 37 Journal of Business & Economic Statistics 187-204.) test unlikely to be driven by unobservables. Using data from a survey of Italian procurement officials, we present tentative evidence on mechanism: the gender gap is partly due to women acting more "defensively" in administering their duties.

SOEs and Soft Incentive Constraints in State Bank Lending

Yiming Cao, Raymond Fisman, Hui Lin, and **Yongxiang Wang**

American Economic Journal: Economic Policy, 2023

Abstract

We study how Chinese state bank managers' lending incentives impact lending to state-owned enterprises (SOEs). We show lending quantity increases and quality decreases at month's end, indicating monthly lending targets that decrease lending standards. Increased quantity comes from both SOEs and private lending, whereas decreased quality is from only SOEs, which continue to receive loans even after prior defaults (particularly at month's end). We suggest that SOE lending may thus be beneficial for state bank managers, who lend to delinquent state enterprises to meet targets, which in turn may exacerbate SOEs' soft budget constraints.

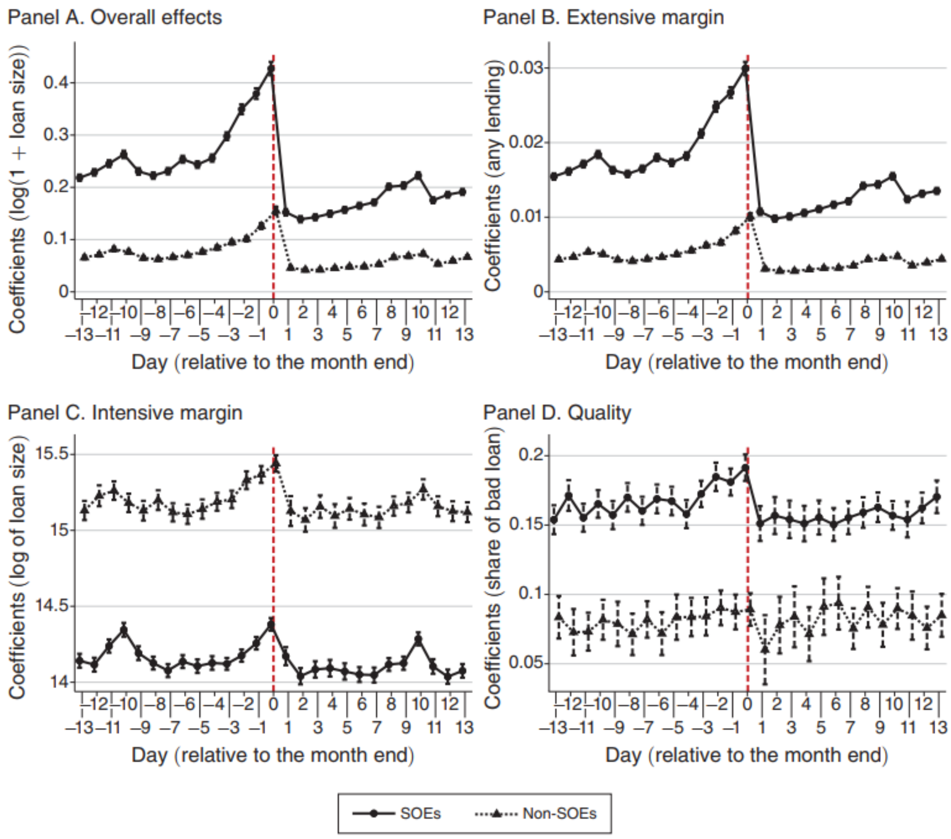


FIGURE 4. SOE vs NON-SOE FIRMS, COEFFICIENTS PLOTS

Superstition and Risk Taking: Evidence from "Zodiac Year" Beliefs in China

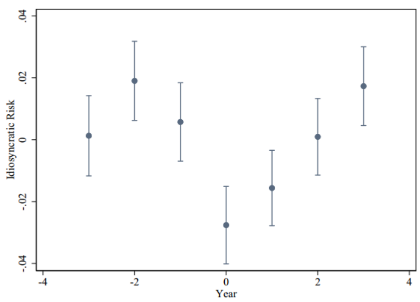
Ray Fisman, Wei Huang, Bo Ning, Yue Pan, Jiaping Qiu, and **Yongxiang Wang**

Management Science, 2023

Abstract

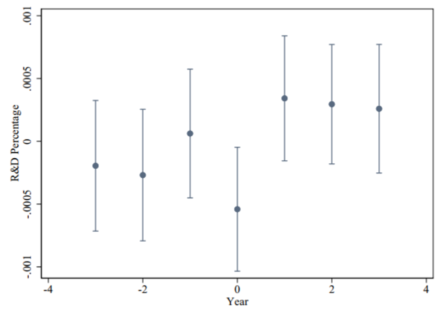
We show that superstitions—beliefs without scientific grounding—impact the investment and risk-taking of Chinese firms. We focus on widely held beliefs in bad luck during one's "zodiac year," which occurs on a 12-year cycle around a person's birth year, to study superstitions and risk taking. We first show a direct correspondence between zodiac year and risk taking via survey data: respondents are two percentage points more likely to favor no-risk investments if queried during their zodiac year. Turning to corporate decision making, we find that return volatility declines in the chairman's zodiac year, suggesting a reduction in risk taking overall. Focusing on specific types of risk taking, investment in R&D and corporate acquisitions both decline during the chairman's zodiac year; returns around acquisition announcements are also lower, suggesting real allocative consequences of zodiac year beliefs.

Figure 1. Event Plot Illustrating the Relationship Between Chairman Zodiac Year and Idiosyncratic Risk



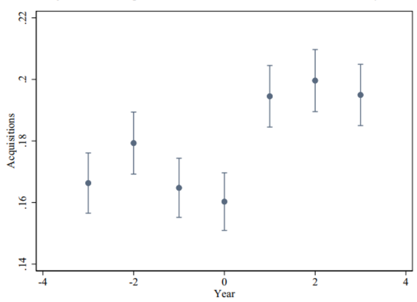
Notes. This figure shows the mean value of industry-adjusted logged idiosyncratic risk for non-SOE firms listed on the Shanghai and Shenzhen stock exchanges for the years 2007–2019 as a function of the chairman's zodiac year. The horizontal axis reflects years relative to the chairman's zodiac year. The markers at each year reflect the mean value of industry-adjusted idiosyncratic risk, and the "whiskers" denote 95% confidence intervals.

Figure 2. Event Plot Illustrating the Relationship Between Chairman Zodiac Year and R&D Investment



Notes. This figure shows the mean value of industry-adjusted R&D for non-SOE firms listed on the Shanghai and Shenzhen stock exchanges for the years 2007–2019 as a function of the chairman's zodiac year. The horizontal axis reflects years relative to the chairman's zodiac year. The markers at each year reflect the mean value of industry-adjusted R&D investment, and the "whiskers" denote 95% confidence intervals.

Figure 3. Event Plot Illustrating the Relationship Between Chairman Zodiac Year and M&A Activity



Notes. This figure shows the mean fraction of firms engaging in M&A activity for non-SOE firms listed on the Shanghai and Shenzhen stock exchanges for the years 2007–2019 as a function of the chairman's zodiac year. The horizontal axis reflects years relative to the chairman's zodiac year. The markers at each year reflect the mean value of the fraction of firms engaging in M&A activity in a given year, and the "whiskers" denote 95% confidence intervals.

The Effect of Government Reference Bonds on Corporate Borrowing Costs: Evidence from a Natural Experiment

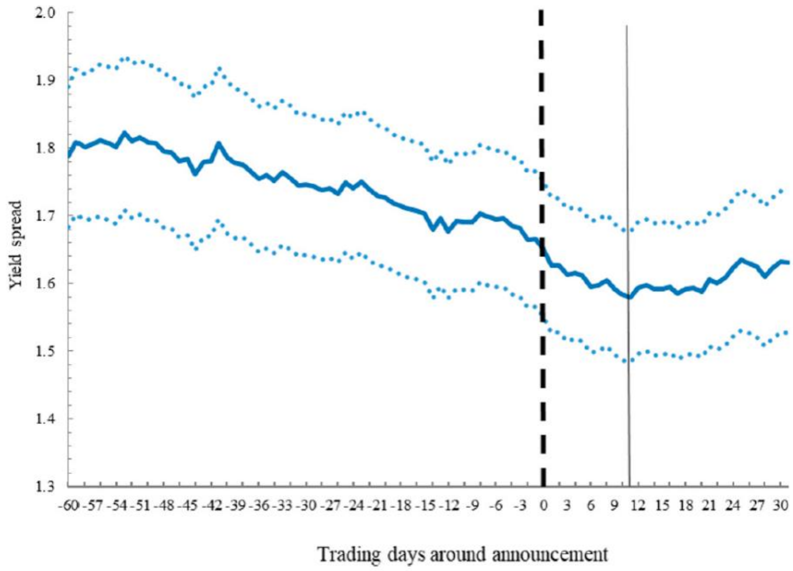
Mark J. Flannery, **Claire Yurong Hong**, and Baolian Wang

Management Science, 2023

Abstract

Government bonds might provide reference entities that reduce corporate bond yields. We study China's 2017 issuance of two U.S. dollar (USD)-denominated sovereign bonds when there were (effectively) no outstanding USD sovereigns. We find that Chinese corporate USD bonds experienced a four- to nine-basis-point decline in yield spreads, whereas corporate renminbi (RMB) bonds did not. The effect was stronger for corporate bonds with maturities similar to those of the USD sovereigns. Further consistent with the reference effect, USD-denominated corporate bonds experienced declines in bid-ask spreads and volatility; corporate bond yield spread changes became more sensitive to sovereign yield innovations; and the less-informed foreign mutual funds significantly increased their holdings of offshore USD Chinese corporate bonds. Limited evidence indicates that new corporate bond maturities shifted toward the sovereign bonds' maturity after their issuance.

