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Evasive Shareholder Meetings

When a company moves its shareholder meeting to a remote location, it is often associated with bad news, according to **Evasive Shareholder Meetings** (NBER Working Paper No. 19991) by **Yuanzhi Li** and **David Yermack**. The study finds that “companies are more likely to announce unfavorable quarterly earnings in the aftermath of long-distance meetings, and these firms’ stock prices significantly underperform market benchmarks over the six months following the meeting date.” After examining nearly 10,000 annual meetings held between 2006 and 2010, the authors find that a company that holds a shareholder meeting 1,000 miles away from its corporate headquarters has an average abnormal cumulative return of -3.7 percent on its stock during the ensuing six months.

The authors also find other

location decisions that foretell negative results. If a company holds its shareholder meet-

“firms that held a shareholder meeting at least 50 miles from their headquarters and at least 50 miles from a major airport [experienced an] abnormal six-month return [of] ... -6.8 percent.”

ing far from a major airport, it also experiences an average stock price decline in the subsequent six months. This effect is about half as large as the distance-from-headquarters impact. During the 2006–10 period, for the 340 firms that held a shareholder meeting at least 50 miles from their headquarters and at least 50 miles from a major airport, the abnormal six-month return was much worse: -6.8 percent. For the 46 companies that held an annual meeting at least 150 miles from headquarters only once in

the sample period, and that met near their headquarters in the other four years, the abnormal

return was -11.7 percent.

The adverse effect of holding distant meetings does not arise when companies have already reported bad results or are expecting shareholder confrontation over an issue. The authors find that companies are more likely to stay close to home in the face of expected public protests, perhaps because they feel they can better handle security, access, and work with local law enforcement on their own turf. “We find that managers schedule long-distance meet-

ings when the firm is experiencing adverse operating performance that is not already known to the market,” the authors write. “Moving the meeting may be part of a strategy to reduce attendance or forestall questioning from audience members, so that the chance is reduced for questions or confrontations that might force the managers to reveal what they know.”

Investors do not seem to have

recognized the importance of changes in shareholder meeting locations. The researchers find no evidence of significant stock-market reaction around company announcements of shareholder meeting locations. They also find little unusual stock activity around the meetings themselves. The negative stock reaction comes instead after the subsequent earnings report. Li and Yermack conclude that “the

market up to now has not internalized any such motivation of the managers; if their reasons for choosing a distant meeting location were transparent, then stock prices should fall sharply when these meeting locations are announced rather than gradually declining over a period of months after the meeting.”

— Laurent Belsie

Recent Trends in Intergenerational Mobility

Has intergenerational income mobility, a child’s chance of eventually earning more than his or her parents, declined in the United States? In **Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility** (NBER Working Paper No. 19844) **Raj Chetty, Nathaniel Hendren, Patrick Kline, Emmanuel Saez, and Nicholas Turner** explore this question using data from tax returns. They conclude that young adults entering the labor market today have roughly the same likelihood of moving up the income distribution ladder relative to their parents as those who were born in the 1970s and entered the labor market two decades ago.

The authors study all individuals born between 1980 and 1993 who are U.S. citizens as of 2013 and are claimed as depen-

dents on tax returns filed in or after 1996. The researchers estimate the correlation between a

“... young adults entering the labor market today have roughly the same likelihood of moving up the income distribution ladder relative to their parents as those who were born in the 1970s...”

parent’s and a child’s percentile ranks in the income distribution. They also compute the probability that individuals born between 1971 and 1986 will reach the top fifth of the income distribution conditional on their parents’ income quintile. For individuals born after 1986, whose earnings histories are necessarily shorter, the researchers measure mobility as the correlation between parents’ income rank and children’s college attendance rates, which are a strong predictor of later earnings.

The results suggest that the

probability that a child reaches the top fifth of the income distribution, conditional on having

parents in the bottom fifth of the income distribution, is 8.4 percent for those born in 1971 and 9.0 percent for those born in 1986. Children born to the highest-income families in 1984 were 74.5 percentage points more likely to attend college than those from the lowest-income families. The corresponding gap for children born in 1993 is 69.2 percentage points, suggesting that, if anything, intergenerational mobility may have increased slightly in recent years. Furthermore, intergenerational mobility is fairly stable over time in each of the nine

census divisions of the United States, even though the level of these mobility rates differs substantially across regions.

The researchers conclude that

rank-based measures of social mobility have remained remarkably stable over the second half of the twentieth century. They note that this is somewhat surprising

in light of evidence that socioeconomic gaps in early indicators of success, such as test scores, parental inputs, and social connectedness, have grown over time.

