

Report to International Travel Fund

Traveler: Jie Cai, Associate Professor, Department of Finance

Destinations : Wuhan, China

Duration: July 4-7, 2011

Purpose: Conference presentation (1) and discussions (2)

Conferences: 2011 China International Conference in Finance, Wuhan, China

I left from the Newark International Airport in the afternoon of June 29, 2011, arriving at Hong Kong in the evening of June 30. I attended the China International Conference in Finance (CICF) during July 4- 7, 2011 and presented my paper titled “The Price of Street Friends: Social Networks, Informed Trading, and Shareholder Costs” on July 5. This paper is co-authored with Professor Ralph Walkling from Drexel University and Professor Ke Yang from Lehigh University. In this study, we document a significant and positive relation between a public firm’s social connections with Wall Street and the firm’s bid-ask spread, a measure of its transaction cost. Thus, the potential flow of information through social networks is incorporated into the cost of trading. One additional connected executive or director at a typical public firm increases her shareholders’ annual trading cost by over \$1 million. The present value of such additional trading costs amount to \$182 million for the average firm. Social ties based on education or leisure activities exhibit a stronger effect on trading costs than ties based on employment. Local social ties also exhibit a stronger effect than long-distance ties. Firms with more ties to Wall Street also exhibit lower abnormal volatility and lower abnormal trading volume around earnings announcements. Our evidence illustrates the importance of social ties in the transfer of privileged

information and the significant consequences for shareholders. Finally, Sarbanes-Oxley Act of 2003 substantially reduces, but does not eliminate, the importance of social networks in the transfer of information, and consequently the cost to shareholders. The paper was well received by the audience. The discussant was Min Zhu from Michigan University. She gave us useful comments and suggestions.

I discussed two papers at the CICC conference on July 6. The first paper is by Professor Bang Dang Nguyen from Oxford University and Professor Kasper Nielsen from Hong Kong University of Science and Technology. The authors use sudden executive death events to infer the stock value by these director and the more general relation between executive value creation and their compensation. I made some suggestions about their empirical calibration of life-time compensation and other potential consequences of sudden executive deaths.

The second paper I discussed was by Hee Sub Byun, Ji Hye Lee, and Kyung Suh Park, all from Korean University. They study how product market competition interact with companies' internal governance in South Korea. I made some suggestions about the endogeneity issue of their findings.

I conclude my conference activity on July 7, 2011. In addition to presenting and discussing papers at the conference, I also made a number of connections and discussed potential collaboration with colleagues from other schools. It was overall a very productive trip for my own research agenda. With the recent university-wide budget cuts, it would have been impossible for me to take this trip without the support from the International Office. I greatly appreciate your generous support.