Figure 1. (Color online) Yield Spread Changes on Chinese Corporate Bonds



The SOE Premium and Government Support in China's Credit Market

Zhe Geng and **Jun Pan**

Journal of Finance, 2023

Abstract

Studying China's credit market using a structural default model that integrates credit risk, liquidity, and bailout, we document improved price discovery and deepening divide between state-owned enterprises (SOEs) and non-SOEs. Amidst liquidity deterioration, the presence of government bailout helps alleviate the heightened liquidity-driven default, making SOE bonds more valuable and widening the SOE premium. Meanwhile, the increased importance of government support makes SOEs more sensitive to bailout, while the heightened default risk increases non-SOEs' sensitivity to credit quality. Examining the real impact, we find severe performance deteriorations of non-SOEs relative to SOEs, reversing the long-standing trend of non-SOEs outperforming SOEs.

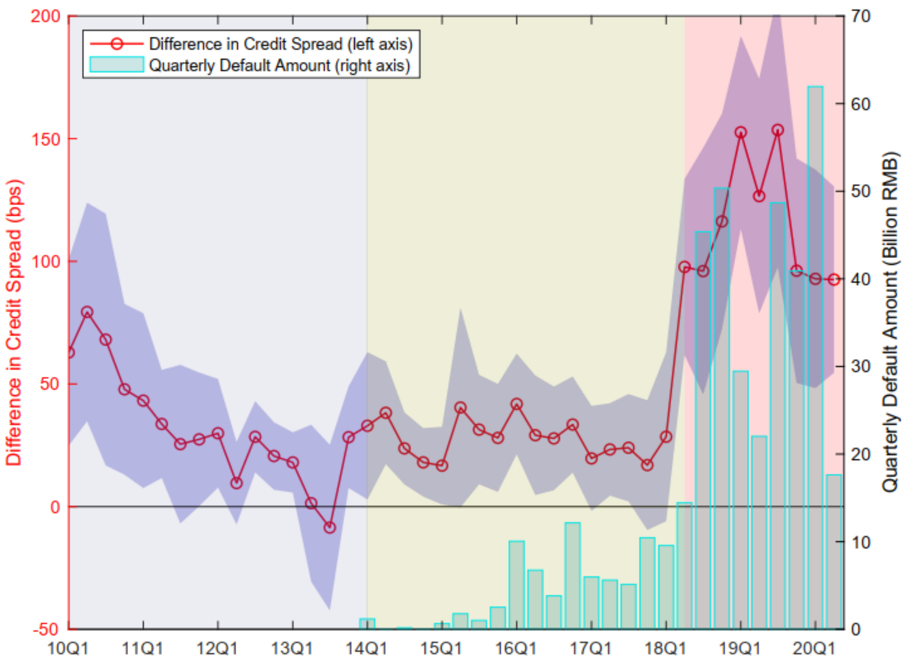


Figure 1. The SOE premium. This figure plots the difference between listed non-SOEs and listed SOEs in credit spread (left axis), estimated using quarterly regressions, controlling for credit ratings and other bond and firm characteristics. The shaded area indicates the 95% confidence intervals. Also reported are the total quarterly default amounts in the credit market (right axis). (Color figure can be viewed at wileyonlinelibrary.com)

Transporting Transparency: Director Foreign Experience and Corporate Information Environment

Guanmin Liao, Mark (Shuai) Ma, and **Xiaoyun Yu**

Journal of International Business Studies, 2022

Abstract

Using hand-collected data and exploiting a natural experiment in China, we show that directors with foreign experience improve corporate transparency in emerging markets. The positive effect of these directors manifests itself if their experience originates from countries with high disclosure quality, if they reach a critical mass at the board, or if they serve on the audit committee. When exploring potential channels, we find that earnings transparency and voluntary disclosure increase after firms hire directors with foreign experience. Furthermore, after interacting with returnee directors, directors without foreign experience are more likely to dissent on management proposals; transparency also propagates to other firms with which they hold board seats. These findings highlight the role of board diversity in shaping transparency and facilitating governance transfer within boardrooms and across firms.

Panda Games: Corporate Disclosure in the Eclipse of Search

Kemin Wang, **Xiaoyun Yu**, and Bohui Zhang

Management Science, 2022

Abstract

We show that firms strategically alter their disclosures when investors' access to information via search engines is interrupted. We conduct a textual analysis and exploit an exogenous event—Google's 2010 surprising withdrawal from mainland China, which significantly hampered domestic investors' ability to search for foreign information but did not affect their cost to access domestic information. Following Google's exit, Chinese firms' announcements on foreign transactions become more bullish relative to domestic transactions. Optimism in disclosure is especially rosy if the press releases are conveying negative news or are issued by poorly governed firms. This effect is mitigated in the presence of foreign investors or analysts affiliated with foreign brokers who are not subject to foreign information censorship by the government. The increase in search cost also appears to leave domestic news media and financial analysts more vulnerable to the influence of corporate disclosure. These optimistic announcements allow insiders to harvest higher returns from selling their shares and are associated with a higher likelihood of corporate misconduct.

Air Pollution, Affect, and Forecasting Bias: Evidence from Chinese Financial Analysts

Rui Dong, Raymond Fisman, **Yongxiang Wang**, and Nianhang Xu

Journal of Financial Economics, 2021

Abstract

We document a negative relation between air pollution during corporate site visits by investment analysts and subsequent earnings forecasts. After accounting for analyst, weather, and firm characteristics, an extreme worsening of air quality from "good/excellent" to "severely polluted" is associated with a more than 1 percentage point lower profit forecast, relative to realized profits. We explore heterogeneity in the pollution-forecast relation to understand better the underlying mechanism. Pollution only affects forecasts that are announced in the weeks immediately following a visit, indicating that mood likely plays a role, and the effect of pollution is less pronounced when analysts from different brokerages visit on the same date, suggesting a debiasing effect of multiple perspectives. Finally, there is suggestive evidence of adaptability to environmental circumstances—forecasts from analysts based in high pollution cities are relatively unaffected by site visit pollution.

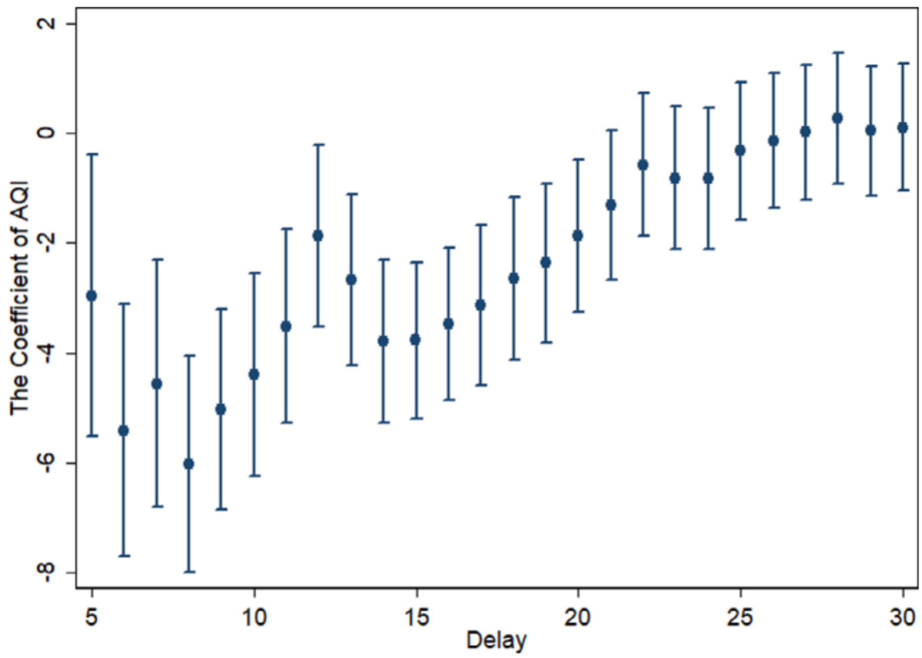


Fig. 1. The attenuating effect of forecast delay. This figure shows how the coefficient estimates of *AQI* vary as a function of the number of days between analyst site visits and subsequent earnings forecasts. Each circle indicates the point estimate from Eq. (1), including the full set of controls, and includes all forecasts issued up to and including *d* days after the site visit, where *d* ranges from 5 to 30. The whiskers show the 95 percent confidence interval of each coefficient estimate.

Chinese Capital Market: An Empirical Overview

Grace Xing Hu, **Jun Pan**, and **Jiang Wang**

Critical Finance Review, 2021

Abstract

The Chinese capital market, despite its relative short history in its modern form, has experienced a tremendous growth and is now the second largest in the world. Due to China's tight capital controls, the development of its capital market has mostly been isolated from and hence not been well understood by the rest of the world. Yet, this state of isolation is bound to change substantially as China becomes more integrated into the global financial system. In this paper, we provide an empirical overview of the Chinese capital market: its structure, development and main empirical characteristics.