— Matt Nesvisky

Learning by Doing in Wind Power

China's wind power industry has developed rapidly during the past ten years, in part because of financial support through the Clean Development Mechanism (CDM). The CDM is a project-based carbon trade mechanism that subsidizes the users of climate-friendly technologies and encourages technology transfer between developed and developing countries. In **The Learning Process and Technological Change in Wind Power: Evidence from China's CDM Wind Projects**, (NBER Working Paper No. 19921), **Tian Tang** and **David Popp** examine the determinants of technological change in wind power in China. Using pooled cross-sectional data on 486 registered CDM wind projects in China that started construction from 2002 to 2009, the authors assess whether technology transfer and learning drive down renewable energy costs in China.

They test the effects of learning through different channels: learning-by-searching through R&D in wind turbine manufacturing, learning-by-doing from

previous experience of installation, and learning-by-interacting through collaboration

project development in China's wind industry. Interestingly, the learning-by-interacting effect is

“Each additional... wind project that the developer and the manufacturer build together decreases unit costs by about 0.25 percent.”

between wind turbine manufacturers and project developers.

Their findings suggest that experience matters. Learning-by-doing by developers significantly reduces the project unit costs. Given the average size of a CDM wind project, a developer's completion of a typical CDM project reduces the future unit costs for similar projects by the same developer by around 0.23 percent. However, what reduces project costs the most is repeated collaboration experience between a developer and a manufacturer: the learning-by-interacting effect. Each additional CDM wind project that the developer and the manufacturer build together decreases unit costs by about 0.25 percent. These results suggest potential cost benefits from recent trends toward integrating turbine manufacturing with wind

strongest when collaboration occurs between domestic developers and foreign manufacturers. Cost savings are almost four times as high in this case as when the collaboration is between domestic firms, suggesting that knowledge transfer between foreign manufacturers and project developers is important.

In contrast to the learning-by-interacting effect, the learning-by-searching effect, while significant, is relatively small. One more patent by a manufacturer reduces unit costs by just 0.04 percent. The authors explain that the small effect might be attributable to the short time frame of the analysis. It may take a substantial amount of time for patents to be commercialized and to have their full effect on costs.

— Claire Brunel

Federal Reserve “Tapering” News and Emerging Markets

In **The Transmission of Federal Reserve Tapering News to Emerging Financial Markets** (NBER Working Paper No. 19980), **Joshua Aizenman, Mahir Binici, and Michael Hutchison** find substantial declines in emerging-market stock prices and exchange rates in response to news announcements — tapering news — suggesting that the Federal Reserve Board would reduce its monthly purchases of long-term Treasury bonds and mortgage-backed securities in the years following the recent U.S. recession.

The authors analyze daily data spanning the period from November 2012 through October 2013. They examine the impact of statements by Federal Reserve officials on emerging-market stock prices, exchange rates, and credit default swap spreads. They exploit the heterogeneity among the emerging markets to estimate the association between market reactions and country characteristics that pertain to finan-

cial strength or weakness, such as the current account balance and international reserve and for-

“... stronger emerging markets on average were affected more negatively by tapering news than their weaker counterparts.”

eign indebtedness positions. The researchers divide emerging markets into two groups: 11 countries with robust fundamentals and 16 with fragile fundamentals. They find that the stronger emerging markets were affected more negatively on average by tapering news than their weaker counterparts. News that raised the probability of tapering was associated with large stock market declines and an increase in the sovereign spreads of the stronger group. By contrast, tapering news had an insignificant impact on spreads and stock markets in the weaker group. The exchange rate depreciated for both groups of countries following news that increased the likelihood of tapering. Currency depreciations were on average three times larger for the strong

than for the weak countries. These results demonstrate that in an era of financial globaliza-

tion, emerging-market financial markets are not insulated from expected changes in Fed policy. The authors also find evidence that asset prices responded more to statements by Federal Reserve Chairman Ben Bernanke than to statements by other Fed officials.

The researchers interpret their finding that stronger emerging markets were hurt more by tapering news than were their weaker counterparts as suggesting that financial market participants were not placing much weight on the longer-run implications of tapering for the weaker countries, and that they were more concerned with near-term balance sheet adjustments that might affect the stronger countries.

