ON FEBRUARY 3RD, THE FINANCIAL Economics Institute, in conjunction with Claremont McKenna College and the Journal of Corporate Finance, sponsored the conference on the Boundaries of SEC Regulation. The event was hosted at the Claremont Graduate University campus and was the first event of its kind for the FEI. Academics, policymakers, and practitioners gathered to discuss the law and economics of financial market regulations, with particular emphasis on the SEC. The conference attracted over seventy attendees, including accomplished professors, members of the SEC, and various analysts from top investing firms.

The conference was divided into four sessions; Regulatory Impact, Shareholder Proposals and Shareholder Voting, Disclosure Regulation, and Mutual Fund Governance.

Robert Hansen, Francis Martin Chair in Business at Tulane University’s A.B. Freeman School of Business led the first session on Regulatory Impact. Hansen’s work has published in several academic journals and he has received many awards for his teaching and research. His work focuses on ownership structure, the cost of capital, valuation, financing, investment banking, and underwriting. During this session three papers were presented focusing on the various ways in which the SEC has affected companies in the United States and abroad. Specific topics included why firms go dark, the effects of the Sarbanes-Oxley Act, and legal penalties for financial misrepresentation.

The second session on Shareholder Proposals and Shareholder Voting was chaired by Bruce Johnsen, Professor of Law at the George Mason University School of Law. Johnsen is a former Senior Research Scholar and Financial Economist at the U.S. Securities and Exchange Commission’s Office of

See Conference on page 2
Economic Analysis. The two papers presented during the second session focused on the role of shareholder voting and how the Enron scandal has affected the level of involvement shareholders play in corporations.

Following the first two sessions, conference participants gathered at the Marian Miner Cook Athenaeum at Claremont McKenna College for a luncheon and presentation. Keynote speaker, Jonathan R. Macey, the Sam Harris Professor of Corporate Law, Corporate Finance, and Securities Law at Yale Law School, presented a speech based on his paper entitled “Politicization and American Corporate Governance.” Macey is an established author whose work focuses on banking, capital markets, and corporate law and governance. He has served on the Legal Advisory Committee of the NYSE Board of Directors, and currently sits on the editorial boards of the Journal of Banking and Finance and Journal of Financial Crime. Macey’s presentation addressed the success of corporate governance institutions in the United States. Following his presentation, several conference participants discussed the effectiveness of SEC regulation and its impact on corporate governance.

The afternoon began with Jennifer Bethel, Associate Professor of Finance at Babson College, chairing the third session on Disclosure Regulation. Bethel served as the Chief Economist for the Division of Corporation Finance at the U.S. Securities and Exchange Commission from 1996-1999. The session was comprised of four papers that explored issues involving regulation Fair Disclosure. The papers addressed different ways that companies have been impacted by regulation FD. Topics included the amount of information available to investors as a result of regulation FD, and additional costs associated with FD standards in businesses.

During the fourth and final session, Mutual Fund Governance was discussed. This session was chaired by Babson College’s Erik Sirri, Professor of Finance. Sirri currently serves as the Governor of the Boston Stock Exchange and is a regulatory board member of the Boston Options Exchange. He served as the Chief Economist of the U.S. Securities and Exchange Commission in Washington D.C. from 1996-1999. Three papers were presented that explored the causes and impact of mutual fund scandals, the make up of boards of directors and how they influence mutual fund governance, and the effects of business connections between fund directors and the advisory firms that manage the funds.

Conference participants gathered at Scripps College for dinner and comments from Larry Harris, Professor of Finance and Business Economics at the University of Southern California, Marshall School of Business. His research, teaching, and consulting projects primarily address trading and investment management issues that arise in financial markets. Harris served as the Chief Economist of the U.S. Securities and Exchange Commission from 2002-2004. The conference came to an end with Harris providing closing remarks that touched on the topics of the day, and discussed his experiences as Chief Economist at the SEC.