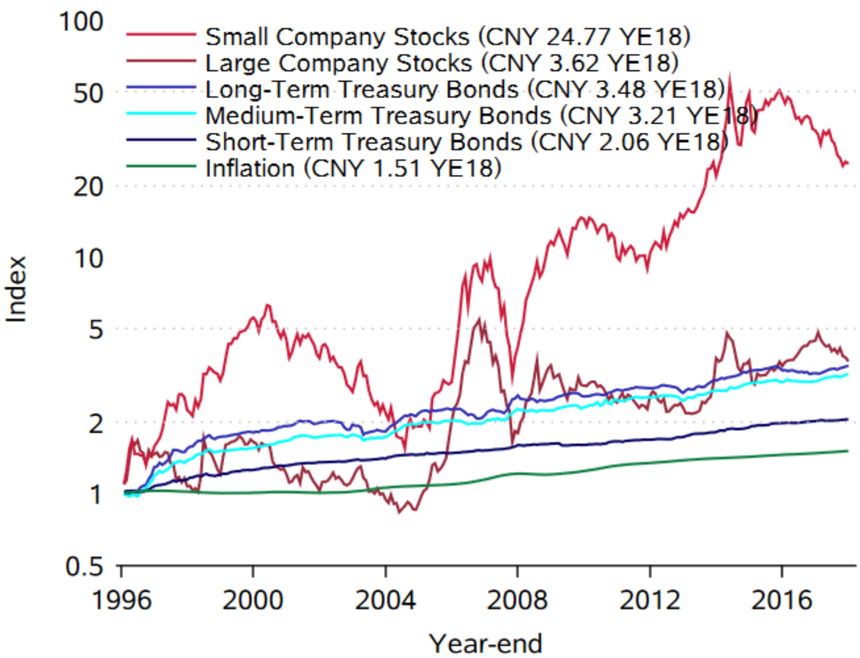


Figure 2.2: Wealth indexes of Investments in the Chinese Capital Market (Year-End 1996 = CNY 1.00)

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Hometown Ties and the Quality of Government Monitoring: Evidence from Rotation of Chinese Auditors

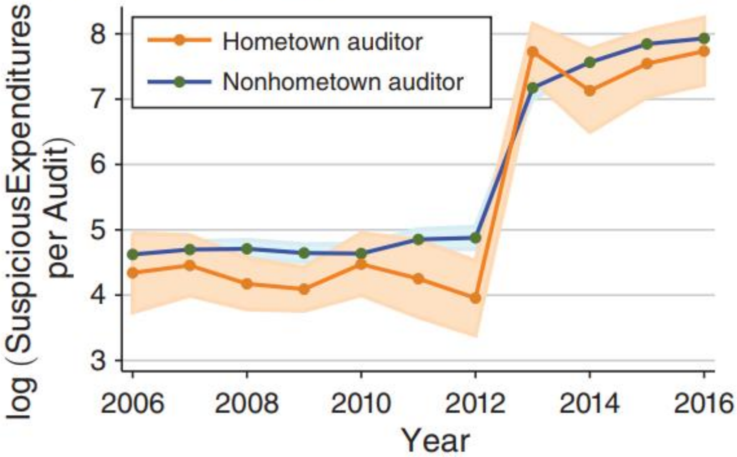
Jian Chu, Raymond Fisman, Songtao Tan, and **Yongxiang Wang**

American Economic Journal: Applied Economics, 2021

Abstract

Audits are a standard mechanism for reducing corruption in government investments. The quality of audits themselves, however, may be affected by relationships between auditor and target. We study whether provincial chief auditors in China show greater leniency in evaluating prefecture governments in their hometowns. In city-fixed-effect specifications—in which the role of shared background is identified from auditor turnover—we show that hometown auditors find 38 percent less in questionable monies. This hometown effect is similar throughout the auditor's tenure and is diminished for audits ordered by the provincial Organization Department as a result of the departure of top city officials. We argue that our findings are most readily explained by leniency toward local officials rather than an endogenous response to concerns of better enforcement by hometown auditors. We complement these city-level findings with firm-level analyses of earnings manipulation by state-owned enterprises (SOE) via real activity manipulation (a standard measure from the accounting literature), which we show is higher under hometown auditors.

Panel C. The average of log(SuspiciousExpenditures per Audit) across years for hometown versus nonhometown auditors



Property Rights, Land Misallocation, and Agricultural Efficiency in China

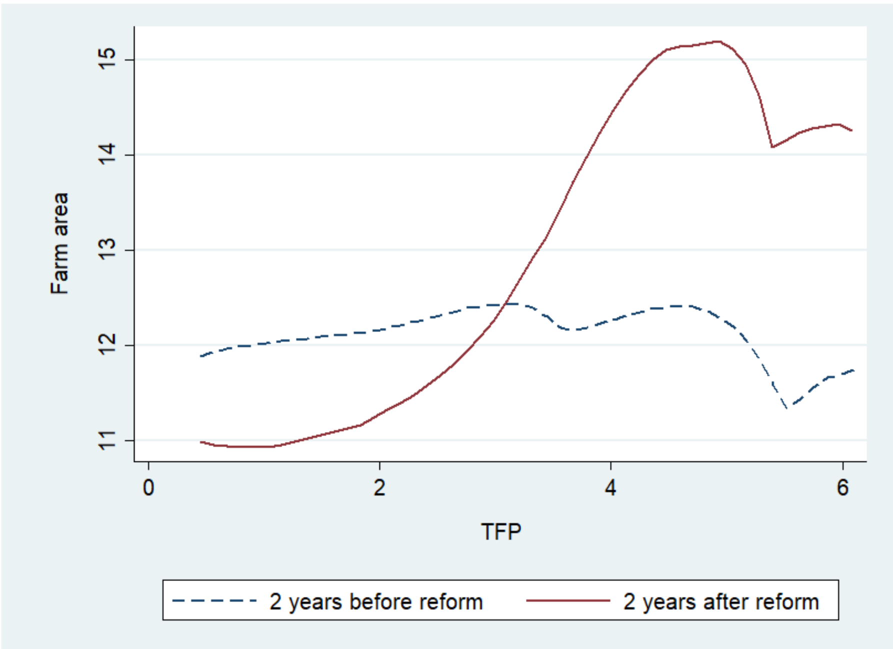
Amalavoyal Chari, Elaine M. Liu, Shing-Yi Wang, and **Yongxiang Wang**

Review of Economic Studies, 2021

Abstract

This article examines the impact of a property rights reform in rural China that allowed farmers to lease out their land. We find the reform led to increases in land rental activity in rural households. Our results indicate that the formalization of leasing rights resulted in a redistribution of land toward more-productive farmers. Consequently, output and aggregate productivity increased by 8% and 10%, respectively. We also find that the reform increased the responsiveness of land allocation across crops to changes in crop prices.

Figure 3b: Distribution of Land Cultivated (in mu) by Farmer TFP Before and After the Reform



The Externalities of Corruption: Evidence from Entrepreneurial Firms in China

Mariassunta Giannetti, Guanmin Liao, Jiaxing You, and **Xiaoyun Yu**

Review of Finance, 2021

Abstract

Exploiting China's anti-corruption campaign, we show that following a decrease in corruption, firm performance improves. Small and young firms benefit more. We identify the channels through which corruption hampers firm performance. Following the anti-corruption campaign, the allocation of capital and labor becomes more efficient. Firms operating in *ex ante* more corrupt environments experience larger productivity gains, higher growth of sales, and lower cost of debt than other firms. Taken together, our results suggest that corruption is an inefficient equilibrium for an economy because it creates negative externalities.

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What Motivates Non-democratic Leadership: Evidence from COVID-19 Reopenings in China

Raymond Fisman, Hui Lin, Cong Sun, **Yongxiang Wang**, and Daxuan Zhao

Journal of Public Economics, 2021

Abstract

We examine Chinese cities' COVID-19 reopening plans as a window into governments' economic and social priorities. We measure reopenings based on official government news announcements, and show that these are predicted by citizen discontent, as captured by Baidu searches for terms such as "unemployment" and "protest" in the prior week. The effects are particularly strong early in the epidemic, indicating a priority on initiating economic recovery as early as possible. These results indicate that even a non-democratic government may respond to citizen concerns, possibly to minimize dissent.

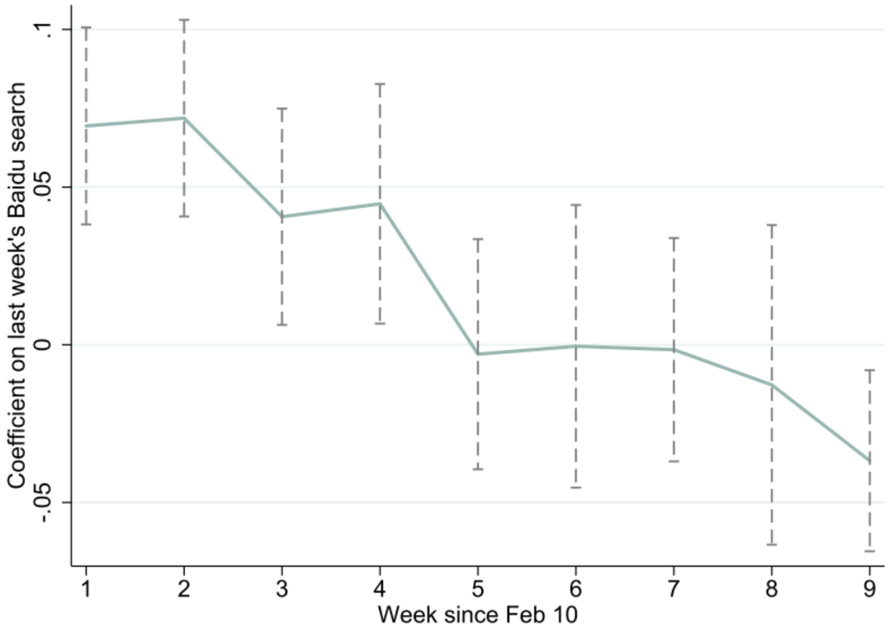


Fig. 1. The timing of the relationship between dissent-related keyword searches and reopening announcements. Notes: This figure shows the coefficients from a regression that relates week-by-week Baidu keyword searches to government newspaper reopening articles. Each point indicates the point estimate from a variant on Eq. (2) that allows the coefficient to vary by week. The whiskers show the 95 percent confidence interval of each coefficient estimate. See text for additional details.

Social Ties and the Selection of China's Political Elite

Raymond Fisman, Jing Shi, **Yongxiang Wang**, and Weixing Wu

American Economic Review, 2020

Abstract

We study how sharing a hometown or college connection with an incumbent member of China's Politburo affects a candidate's likelihood of selection as a new member. In specifications that include fixed effects to absorb quality differences across cities and colleges, we find that hometown and college connections are each associated with 5-9 percentage point reductions in selection probability. This "connections penalty" is equally strong for retiring Politburo members, arguing against quota-based explanations, and it is much stronger for junior Politburo members, consistent with a role for intra-factional competition. Our findings differ from earlier work because of our emphasis on within-group variation, and our focus on shared hometown and college—rather than shared workplace—connections.