— Matt Nesvisky

Crime Reduction from Cashless Welfare Payments

In **Less Cash, Less Crime: Evidence from the Electronic Benefit Transfer Program** (NBER Working Paper No. 19996), authors **Richard Wright, Erdal Tekin, Volkan Topalli, Chandler McClellan, Timothy**

Dickinson, and Richard Rosenfeld investigate whether the amount of cash circulating within a community affects the crime rate. The researchers take advantage of a significant shift in welfare payment schemes that

took place across the United States over the last two decades: replacement of paper checks with a digital debit card-based system, the Electronic Benefit Transfer (EBT) program. Although mandated by the federal government,

the transition from paper checks to EBT payments was implemented at the state level, most often on a county-by-county basis. This generated substantial variation in the starting point of EBT adoption in different places. The researchers examine monthly data on various types of crimes from all of the counties in the state of Missouri between 1990 and 2011 to measure the impact on various crimes of reduced circulation of cash resulting from the EBT program. They find that the move from check-based welfare payments to EBT payments was associated with a substantial drop in street crime as measured by either reports or arrests. They observe significant effects for burglary, larceny, and assault, and a weaker effect for robbery.

The authors suggest that the most likely explanation for this finding is that EBT payments reduced the amount of cash on the streets that could be taken

or used for illegal purposes. Even though welfare recipients still can withdraw their allotted benefits in the form of cash, EBT

“...the move from check-based welfare payments to EBT payments was associated with a substantial drop in street crime ...”

payments do not require the complete liquidation of benefits as would be necessary with paper checks. This means that the overall circulation of cash on the streets — especially among those who are particularly vulnerable to street crime — must have been reduced following adoption of the EBT program. Furthermore, the old system required a significant proportion of welfare recipients with no access to conventional bank accounts to cash their benefits at independent check-cashing establishments, which are also hot spots of street crime. Because cash is critical to the pursuit of many illicit actions, a decline in cash balances can serve as a brake on

the cycle that drives street crime and can affect not just predatory offenses like burglary and larceny, but assaultive disputes that are

often linked to the heavy drug and alcohol use associated with participation in street life.

The authors reject the hypothesis that adoption of the EBT program simply displaced crime from one county to another, with potential criminals moving to counties that still relied on paper checks. This finding is consistent with studies indicating that offenders tend to operate within their own geographical awareness space, and it supports the contention that the removal of cash through the EBT program has an enduring negative effect on street crime.

— Les Picker

Does Successful Patenting Relax Financial Constraints?

Small firms often face early-stage problems in raising funds to support research and development of new products. In **Patents as Quality Signals? The Implications for Financing Constraints on R&D** (NBER Working Paper No. 19947), **Dirk Czarnitzki**, **Bronwyn Hall**, and **Hanna**

Hottenrott confirm that small firms face R&D funding constraints, but they find that those pressures diminish when firms have applied for key patents that catch the attention of lenders and investors. Larger, more established firms are not subject to the same R&D funding constraints. They do not

seem to benefit from the same “patent signals.”

Many small firms rely on internal funding for R&D. This can hinder their ability to conduct R&D and to grow more generally. One of the challenges facing these firms when attempting to raise money, either from banks or from venture capital

firms, is their lack of a business track record and in many cases the absence of collateral. Investors may also lack the detailed knowledge about the firm's technology that its managers possess. This creates a classic asymmetric information problem. Potential investors and lenders may feel that they do not have enough information to judge the firm's quality and potential value. This can lead to a high cost of capital for the firm, and in some cases can result in no capital market access at all. Applying for a patent can act as a "quality signal" to investors, who may be able to assess patent filings and determine their quality and potential value. Patenting can therefore relax capital constraints for smaller firms, particularly start-ups.

The authors explore this capital-constraint issue for small firms, but they also examine larger and more established firms to see if they also benefit from "patent sig-

potential investors and lenders and leads to the availability of more capital. This is particularly true with firms where information asymmetries are especially

"Applying for a patent appears to act as a signal to potential investors ... and leads to the availability of more capital."

nals." They analyze data from the European Patent Organisation and the European Patent Office, and on the financial experience of a large and broad sample of Flemish companies for the years 2000 through 2009. The results suggest that smaller firms, with fewer than 50 employees, with limited internal resources, experience R&D funding constraints that can hamper their growth and success. Applying for a patent appears to act as a signal to

high and collateral value is low.

The authors also find that larger, more established firms have more flexibility to pay for R&D with internal funds, and that they can also access more external funds from investors who have knowledge about their current and potential performance. These firms do not seem to benefit from "patent quality signals."

— Jay Fitzgerald

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