The conference ended on a successful note, with many praises from the participants regarding the conference, the topics covered, and the professional attitudes of Claremont McKenna students.
New York City Networking Trip  
January 9-13, 2006
By Catherine Powers '08, FEI Student Research Analyst

IN EARLY JANUARY, THE FINANCIAL Economics Institute sponsored a trip that enabled sixteen students to participate in the third annual New York City Networking Trip. The trip was very successful – offering students an invaluable learning experience, insight into career opportunities in the financial services industry, and the opportunity to establish contacts with CMC alumni.


Upon their arrival in NYC, students attended an introductory dinner hosted by Pamela Gann at Cravath, Swain & Moore, LLP, courtesy of Julie Spellman Sweet '89. FEI board members and other friends of CMC in attendance gave students an introduction to the week and a chance to ask questions.

Students also had the opportunity to interact with former CMC students at an Alumni Association Cocktail Reception sponsored by David Officer '70, Susan Matteson King '85, and Timothy Galbraith '87 at the Dreyfus Corporation.

One of the highlights of the trip was the visit to KKR during which CMC Trustee, Henry Kravis '67, met with the students. Mr. Kravis, a pioneer in private equity and large leverage buyouts, spoke openly with students about his experiences and the evolution of the industry. The meeting with Mr. Kravis was a memorable reminder of the benefits of the CMC experience and the value of the alumni network. At the conclusion of the meeting, Mr. Kravis commented, “I am very pleased to tell you that this group is the most well prepared group of students I have ever met...your questions have been excellent...it makes me proud to be a CMC alum knowing that you represent my alma mater.”

The overall satisfaction of students, alumni, and associates of the FEI is an indication of the success of the 2006 NYC Networking Trip. Not only was the trip an incredible eye-opening experience, but the insight and exposure the trip provided will help students as they continue at CMC and after graduation. Valuable opportunities such as the NYC Networking Trip depend on alumni support; the Financial Economics Institute sincerely appreciates the time and effort of the alumni and employers that made the trip such a great success.

Hedge Fund Day in LA
March 3, 2006
By Justin Hance '06, FEI Student Research Analyst

TWELVE STUDENTS FROM THE Financial Economics Institute traveled to Santa Monica on March 3rd to meet with executives and analysts from Dalton Investments. Dalton pursues a number of investment strategies, including global hedged equity, global distressed debt and Greater China equity long-short. Dalton was founded in 1998 and has $1.1 billion in assets under management.

Andrew Preikschat '97, Portfolio Manager of Edgebrook Investments, coordinated the visit. Preikschat began the visit by providing the students with an overview of the alternative investment industry and its increasing significance in the financial services industry. Preikschat then offered brief explanations of the myriad investment strategies employed by different types of hedge funds.

The group next met with Steve Persky, CFA, the co-founder and CEO of Dalton Investments. Mr. Persky was very forthcoming about his experience in the financial services industry and what it was like to start a firm from scratch. He took a number of questions from students on topics such as the evaluation process for potential managers and specific investment strategies.

The students also had short visits with several other members of the Dalton team. The firm’s CFO, Arthur Hebert, discussed the importance of back-office operations for investment management firms. Analyst Andrew Lahde told the students about his strategies for shorting equity and specifically what he considers the optimal short. Finally, Analyst Marc Sherman shared his experience in industry and his views on the prospects of the airline sector, which he covers for Dalton.

After the meetings, the group had lunch in Santa Monica with Preikschat, Hebert and Sherman. This relaxed environment engendered additional questions and promoted prolonged discussion on a variety of topics.

The students are extremely thankful to Preikschat and the other members of Dalton for providing a fun and informative experience.
Corporate Philanthropic Practices

Forthcoming, Journal of Corporate Finance
William O. Brown, Eric Helland, and Janet Kiholm Smith
Summarized by Paul Books ’06, FEI Student Research Analyst

Why Do Corporations Give to Charity?