Access to Migration for Rural Households

Cynthia Kinnan, Shing-Yi Wang, and **Yongxiang Wang**

American Economic Journal: Applied Economics, 2018

Abstract

This paper exploits a unique feature of China's history, the "sent-down youth" (SDY) program, to study the effects of access to internal migration. We show that temporary migration due to the SDY program created lasting inter-province links. We interact these links with two time-varying pull measures in potential destinations. Decades after the SDY program ended, increased access to migration in cities that sent SDY leads to higher rates of migration from provinces where those SDY temporarily resided. We find that improved access to migration leads to lower consumption volatility and lower asset holding. Furthermore, household production shifts into high-risk, high-return activities.

Social Ties and Favoritism in Chinese Science

Raymond Fisman, Jing Shi, **Yongxiang Wang**, and Rong Xu

Journal of Political Economy, 2018

Abstract

We study favoritism via hometown ties, a common source of favor exchange in China, in fellow selection of the Chinese Academies of Sciences and Engineering. Hometown ties to fellow selection committee members increase candidates' election probability by 39 percent, coming entirely from the selection stage involving an in-person meeting. Elected hometown-connected candidates are half as likely to have a high-impact publication as elected fellows without connections. CAS/CAE membership increases the probability of university leadership appointments and is associated with a US$9.5 million increase in annual funding for fellows' institutions, indicating that hometown favoritism has potentially large effects on resource allocation.

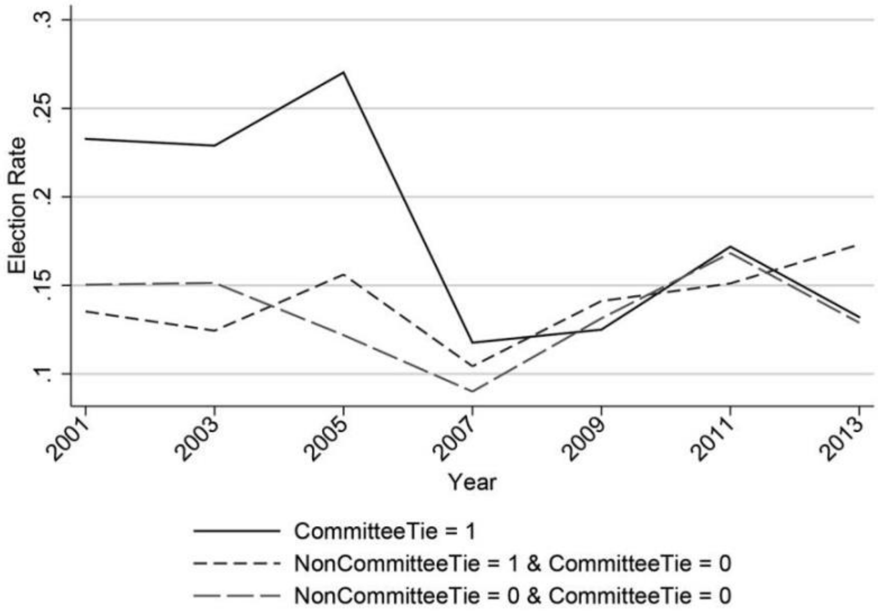


FIG. 1.—Hometown ties and candidate election rates over time. Each line provides the fraction of nominees elected to the CAS/CAE, disaggregated on the basis of whether they have ties to fellows in the department of their nomination. The connections that characterize each group are provided in the figure legend.

Something in the Air: Pollution and the Demand for Health Insurance

Tom Y. Chang, Wei Huang, and **Yongxiang Wang**

Review of Economic Studies, 2018

Abstract

We find that daily air pollution levels have a significant effect on the decision to purchase or cancel health insurance in a manner inconsistent with rational choice theory. A one standard deviation increase in daily air pollution leads to a 7.2% increase in the number of insurance contracts sold that day. Conditional on purchase, a one standard deviation decrease in air pollution during the cooling-off (i.e. cost-free cancellation) period relative to the order-date level increases the return probability by 4.0%. We explore a range of potential mechanism and find the most support for projection bias and salience.

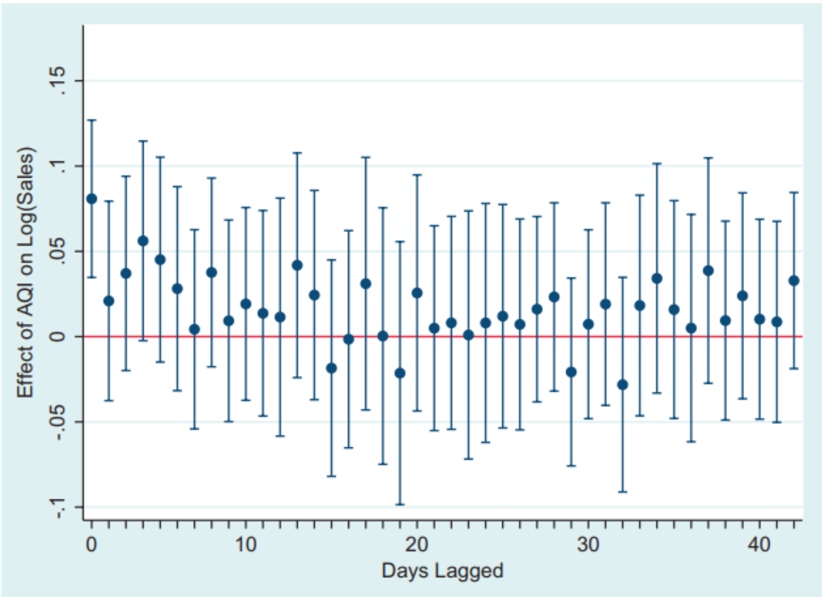


FIGURE 4

Coefficient values and 95% confidence intervals for the effect of contemporaneous and lagged AQI/100 on daily insurance sales.

The Effect of Mandatory CSR Disclosure on Firm Profitability and Social Externalities: Evidence from China

Yi-Chun Chen, Mingyi Hung, and **Yongxiang Wang**

Journal of Accounting and Economics, 2018

Abstract

We examine how mandatory disclosure of corporate social responsibility (CSR) impacts firm performance and social externalities. Our analysis exploits China's 2008 mandate requiring firms to disclose CSR activities, using a difference-in-differences design. Although the mandate does not require firms to spend on CSR, we find that mandatory CSR reporting firms experience a decrease in profitability subsequent to the mandate. In addition, the cities most impacted by the disclosure mandate experience a decrease in their industrial wastewater and SO_2 emission levels. These findings suggest that mandatory CSR disclosure alters firm behavior and generates positive externalities at the expense of shareholders.

Value Creation and Value Capture in Governing Shareholder Relationships: Evidence from a Policy Experiment in an Emerging Market

Nan Jia, Jing Shi, and **Yongxiang Wang**

Strategic Management Journal, 2018

Abstract

Research Summary: Protecting minority shareholders is a central issue in corporate governance. A common tool of empowering minority shareholders is to curb controlling shareholders' power of expropriating firm value, but this approach was rarely successful because of the resistance from powerful controlling shareholders. We examine an alternative way of empowering minority shareholders without directly fighting with controlling shareholders. A major corporate governance reform in China gave minority shareholders a decision right over certain actions that affected the creation of firm value. We demonstrate that the greater the extent to which minority shareholders' actions can influence the firm's value *ex post*, the more value controlling shareholders concede to minority shareholders *ex ante*. This effect becomes even stronger when controlling shareholders are able to expropriate a larger portion of firm value.

Managerial Summary: Minority shareholders often have to contend with excessive extraction of firm value by powerful controlling shareholders, particularly in emerging markets. When this tension is considered as a zero-sum game in which every gain to controlling shareholders has to come from a loss to minority shareholders, controlling shareholders strongly resist any effort to empower minority shareholders. We propose an alternative approach to empower minority shareholders. A major reform of Chinese listed firms bestowed on minority shareholders decision rights to take certain actions that could *ex post* create a larger "pie" (firm value) for all shareholders. We find that controlling shareholders give away greater value *ex ante* to minority shareholders to induce more of these actions. Consequentially, minority shareholders are more effectively empowered when they can affect firm value.

Cultural Proximity and the Processing of Financial Information

Qianqian Du, Frank Yu, and **Xiaoyun Yu**

Journal of Financial and Quantitative Analysis, 2017

Abstract

This paper examines how culture affects information asymmetry in financial markets. We extract firms traded in the United States but headquartered in regions sharing Chinese culture (Chinese firms), and we manually identify a group of U.S. analysts of Chinese ethnic origin (Chinese analysts). We find that Chinese analysts issue more accurate forecasts on Chinese firms than non-Chinese analysts. The effect is stronger among firms with less transparent information environments. Further evidence suggests that cultural proximity can go beyond language commonality and analysts' pre-existing channels for information. Market reaction is stronger when Chinese analysts issue favorable forecast revisions or upgrades about Chinese firms.

The Distortionary Effects of Incentives in Government: Evidence from China's "Death Ceiling" Program

Raymond Fisman and **Yongxiang Wang**

American Economic Journal: Applied Economics, 2017

Abstract

We study a 2004 program designed to motivate Chinese bureaucrats to reduce accidental deaths. Each province received a set of "death ceilings" that, if exceeded, would impede government officials' promotions. For each category of accidental deaths, we observe a sharp discontinuity in reported deaths at the ceiling, suggestive of manipulation. Provinces with safety incentives for municipal officials experienced larger declines in accidental deaths, suggesting complementarities between incentives at different levels of government. While realized accidental deaths predict the following year's ceiling, we observe no evidence that provinces manipulate deaths upward to avoid ratchet effects in the setting of death ceilings.