PHILANTHROPY IS THE VOLUNTARY act of providing money or goods to a charitable cause. While philanthropy by an individual is rarely questioned as a worthwhile endeavor, is it really appropriate for managers and directors of corporations to commit shareholder earnings to charitable causes? Famous economists and business managers still debate this very question today. For example, Milton Friedman went so far as to title an article in The New York Times Magazine “The Social Responsibility of Business Is to Increase Its Profits.” Friedman argues that more “social good” does not necessarily come from a corporation engaging in corporate philanthropy, as distribution of profits to charity prevents reinvestment in the enterprise. Instead of giving to charity, corporations can increase social welfare, Friedman argues, by creating new jobs and products through the reinvestment of profits. Another argument against corporate philanthropy is that directors and managers do not have the right to give profits away, because the profits are owned by shareholders. This problem is magnified when increased charitable giving reduces dividends, and therefore the amount of profits returned to their owners. On the other hand, Jack Mackey, CEO of Whole Foods, believes that profits should not be the corporation’s foremost priority, but rather “that the enlightened corporation should try to create value for all of its constituencies (customers, employees, suppliers, shareholders, and community).” He believes that donating to charity is completely justified even if it does not increase profits indirectly or produce positive P.R., as “the entrepreneurs, not the current investors in a company’s stock, have the right and responsibility to define the purpose of the company.”

In their paper “Corporate Philanthropic Practices” forthcoming in the Journal of Corporate Finance, William O. Brown, Eric Helland, and Janet Kiholm Smith evaluate not only the merits of corporate giving, but the motivations behind corporate donations. The authors specifically examine two possible theories explaining corporate giving. The “value enhancement theory” postulates that philanthropy creates value for shareholders. According to this theory, giving to charitable causes can lead to “enhanced employee morale, customer loyalty, and more lenient treatment by regulations or government officials.” The other theory examined in the paper, the “agency cost theory,” hypothesizes that managers donate because they receive utility by acting in a philanthropic manner. The theories are not necessarily mutually exclusive. It fact, it is reasonable to envision a manager gaining utility from a charitable donation that indirectly increased the value of the corporation. However, if proponents of charitable giving are correct and shareholders are better off if their agents give to charity, then there is no reason to expect giving practices to vary with variables that measure the effectiveness of shareholder monitoring.

To test the value enhancement theory, the paper analyzes variables such as industry type, the ratio of research and development expenses to sales, and the ratio of advertising expenses to sales. It is believed that industries that are heavily regulated, or that impact the environment in a negative manner, or are financially regulated may improve their public image through philanthropic donations. Also, the authors reason that public displays of charity are a form of advertising and likely driven by the same underlying considerations. The R&D variable takes on a higher value for firms that are more dependent on intangible assets (like pharmaceutical firms). Such assets make the firm more vulnerable to appropriation arising from lawsuits, and regulation, thereby creating incentives to create goodwill with the public, potential regulators, etc.

The variables used to evaluate the agency cost theory are total board size, ratio of the number of insiders to total board size, debt-to-value ratio, percent of equity held by blockholders, percent of equity held by institutions, and market-to-book ratio (to control for the firm’s access to economic rents). The authors hypothesize that variables dealing with board size will be positively related to giving since larger boards are associated with less monitoring, leaving more room for the pursuit of personal causes. Larger boards may have more significant free-rider and communication problems, leading to less effective monitoring. Also, if involvement with charities is perceived as a job-related perquisite, then the larger the board, the more directors are likely to push for their own
causes, leading to larger dollar contributions. Debt ties the hands of management because it does not have as much cash to distribute. Also, covenants and restrictions that accompany debt agreements limit the managers’ ability to spend money. The expectation is that the debt-to-value ratio will be negatively related to corporate giving. Similarly, concentrated ownership is expected to be negatively related to giving due to increased shareholder oversight.

The sample for this study begins with all Fortune 500 firms in 1998. Data on charitable giving were obtained from the 1999 Corporate Giving Directory, which contains information on annual cash contribution, allocation (arts, health, science, general, etc.), management of corporation, and the giving program or foundation. Because not all firms provide giving information, the data were narrowed to consist of 728 firm years for 262 firms.

To test their hypotheses, the authors employ two forms of regression analysis. First, they perform an ordinary-least-square (OLS) regression to analyze how total cash giving changes depending on the variables for each theory. Second, they estimate a three-stage-least-squares (3SLS) model of charitable giving, board size, and the book-to-market ratio. The 3SLS estimation is used to account for correlation among the variables included in the study.

Overall, the authors’ findings support both theories to some degree. The value enhancement theory is consistent with the following results:

- Advertising intensity is positively related to giving
- Firms participating in heavily regulated industries are associated with more giving
- Companies with a high level of intangible assets (higher R&D to sales) are associated with more giving

However, much of the evidence is consistent with an agency cost theory of philanthropy:

- Firms with larger boards of directors give more to charity
- Firms with higher debt-to-value ratios are associated with less charity
- Firms with higher market-to-book ratios (higher levels of economic rents) donate more generously, which indicates that managers with excess cash seek transactions that add to their own utility.

These results suggest that shareholders should be observant of the charitable contributions of their management in order to keep agency costs to a minimum.

Financial Economics Institute
Spring 2006 Student Research Analysts

DURING SPRING 2006, THE FINANCIAL ECONOMICS INSTITUTE HIRED FIFTEEN student Research Analysts to assist faculty members with research projects. The following is a list of the students, the topics they researched, and their faculty advisor:

**Paul Books ’06**, CMC, Private Investment of Public Equity (PIPE): An Analysis of Short and Long Term Returns and the Role Illiquidity Plays in a PIPE Discount, with Professor Janet Smith

**Emily Chou ’07**, CMC, Research Joint Ventures, with Professor Michelle Goeree, Professor Eric Helland, and Katherine Femia ’06

**Max Gokhman ’06**, CMC, An Event Study Looking at Whether the Announcement of FDA Approval Impacts the Stock Prices of Pharmaceutical Firms, with Professor Paul Zak

**Justin Hance ’06**, CMC, Factors Affecting College and University Endowment Performance, with Professor William Brown

**Daniel Jager ’08**, CMC, Employment Effects of the 150 Hour Requirement, with Professor Joshua Rosett

**Michael Karp ’06**, CMC, Analysis of Returns of Surviving Firms from Varying Time Periods, with Professor William Brown

**Jerry Lin ’07**, CMC, Bond Indexing, with Professor Marc Weidenmier

**George Malikov ’06**, HMC, Option Exchange Programs: An Event Study, with Professor Lisa Meulbroek

**Catherine Powers ’08**, CMC, Report on the Use and Applications of the SDC Platinum Database, with Professor Janet Smith

**Joyce Qi ’07**, CMC, Survey of Consumer Finances, with Professor Jennifer Ward-Batts


**Chris Urban ’07**, CMC, Closed-End Mutual Funds in China, with Professor William Brown

**Paul Van Deventer ’07**, CMC, University Boards, with Professor William Brown


**Felicia Wu ’08**, CMC, How Venture Capital Firms Market Their Funds, with Professor Janet Smith

Back row, from left: Daniel Jager ’08, Jerry Lin ’07, Michael Karp ’06, Max Gokhman ’06, and Chris Urban ’07; Front row, from left: Joyce Qi ’07, Zizheng Wang ’08, Catherine Powers ’08, George Malikov ’06, Daniel Simon ’07, and Emily Chou ’07; Not pictured: Paul Books ’06, Justin Hance ’06, Paul Van Deventer ’07, and Felicia Wu ’08.
FEI Board of Advisor Profile: James McElwee ’74 (Chair)

By Emily Chou ’07, FEI Student Research Analyst

James McElwee

How did you develop an interest in the venture capital industry?

Basically, I started off in the venture capital industry in 1979. I had spent 3 years in the Arthur Anderson group called Accenture. I had decided I wanted to have a change in the direction of my career and I started looking at alternative areas in finance. At that time, the venture capital industry was very small. It was very difficult to find out any information; it basically wasn’t an industry, maybe 100 very small firms, with 1 to 3 individuals in each firm. But I was referred to a venture capital subsidiary, and got interested without having much knowledge of the industry. I was just looking for something different to do. Since then, I’ve basically spent the rest of my career in the venture capital business. I didn’t get into this targeting it as a career. I got started when it was very young, and was fortunate enough to be involved in it as it grew into an industry.