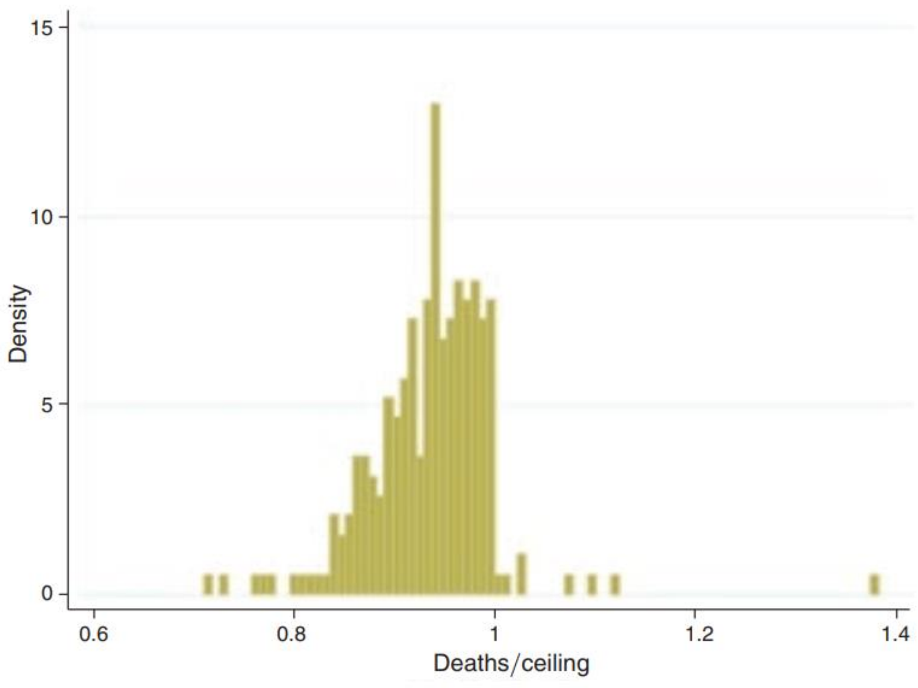


FIGURE 1. HISTOGRAM FOR $Deaths_{cpy}/Ceiling_{cpy}$ FOR OVERALL PROVINCE-YEAR LEVEL ACCIDENTAL DEATHS

The Dynamics of Political Embeddedness in China

Heather A. Haveman, Nan Jia, Jing Shi, and **Yongxiang Wang**

Administrative Science Quarterly, 2017

Abstract

Economic transitions in countries that move from state planning and redistribution to market exchange create business opportunities but also uncertainty, because many interdependent factors—modes of exchange, types of products, and forms of organizations—are in flux. Uncertainty is even greater when the country's political institutions remain authoritarian because the rule of law is weak and state bureaucrats retain power over the economy. This study of listed firms in China, which has recently seen economic transition but persistent authoritarianism, shows that in such contexts, firms can reduce uncertainty by developing relationships with state bureaucrats, which help firms learn how state bureaucracies operate and engender trust between firms and bureaucrats. Together, knowledge and trust stabilize operations and help persuade bureaucrats to lighten regulatory burdens, grant firms access to state-controlled resources, and improve government oversight. Our results show that as economic transitions proceed and uncertainty increases, business-state ties increasingly improve firm performance. We also investigate two likely contingencies, industry and firm size, and two important causal mechanisms, access to bank loans and protection from related-party loans, and show that the value of business-state relations varies over time, depending on the trajectory of both economic and political institutions.

The Mortality Cost of Political Connections

Raymond Fisman and **Yongxiang Wang**

Review of Economic Studies, 2015

Abstract

We study the relationship between the political connections of Chinese firms and workplace fatalities. In our preferred specification, we find that the worker death rate for connected companies is two to three times that of unconnected firms (depending on the sample employed), a pattern that holds for within-firm estimations. The connections-mortality relationship is attenuated in provinces where safety regulators' promotion is contingent on meeting safety targets. In the absence of fatalities, connected firms receive fewer reports of major violations for safety compliance, whereas in years of fatal accidents the rate of reported violations is identical. Moreover, fatal accidents produce negative returns at connected companies and are associated with the subsequent departure of well-connected executives. These results provide suggestive evidence that connections enable firms to avoid (potentially costly) compliance measures, rather than using connections to avoid regulatory response after accidents occur. Our findings emphasize the social costs of political connections, and suggest that appropriate regulatory incentives may be useful in mitigating these costs.

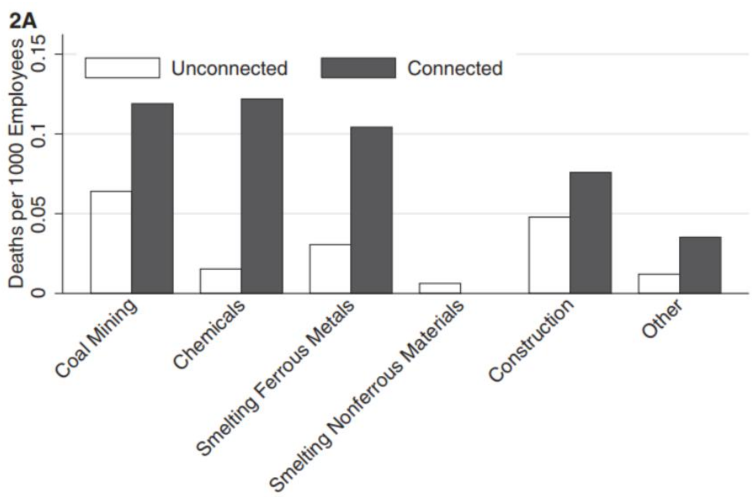


FIGURE 2A

Average *DeathRate* at Connected versus Unconnected Firms, by Industry (full sample).

Notes: The figure is contructed using the full sample of 1475 firm-year observations. *DeathRate* is equal to 1000*(*Deaths/Employment*).

Corruption in Chinese Privatizations

Raymond Fisman and **Yongxiang Wang**

Journal of Law, Economics, and Organization, 2015

Abstract

We document evidence of corruption in Chinese state asset sales. These sales involved stakes in partially privatized firms, providing a benchmark—the price of publicly traded shares—to measure underpricing. Underpricing is correlated with deal attributes associated with misgovernance and corruption. Sales by "disguised" owners that misrepresent their state ownership to elude regulatory scrutiny are discounted 5-7 percentage points more than sales by other owners; related party transactions are similarly discounted. Analysis of subsequent operating performance provides suggestive evidence that aggregate ownership transfers improve profitability, though not in cases where the transfers themselves were corrupted.

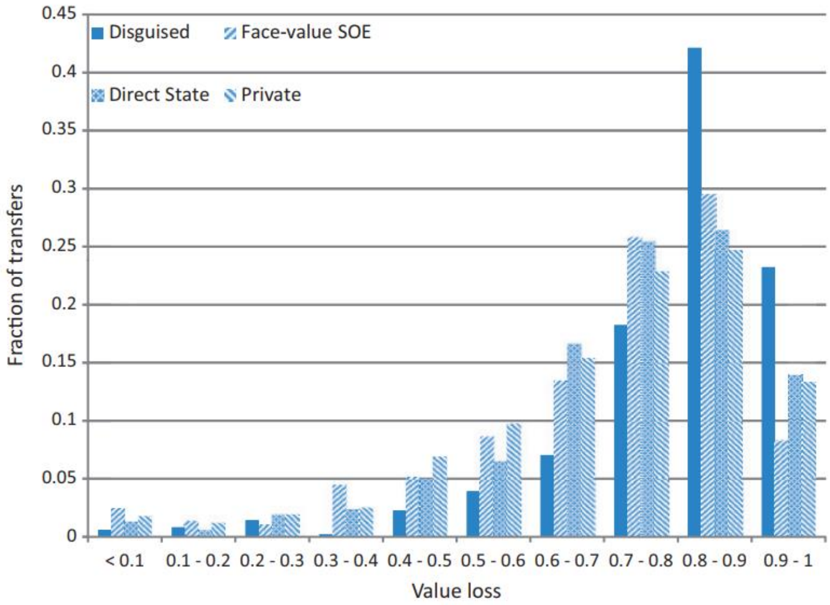


Figure 1. Distribution of Value loss by seller ownership. Note: *Value loss* is equal to 1 minus the ratio of the negotiated transfer price of nontradable shares to the average stock price of corresponding tradable shares in the month prior to the deal. *Direct state* sellers are state entities; *Face-value SOE* sellers are state-owned entities that have honestly represented their ownership in deal documents; *Private* sellers are private firms. The graph shows the distribution of *Value loss* for these transfer deals during 1995–2007.

The Brain Gain of Corporate Boards: Evidence from China

Mariassunta Giannetti, Guanmin Liao, and **Xiaoyun Yu**

Journal of Finance, 2015

Abstract

We study the impact of directors with foreign experience on firm performance in emerging markets. Using a unique data set from China, we exploit the introduction of policies to attract talented emigrants and increase the supply of individuals with foreign experience in different provinces at different times. We document that performance increases after firms hire directors with foreign experience and identify the channels through which the emigration of talent may lead to a brain gain. Our findings provide evidence on how directors transmit knowledge about management practices and corporate governance to firms in emerging markets.

Information from Relationship Lending: Evidence from Loan Defaults in China

Chun Chang, Guanmin Liao, **Xiaoyun Yu**, and Zheng Ni

Journal of Money, Credit and Banking, 2014

Abstract

Using a proprietary database from a large Chinese state-owned bank, we examine whether information evolved from banking relationships predicts commercial loan default by industrial firms. We find that the bank's relationship information is significantly linked to the incidence of default, and that its contribution to prediction accuracy is larger than any hard information. Furthermore, the effect of relationship information is stronger among firms that have a more sustained banking relationship. Our findings indicate that, at least in the emerging markets, a bank's relationship information still matters for large firms, despite the fact that hard information for such firms is abundant.

Nationalism and Economic Exchange: Evidence from Shocks to Sino-Japanese Relations

Raymond Fisman, Yasushi Hamao, and **Yongxiang Wang**

Review of Financial Studies, 2014

Abstract

We study the impact of nationalism and interstate frictions on international economic relations by analyzing market reaction to adverse shocks to Sino-Japanese relations in 2005 and 2010. Japanese companies with high China exposure suffer relative declines during each event window; a symmetric effect is observed for Chinese companies with high Japanese exposure. The effect on Japanese companies is more pronounced for those operating in industries dominated by Chinese state-owned enterprises, whereas firms with high Chinese employment experience lower declines. These results emphasize the role of countries' economic and political institutions in mediating the impact of interstate frictions on firm-level outcomes.

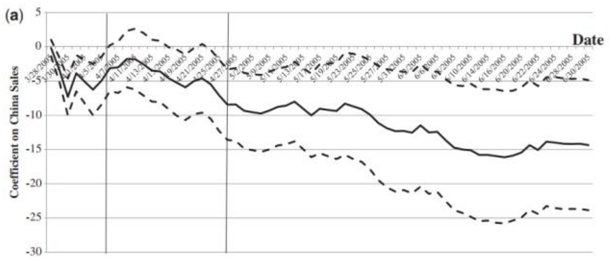


Figure 1a
Coefficient on *Fraction_China_Sales* for Japanese firms in CARs regressions around textbook event (April 5, 2005 to April 28, 2005)
The solid line shows the coefficients on *Fraction_China_Sales* from the equation $CAR\_Textbook_i = \alpha + \beta_1$ $Fraction\_China\_Sales_i + \beta_2\ Controls_i + \varepsilon_i$, utilizing event windows that begin a week prior to the date we have set as the start of each event and continuing for two months following each event. That is, each point represents a regression coefficient, where the outcome variable is cumulative abnormal returns over the window [–7, date]. Dashed lines show [0.05, 0.95] confidence intervals around the coefficient estimates.

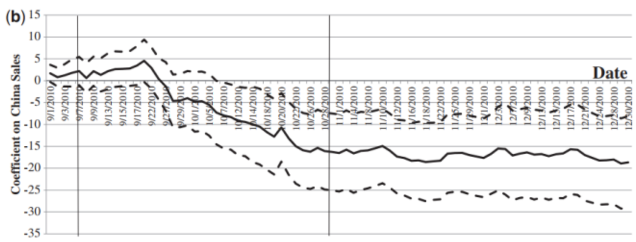


Figure 1b
Coefficient on *Fraction_China_Sales* for Japanese firms in CARs regressions around Senkaku event (September 7, 2010 to October 29, 2010)
The solid line shows the coefficients on *Fraction_China_Sales* from the equation $CAR\_Senkaku_i = \alpha + \beta_1$ $Fraction\_China\_Sales_i + \beta_2\ Controls_i + \varepsilon_i$, utilizing event windows that begin a week prior to the date we have set as the start of each event and continuing for two months following each event. That is, each point represents a regression coefficient, where the outcome variable is cumulative abnormal returns over the window [–7, date]. Dashed lines show [0.05, 0.95] confidence intervals around the coefficient estimates.

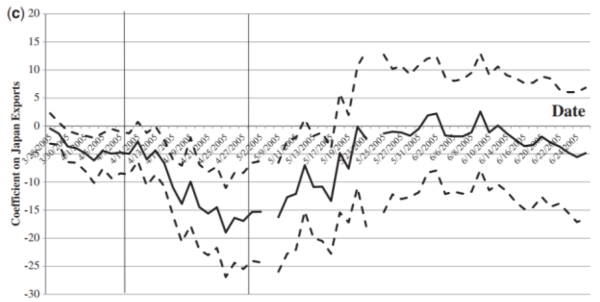


Figure 1c
Coefficient on *Fraction_Japan_Exports* for Chinese firms in CARs regressions around textbook event (April 5, 2005 to April 28, 2005)
The solid line shows the coefficients on *Fraction_Japan_Exports* from the equation $CAR\_Textbook_i = \alpha + \beta_1$ $Fraction\_Japan\_Exports_i + \beta_2\ Controls_i + \varepsilon_i$, utilizing event windows that begin a week prior to the date we have set as the start of each event and continuing for two months following each event. That is, each point represents a regression coefficient, where the outcome variable is cumulative abnormal returns over the window [–7, date]. Dashed lines show [0.05, 0.95] confidence intervals around the coefficient estimates.

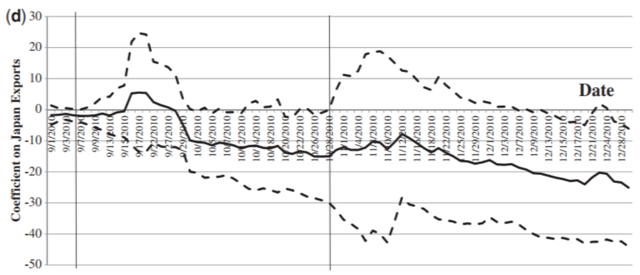


Figure 1d
Coefficient on *Fraction_Japan_Exports* for Chinese firms in CARs regressions around Senkaku event (September 7, 2010 to October 29, 2010)
The solid line shows the coefficients on *Fraction_Japan_Exports* from the equation $CAR\_Senkaku_i = \alpha + \beta_1$ $Fraction\_Japan\_Exports_i + \beta_2\ Controls_i + \varepsilon_i$, utilizing event windows that begin a week prior to the date we have set as the start of each event and continuing for two months following each event. That is, each point represents a regression coefficient, where the outcome variable is cumulative abnormal returns over the window [–7, date]. Dashed lines show [0.05, 0.95] confidence intervals around the coefficient estimates.

Coinsurance within Business Groups: Evidence from Related Party Transactions in an Emerging Market

Nan Jia, Jing Shi, and **Yongxiang Wang**

Management Science, 2013

Abstract

Using novel transaction-level data on Chinese business groups, this study provides the first direct evidence of the coinsurance theory of business groups by investigating when different types of internal resources are transferred within a business group. We find that in Chinese business groups, a credit crunch experienced by the controlling shareholding firm (the "controller") of a publicly listed firm increases the loan-based related party transactions (RPTs) including loan guarantees and intercorporate loans provided by the listed firm to the controller. In turn, when the listed firm's performance dips, the controller and its son firms provide more support to the listed firm in the form of non-loan-based RPTs. These findings directly show the dynamic interactions of members within business groups.

Table 4 Impact of the Controller's Credit Crunch on Related Party Transactions: Within-Firm Estimation

	Dependent variable		
	RPT_Guarantee_F1 (1)	*RPT_Lending_F1* (2)	*RPT_Nonloan_F1* (3)
Controller_Credit_Crunch	0.010*	0.007**	−0.011**
	(0.005)	(0.003)	(0.005)
ROA	−0.123***	−0.176***	0.079***
	(0.030)	(0.024)	(0.026)
Log(*Total Assets*)	0.015***	0.004	−0.022***
	(0.005)	(0.003)	(0.007)
Log(1 + *Tobin's Q*)	−0.006	0.002	0.004
	(0.008)	(0.004)	(0.011)
State_Ownership	−0.006	−0.002	0.001
	(0.011)	(0.005)	(0.015)
Firm fixed effects	Y	Y	Y
Year fixed effects	Y	Y	Y
Observations	11,199	11,235	10,975
R^2	0.40	0.32	0.50

Notes. Each column reports the result of a linear regression with robust standard errors clustered at the listed firm level in parentheses. All specifications include firm fixed effects and year fixed effects.

*Significant at 10%; **significant at 5%; ***significant at 1%.

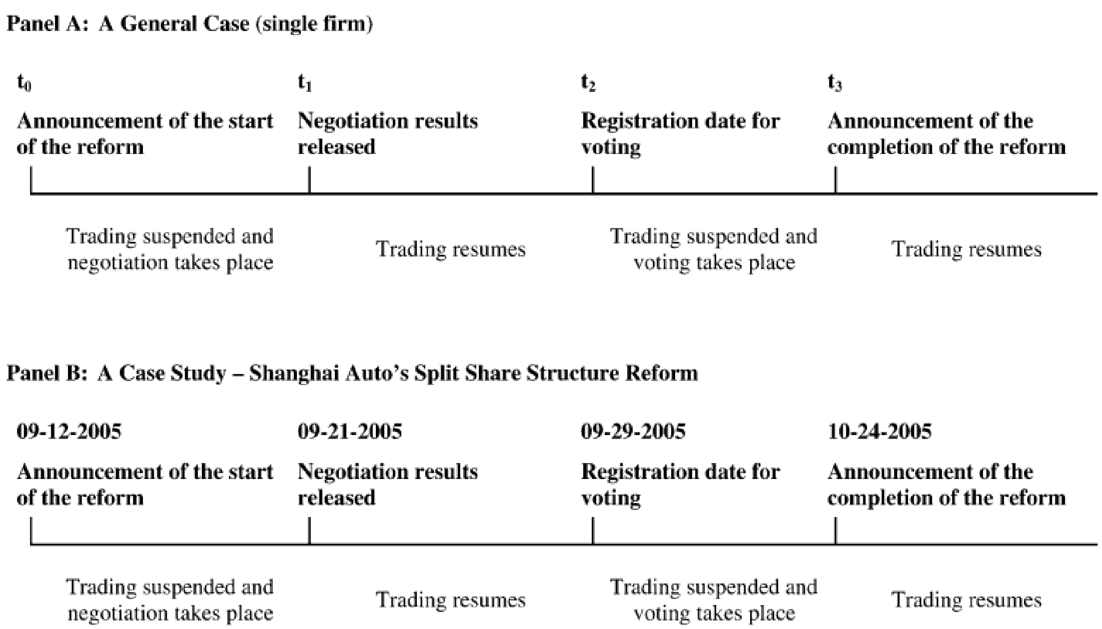
Privatization and Risk Sharing: Evidence from the Split Share Structure Reform in China

Kai Li, **Tan Wang**, Yan-Leung Cheung, and Ping Jiang

Review of Financial Studies, 2011

Abstract

We study the share privatization process in China to investigate whether and how the removal of market frictions is associated with efficiency gains. Prior to the reform, domestic A-shares were divided into tradable and non-tradable shares. As a result of the reform, holders of non-tradable shares compensated holders of tradable shares in order to make their shares tradable. We show that size is positively associated with both the gain in risk sharing and the price impact of more shares coming on the market as a result of the reform. Our study highlights the role of risk sharing in China's share issue privatization process.