How did your experiences at CMC and at Accenture prepare you for your career or impact your career moves? Also, what background do you think is most helpful for a career in venture capital?

I think probably the most important skill or quality that you need in the venture capital business is an ability to think critically and develop judgment about a variety of different kinds of problems. I think people that go to CMC are largely trained to do that, so I see a direct relationship between my education and what I’ve been doing in venture capital. In terms of time spent at Accenture, the most important thing was learning to organize your work, communicate clearly, organize time, and learn how to work very hard. In my opinion, those skills can be applied in a variety of different jobs.

What influences your decisions when considering whether or not to invest in a company?

If you talk to different venture capital and private equity firms, everyone will have a slightly different answer to that question. In our firm, the single most important thing we look at is the quality of the management team. We prefer to back highly qualified and experienced management. We then have to identify whether or not what the great management team is planning to do makes sense. We spend a lot of time trying to recognize if the background of the team matches up with what they’re trying to do, and identify the key to making it a successful company. You try to see if there’s a big market opportunity and if there’s significant opportunity for growth. These factors are essential because we want everything we invest in to grow significantly.

How do venture capitalists add value to an organization?

Venture capitalists bring a lot of experience to companies. It starts with building a team of experienced professionals who have been through numerous companies. They manage the overall effort by recruiting specific people in a management team and help the company buy other companies. Not all our companies are going to go public, but we like to build public-quality companies so they have the option to do so later on down the road.

Which company have you enjoyed investing in the most? Why?

There are many that I have enjoyed. One that comes to mind is Digital Theater Systems. The President and CEO, Jon Kirchner ’89, went to CMC. Digital Theater Systems is now a public company on the NASDAQ. We invested in it as a spinout from MCA Universal, where the company had started. Later on, several individuals within Universal decided to build a company out of that technology, which is a digital surround sound technology. When we invested, they had no presence at all in the consumer world whatsoever. They had only been successful in getting in cinemas. The company had some significant problems early on, and we were able to help them avoid closure. It went public a few years ago and we made at least ten times our money on it. In our business, almost no deal goes smoothly; every great deal has at least one period of significant crisis. To be successful in this industry, you have to be a fairly patient person and have faith that at the end there might be a big reward.

What was the most challenging aspect of your job?

In our business, mostly all of the companies that we invest in have risk and a lot of flaws. Generally, every day several things go wrong and mistakes are being made. For example, you’re losing customers, you’re not getting customers, or you have to make changes in management teams. Although, every once in a while something good happens. The challenge is learning to deal with things going wrong all the time and having the expectation that something good will happen. It’s really a business about dealing with flaws; and it’s not for everyone.

What skills or characteristics do you look for when interviewing potential employees, and what do you think are the qualities that have made you successful in your industry?

First off, we’re looking for people who have demonstrated critical thought and judgment, sometime either in their career or academic experience. When I’m interviewing people, I’ll have them take me through their personal history, and at various points where there was a change in direction, I really pay attention to how they made those decisions. That has a lot of do with how I evaluate them. To be successful long-term in our business, the single most important quality is the ability to pick the right deals to work on and the right companies to invest in. That’s generally something people have to develop when they get into the business, and learn from their mistakes. It’s a hard quality to evaluate. One of my favorite interview questions is asking people if they consider themselves to be a lucky person. It may seem like a funny question, but to a certain extent, that has to do with making the right decision at various points in your life.

It appears that you participate on several Boards—what motivates you to be involved as a Board member for these various entities?

Generally, we will take at least one Board seat for every company we invest in, which explains much of my board involvement. As for the CMC Board, I have a lot of gratitude and appreciation for what CMC has done for my career and my life. It is important to be appreciative and give back. That’s why I pursued joining the Board.

How have you benefited from being a member of the CMC alumni network? Have you had the opportunity to help other alumni?