Profiting from Government Stakes in a Command Economy: Evidence from Chinese Asset Sales

Charles W. Calomiris, Raymond Fisman, and **Yongxiang Wang**

Journal of Financial Economics, 2010

Abstract

We examine the market response to an unexpected announcement of the sale of government-owned shares in China. In contrast to earlier work, we find a negative effect of government ownership on returns at the announcement date and a symmetric positive effect from the policy's cancellation. We suggest that this results from the absence of a Chinese political transition to accompany economic reforms, so that the benefits of political ties outweigh the efficiency costs of government shareholdings. Companies managed by former government officials have positive abnormal returns, suggesting that personal ties can substitute for government ownership as a source of connections.

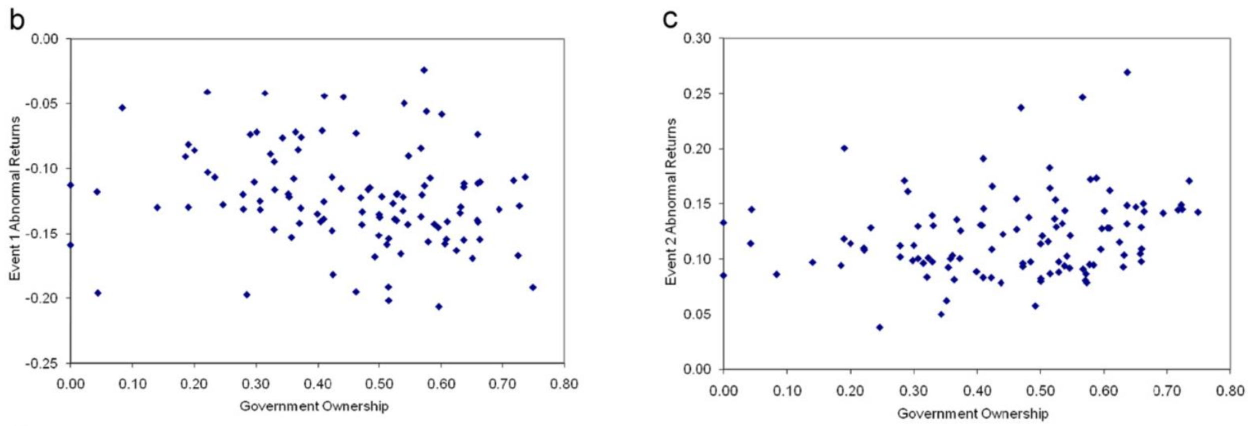


Fig. 1. (a) Scatterplot relating abnormal returns CAR[ÿ1,1] for two events. Event 1 denotes the announcement on July 24, 2001 that the Chinese government would sell its stakes in publicly traded firms. Event 2 denotes the retraction of this policy on June 23, 2002. See text for further details. (b) Scatterplot relating Govt_share+LP_share to CAR[ÿ1,1] around the government announcement on July 24, 2001 that state-owned shares would be sold (Event 1) in China. Govt_share is the proportion of shares held by the state and state legal persons and LP_share is the proportion of shares held by private firms registered as legal persons. (c) Scatterplot relating Govt_share+LP_share to CAR[ÿ1,1] around the government's cancellation on June 23, 2002 of announced state share sales (Event 2) in China. Govt_share is the proportion of shares held by the state and state legal persons and LP_share is the proportion of shares held by private firms registered as legal persons.

Working Papers

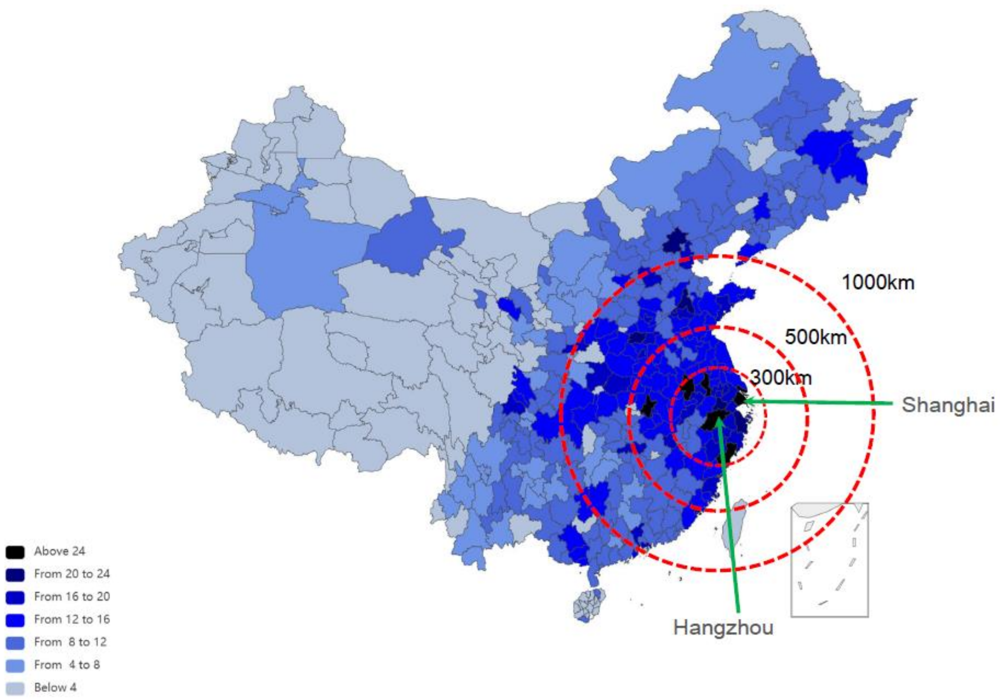
Financial Inclusion via FinTech: From Digital Payments to Platform Investments

Claire Yurong Hong, Xiaomeng Lu, and **Jun Pan**

Version: 2024

Abstract

We study household finance in the age of FinTech, where digital payments are integrated with various financial services through all-in-one super-apps. We hypothesize that increased FinTech adoption via digital payments can help break down households' participation barriers, particularly the psychological ones, ultimately leading to higher participation in the financial market. Taking advantage of an individual-level FinTech dataset, we find that higher FinTech adoption, both at the individual-level and the county-level instrumented by distance-from-Hangzhou, results in higher participation and more risk-taking in mutual-fund investments. Moreover, individuals who are otherwise more constrained, those with higher risk tolerance, or living in under-banked counties, stand to benefit more from the advent of FinTech.



The Pre-Announcement Drift in China: Government Meetings and Macro Announcements

Jun Pan and **Qing Peng**

Version: 2024

Abstract

Confirming the conventional wisdom that China is a top-down economy with policy-driven markets, we document a significant pre-Govt return of 42 basis points on Chinese equity over the 48-hour window before the announcement of the top government meetings. Similar to the pre-FOMC drift in U.S. equity, this pre-Govt drift in China is significantly larger than that before the macro announcements, demonstrating the unique importance of top government meetings in China. Explaining the pre-Govt returns, we identify two distinct drivers. Under high market volatility, the heightened uncertainty channel of Hu et al. (2022) dominates and the premium for heightened un-certainty (i.e., the pre-Govt drift) escalates to 91 basis points. Meanwhile, institutional investors over-sell equity as the heightened uncertainty builds up, and then over-buy upon its subsequent resolution before the announcements. Under low market volatility, the pre-Govt drift disappears and we document instead an information

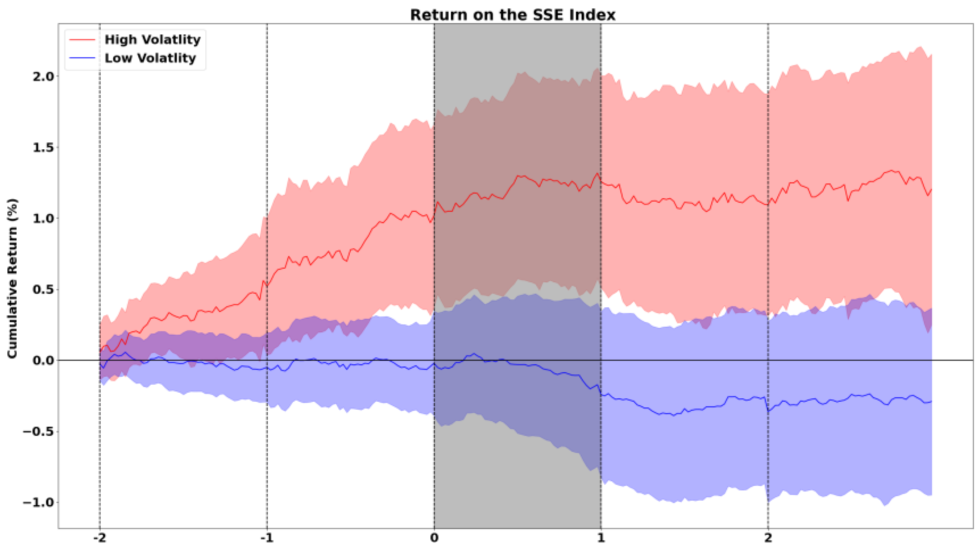


Figure 4: Average Cumulative Returns around High and Low Uncertainty Government Meetings. Chinese Government meetings are sorted by average daily realized stock volatility in the accumulation period, with "High" containing Government meetings ranked top 50% in average realized intra-day stock volatility and "Low" containing the rest. Day 0 is the Government meeting announcement day. The sample period is from January 2009 to December 2022.

Social Priorities, Institutional Quality, and Investment

Amar Gande, Kose John, Guanmin Liao, Lemma Senbet, and **Xiaoyun Yu**

Version: 2024

Abstract

We examine the role of corporate taxation and institutional quality in aligning privately optimal investments with those that are socially optimal. We develop a theoretical framework to characterize how limited liability and non-monetized social benefits give rise to corporate investments to deviate from the socially optimal levels. Our model predicts that, while taxes bridge the wedge between the private objectives of firms and that of the society at large, the level of corporate tax required to achieve social optimality is attenuated in the presence of high-quality institutions. We provide empirical evidence in support of these predictions. Exploiting the staggered designation of strategically important industries by the Chinese government in its Five-Year Plans (FYPs) and leveraging a regulatory event that affected the corporate tax rate, we show that the government lowers taxes to spur corporate investment to a lesser extent if there is a strong local legal regime or a well-developed market-based system. The results are driven by the FYP industries which adhere to the social priorities that generate larger non-monetized benefits. Both corporate taxation and institutional quality affect the likelihood of firms expanding into FYP industries, boosting environmental investments, and transitioning to non-polluting sectors. Importantly, the investment misalignment decreases in these FYP industries, as previously underinvested (overinvested) firms speed up (slow down) their investment to a greater extent compared to peer firms in the same industry. Our findings highlight taxes as an alternative self-enforcing implicit contract in aligning private and public interests while also demonstrating the moderating effects of quality institutions.