I would not have gotten my first job in venture capital if I hadn’t gone to CMC. The president of the first venture capital company I joined was actually a Pomona College graduate. He appreciated the quality of the CMC education, and thought it was worth having me in for an interview. It starts with getting your foot in the door. In my general business, I haven’t had any
direct business benefit from having gone to CMC. When we were at Security Pacific, we did invest in several deals with George Roberts (’66) and Henry Kravis (’67), but not really because any of us had gone to CMC.

**What was your favorite class or professor at CMC, and why?**

It's hard to pick one specific class; I did have a number that I enjoyed. There were several at the Joint Science Department, including quantum mechanics. We actually had a professor at the time who quoted the Beatles and Frank Zappa. He went on to study brain waves at Stanford. Another professor that comes to mind is Procter Thomson, Professor of Microeconomics, who had a great sense of humor and the ability to get across the concepts in an entertaining way. There were many classes that I enjoyed, so it's hard to pick one. It would probably be easier to pick which class was the worst—I can very clearly remember which one that would be. I was one class less of a math major and I took linear algebra at CMC. I think it's the only class where, at the end, I didn't believe I knew what was going on.

**Why did you decide to go straight to Wharton right after graduating from CMC and how did that affect your career path?**

I think it largely had to do with the fact that I didn't have a very good idea of what I wanted to do after CMC. I didn't have a clear focus of what I wanted in the job world at that point, combined with the fact that the economy was in a tough position at the time. There weren’t a lot of great jobs for people with undergraduate degrees. So I continued with graduate education and used that as a time to figure out what I wanted to do.

**Is there any advice that you’d like to give to current CMC students?**

My general recommendation is to get as broad a liberal arts background as possible, with the idea that the world is changing so rapidly you have be prepared to be flexible and mobile. Really try to avoid getting too narrowly focused for as long as possible. This is from the experience of watching various sorts of professions that were considered a sure thing when I got out of college and became a lot less of a sure thing. You need to have the best possible, highest quality, and broad based background that you can have. Then you’re better prepared for the world. I think even in terms of specific courses, I would probably recommend taking a couple science courses. Not because you want to pursue science as a career, but so you have some exposure to it if you run into it later on in life.

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**JOHN ALLEN PAULOS**

*September 19, 2005*

**A Mathematician Plays the Stock Market**

JOHN ALLEN PAULOS, PROFESSOR OF MATHEMATICS AT Temple University in Philadelphia, spoke at the Marian Miner Cook Athenaeum as part of the Financial Economics Institute’s Speaker Series in the fall.

Paulos discussed his recent book, *A Mathematician Plays the Stock Market*, in which he uses the tools of mathematics to explain the vagaries of the stock market. He covered such questions as:

- Is the market rational?
- Is it efficient?
- How can one quantify risk when investing?

Paulos drew upon his own experiences with the market to answer these questions.

Professor Paulos has been at Temple since 1973, and earned a Ph.D. in Mathematics from the University of Wisconsin in 1974. In addition to *A Mathematician Plays the Stock Market*, Paulos is the author of several other books, including *Mathematics and Humor; Once Upon a Number*, and *Innumeracy: Mathematical Illiteracy and Its Consequences*, which spent 18 weeks on the *New York Times* Bestsellers list.

In 2003, Paulos received the American Association for the Advancement of Science Award for Public Understanding of Science and Technology. Currently, he serves on the editorial boards of the *Journal of Humor Research* and the *Philadelphia Daily News*, and is a member of the Mathematical Association of America, the American Statistical Association, and the Association of Symbolic Logic.

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**GARY SMITH**

*March 22, 2006*

**When is a Bubble Not a Bubble?**

PROFESSOR GARY SMITH, THE FLETCHER JONES Professor of Economics at Pomona College, spoke at the Marian Miner Cook Athenaeum as the spring lecturer for the Financial Economics Institute’s Speaker Series.