Leveling Up Your Green Mojo: The Benefits of Beneficent Investment

Xiting Wu, Jiaxing You, **Xiaoyun Yu**, and Qing (Clara) Zhou

Version: 2024

Abstract

We study corporate investment responses to changes in environmental regulations. Using a manually collected dataset on project investment in China and differentiating the scope of positive externalities a project may generate, we show that local firms boost their environmental investment after their city is targeted for heightened environmental regulation. The effect is mostly driven by "beneficent investments"-environmental projects that not only benefit the firm but also directly spill over to society at large. The increased environmental spending predominantly focuses on long-term projects. Non-state-owned firms exhibit a more pronounced reaction compared to their state-owned counterparts. Targeted cities experience a significant increase in media coverage of local environmental issues. City officials are more likely to be promoted if they meet pre-set environmental targets or reduce pollution. Firms spending more on green investments pay less taxes, garner more subsidies, and secure more bank loans. Targeted cities with larger corporate environmental investments curb emissions, improve local employment, and attract high-quality firms to a greater extent. Heavily polluting firms contribute less to the city's tax revenues and speed up their expansion into non-polluting sectors. Local firms investing more in environmental projects have larger value gains and lower downside risk, produce more green patents, and experience greater labor productivity. Our findings highlight the role of regulatory mechanisms in enabling environmental investment to be both value-and values-enhancing.

Failure to Jettison: The Cost of Labor on the Path to Recovery

Guanmin Liao, **Xiaoyun Yu,** Yaya Yu, and Zihan Zhang

Version: 2024

Abstract

We study how workforce composition and labor cost affect the recovery of financially distressed firms. We use China's 2008 Labor Contract Law (LCL) as a laboratory, which increases the cost for a firm to lay off its employees. Post LCL, financially distressed firms decelerate the layoff rate of low-quality employees. The inability to offload low-quality labor is particularly pronounced among distressed firms located in regions with stringent law enforcement, employee-friendly courts, or having more labor unrest. Non-SOE firms suffer more than their SOE counterparts. Following an increase in the cost to restructure their workforce, distressed firms with an ex-ante larger proportion of low-quality employees experience a higher cost of debt and lower ROA growth; they increase sales of assets and cut wages to a greater extent. Consequently, labor-intensive firms, especially those with a lower-quality workforce, have a significantly lower survival rate and are more likely to turn into zombie firms. These firms take longer to recover and suffer from productivity setbacks. The delay in financial recovery leads to a shift in the firm's workforce composition, exacerbating the departure of high-quality employees. Our findings highlight the mechanism by which labor costs can hinder a firm's ability to emerge from financial distress.

Green Credit, TFP Heterogeneity and Allocation Efficiency

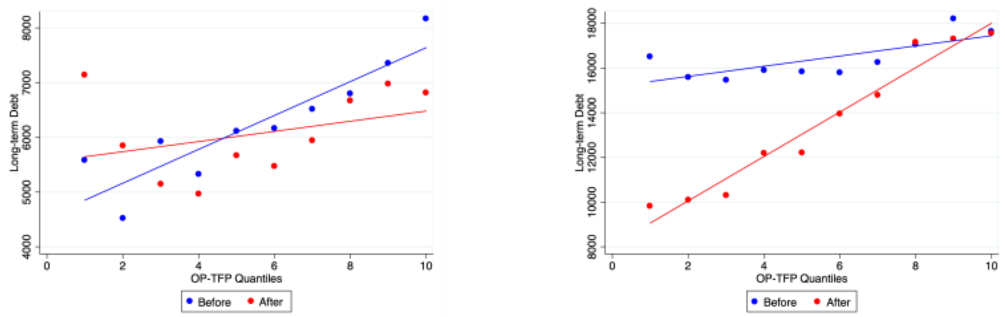
Yushan Xu and **Hong Yan**

Version: 2024

Abstract

China implemented its "Green Credit Policy" in 2007. This paper investigates how the green credit policy affects bank loan allocation efficiency across and within green and brown firms. By using firm-level data from China, we provide the stylized facts that the Total Factor Productivity (TFP) of green firms exhibits stronger heterogeneity than that of brown firms, and TFP is negatively correlated with firm-level emission. Utilizing these two facts, we develop a model based on Dong and Xu (2020) to investigate the efficiency of credit allocation under the green credit policy. The model shows that green loan expansion makes credit allocated to firms with less productivity and the average productivity decreases for green firms. On the other hand, implementing a green interest subsidy combined with penalties for brown firms can play a positive role. The model provides a number of predictions that we validate empirically. Specifically, we show that TFPs of green firms fall sharply compared to those of brown firms after the implementation of the policy in DID tests. We also find that credit is less concentrated in high-TFP green firms, while it is the opposite for brown firms. The resulting transition matrix indicates that the policy incentivizes brown firms more effectively than green firms.

Figure 13. **TFP and Bank Loan (Green or Brown: by *COD* emission)**



Panel A. Green Firms

Panel B. Brown Firms

Notes: This figure shows scatter plots of the average long-term debt amount for each sub-TFP group before and after 2007, for green firms and brown firms, respectively. Here, we use *COD* emission as the gauge to classify green or brown firms. We also plot the fitted value in the figure. The blue points are corresponding to the values before 2007, while the red points are corresponding to the values after 2007.

The Costs and Benefits of Clan Culture: Elite Control Versus Cooperation in China

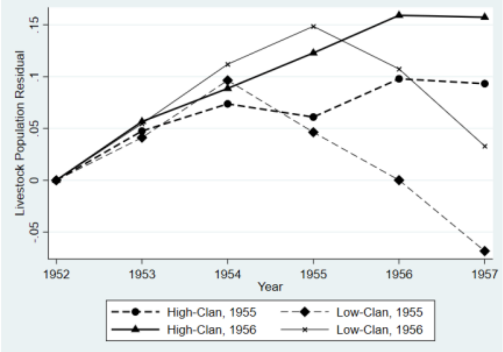
Shuo Chen, Raymond Fisman, Xiaohuan Lan, **Yongxiang Wang**, and Qing Ye

Version: 2023

Abstract

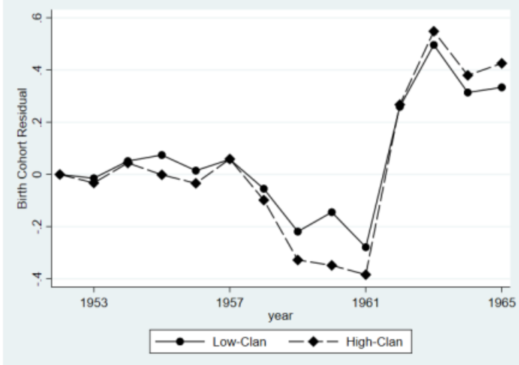
Kinship ties are a common institution that may facilitate in-group coordination and cooperation. Yet their benefits—or lack thereof—depend crucially on the broader institutional environment. We study how the prevalence of clan ties affect how communities confronted two well-studied historical episodes from the early years of the People's Republic of China, utilizing four distinct proxies for county clan strength: the presence of recognized ancestral halls; genealogical records; rice suitability; and geographic latitude. We show that the loss of livestock associated with 1955-56 collectivization (which mandated that farmers surrender livestock for little compensation) documented by Chen and Lan (2017) was much less pronounced in strong-clan areas. By contrast, we show that the 1959-61 Great Famine was associated with higher mortality in areas with stronger clan ties. We argue that reconciling these two conflicting patterns requires that we take a broader view of how kinship groups interact with other governance institutions, in particular the role of kinship as a means of elite control.

Figure 2: Collectivization and Livestock Population, High- versus Low-Clan Areas



Notes: This figure shows the log of draft animal populations by county during the transition to collectivization, after normalizing livestock for each county to one in 1952 to facilitate cross-county comparisons. The dashed lines are counties that collectivized in 1955 and the solid lines are those that collectivized in 1956. High- versus Low-Clan county assignment is based on a median split of the first principle component of four proxies for clan prominence: Whether a province is in the south of China based on Tang and Zhao (2023); the log of one plus the number of recognized ancestral halls in the county; the log of the number of genealogy books in the county; and rice-growing suitability. See text for details.

Figure 3: Famine and Birth Cohort Size in High- versus Low-Clan Counties



Notes: This figure shows birth cohort size by county, as calculated by Meng et al (2015). We normalize cohort size to one for all counties in 1952, to facilitate a comparison of pre-trends. High- versus Low-Clan county assignment is based on a median split of the first principle component of four proxies for clan prominence: Whether a province is in the south of China based on Tang and Zhao (2023); the log of one plus the number of recognized ancestral halls in the county; the log of the number of genealogy books in the county; and rice-growing suitability. See text for details.

Predicting Mutual Fund Performance in China: A Machine Learning Approach

Zezhou Xu, **Hong Yan**, and **Chao Zi**

Version: 2023

Abstract

Machine learning (ML), combined with a comprehensive set of fund characteristics, can consistently predict mutual fund performance in China. The difference between high- and low-performing funds persists for over a year. While characteristics of the stocks that funds hold are not predictive, tracking errors and the past fund returns, as well as the lagged excess returns of sibling and family funds, are important predictors. The interaction effects between these predictors and macroeconomic conditions largely account for ML's superior predictive power. ML-identified high-performing funds see subsequent inflows from institutional investors, but not from retail investors.