Professor Smith’s comments included a discussion of a project that he has been completing for the Brookings Institution. He has collected a unique set of data that suggested that we are not in the midst of a housing bubble. He explained that the traditional measure—the ratio of housing price to household income—is inadequate, because it cannot determine whether housing prices are far above fundamental values. He argued that we will not experience a bursting bubble as we did with the high-tech industry several years ago. Rather, the increasing price of housing, particularly on the coasts, appears to be sustainable.

Professor Smith is the author of over 50 academic articles as well as seven textbooks, and has created a number of programs designed to help students develop statistical intuition. His articles cover such topics as sports medicine, social biology, and psychosomatic medicine. Most recently, his research has focused primarily on financial markets and applied statistics.

Professor Smith has been a member of the Pomona Economics Department since 1981, and is an FEI affiliated faculty member. He received a B.S. with Distinction in Mathematics from Harvey Mudd College and a Ph.D. in Economics from Yale University. Prior to teaching at Pomona, he was a professor at Yale, the University of Houston, and Rice University.
Congratulations Class of 2006!

THE FINANCIAL ECONOMICS INSTITUTE WOULD LIKE TO CONGRATULATE the graduating seniors of 2006. The following is a list of seniors who completed the Financial Economics Sequence and the title of their thesis:

**KELLY M. BLAES**, TIMBER!! Investment for the Small Investor

**PAUL BOOKS**, Private Investment of Public Equity (PIPE): An Analysis of Short and Long Term Returns and the Role Illiquidity Plays in a PIPE Discount

**MAX GOKHMAN**, The Corporate Prince: Using the Machiavellian Instrument to Predict Corporate Behavior

**JUSTIN HANCE**, The Effect of Size and Asset Allocation on College and University Endowment Performance

**JASON KAMIENSKI**, Absolute Priority in Bankruptcy and the Role of Managerial Compensation

**MICHAEL D. KARP**, A Quantitative Approach to Predicting Corporate Fraud: The Human Influence on Financial Reporting


**GEORGE MALIKOV**, The Market Response to Employee Stock Option Repricings and Exchanges

**LAUREN MELIN**, Evidence of the Debt-Monitoring Hypothesis and Agency Cost in the Merger and Acquisition Market

**JEFFREY MODEL**, Examining Equity-Linked Executive Compensation in the Apparel and Drug Industries

**KYLE SEMINARA**, An Analysis of the Contribution of Discount Volatility to Movements in the Market Price of Closed-End Municipal Funds

**MATTHEW R. WESTCOT**, Does Capital Under Management Affect the Concentration of Venture Capital Portfolios?

Suggested Reading by the FEI Board of Advisors

- *Advances in Behavioral Finance* by Richard H. Thaler
- *A Brief History of Economic Genius* by Paul Strathern
- *Capital Ideas: The Improbable Origins of Modern Wall Street* by Peter L. Bernstein
- *Extraordinary Popular Delusions and the Madness of Crowds* by Charles Mackay
- *Fooled by Randomness: The Hidden Role of Chance in the Markets and in Life* by Nassim Nicholas Taleb
- *Irrational Exuberance* by Robert J. Shiller
- *A Mathematician Plays the Stock Market* by John Allen Paulos
- *Relevance Lost: The Rise and Fall of Management Accounting* by H. Thomas Johnson and Robert S. Kaplan
- *Reminiscences of a Stock Market Operator* by Edwin Lefevre
- *Secrets of the Temple: How the Federal Reserve Runs the Country* by William Greider
- *When Genius Failed: The Rise and Fall of Long-Term Capital Management* by Roger Lowenstein
- *The Winner's Curse* by Richard H. Thaler
- *The Wisdom of Crowds* by James Surowiecki

Upcoming Events

- **End-of-Year Luncheon May 12, 2006**
  The Financial Economics Institute will celebrate the conclusion of another successful year with a luncheon that will include an acknowledgement of graduating seniors and a student presentation.

- **New York City Networking Trip January 8-12, 2007**
  Fifteen CMC students will visit prestigious firms in NYC to gain exposure to various job opportunities in the financial markets and to establish relationships with CMC alumni working at these companies. Applications for the trip will be available from Bauer Center 321 in October.