

NORTHERNSEAM

NORTHERN SEMINAR DAY IN ECONOMICS AND MANAGEMENT

2nd edition – Center for Economics and Finance at University of Porto (cef.up), July 14

PROGRAM

HOST



PROGRAM COMMITTEE

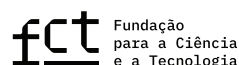
Economics:
Diogo Lourenço & Luís Sá
Management:
Bozidar Vlacic & Eduardo Oliveira
Finance:
Gilberto Loureiro & João Pinto

LOCAL ORGANISING COMMITTEE

Ana Isabel Sá
Manuel Mota Freitas Martins

| | | | |
|---------------------|--|--|---|
| 09:30 am - 09:50 am | Registration | HALL BUILDING 500 | |
| 09:50 am - 10:00 am | Welcome Remarks | | |
| | Room 613 | Room 639 | Room 642 |
| | Policy & Regulation | Banking & Markets | Education Economics |
| | <i>A tale of two periods: the independence of regulatory authorities in Portugal before and after the 2011 bailout</i> Ana Lourenço | <i>The ECB's APP's impact on non-financial firms' cost of borrowing and debt choice</i> João Pinto | <i>On endogenous education and agglomeration dynamics</i> Jorge Saraiva |
| 10:00 am - 11:00 am | <i>Fiscal policy with noisy spending composition</i> Ana Paula Ribeiro | <i>Heterogeneity of business models and banking sector resilience</i> Bernardo Marques | <i>Adaptable or Stuck? The Dynamics of Vertical and Horizontal Mismatch in Early Graduate Careers</i> Anabela Carneiro |
| 11:00 am - 11:30 am | Coffee Break | | |
| | Management | Market Efficiency | Microeconomics |
| | <i>Revenge on Behalf of Another Customer in an Intercultural Service Encounter: Cultural Differences or Discrimination?</i> Cristiana Lages | <i>Economic Policy Uncertainty, Insider Trading, and Accounting Profits/Losses</i> Nuno Soares | <i>A Simple Globally Consistent Continuous Demand Model for Market Level Data</i> Ricardo Ribeiro |
| 11:30 am - 12:30 pm | <i>Do forgiving leaders make teams more effective? A moderated mediating model</i> Arménio Rego | <i>The influence of populism on the volatility of stock prices</i> Tatiyaporn Sirisakdakul | <i>Sharing Rules in Heterogeneous Partnerships: An Experiment</i> Hélia Marreiros |
| 12:30 pm - 02:00 pm | Lunch | | |
| | Economic Growth | Corporate Finance | Portuguese Economy |
| | <i>Emissions and GDP growth: the Role of Population</i> Catarina Peralta | <i>Do Earnouts Create the Right Incentives?: Earnings Management Around Earnout-Based Acquisitions</i> Pedro Coelho | <i>'Barking dog never bits': neutrality principle of greenwashing as a driver of market leadership in the Portuguese footwear industry</i> Vitor Ribeiro |
| 02:00 pm - 03:00 pm | <i>Long-term analysis of Kaldor's law applied to Brazil (1909-2020)</i> Natália Doré | <i>Dual Ownership, Capital Structure and Investment</i> Paulo Pereira | <i>The Redistributive Impact of Public Health Expenditure: The Portuguese Case</i> João Moreira Campos |
| 03:00 pm - 03:10 pm | Closing Remarks | HALL BUILDING 500 | |

Funded by national funds through FCT – Fundação para a Ciência e a Tecnologia, I.P. Project UIDB/04105/2020



NorthernSeam is a joint initiative of CEF.UP, CEGE and NIPE to strengthen the links and collaboration potential among researchers from these three research centers, providing an informal platform for exchanging and disseminating results at the forefront of research on topics of Economics, Management and Finance

LIST OF PRESENTERS

Cef.UP – Center for Economics and Finance at UPorto / School of Economics and Management of the University of Porto

Jorge Saraiva
Ana Paula Ribeiro
Anabela Carneiro
Nuno Soares
Tatiyaporn Sirisakdakul
Catarina Peralta
Vitor Ribeiro
Natália Doré
Paulo Pereira

CEGE - Research Centre in Management and Economics / Católica Porto Business School

Ana Lourenço
João Pinto
Bernardo Marques
Ricardo Ribeiro
Arménio Rego
João Moreira Campos

NIPE – Centre for Research in Economics and Management / University of Minho – School of Economics and Management

Cristiana Lages
Hélia Marreiros
Pedro Coelho

LIST OF ABSTRACTS

A tale of two periods: the independence of regulatory authorities in Portugal before and after the 2011 bailout

Ana Lourenço, Raquel Brízida Castro and Susana Coroado

The paper assesses the independence of Portuguese regulatory authorities before and after the 2011 bailout, agreed with the European Commission, the European Central Bank and the International Monetary Fund. Based on Gilardi & Maggetti (2010), the paper views independence as a relative characteristic encompassing the self-determination of regulators (formal independence) and their autonomy in managing their everyday regulatory actions (de facto independence), in face of external pressures from elected politicians and regulatees. The independence of Portuguese regulators is explored in a comparative case study of three Portuguese regulators: Competition Authority, Energy Regulator and Postal and Electronic Communications Regulator. The case study covers a twenty years' period, characterized by the privatisation of previously nationalized companies, the diffusion of marketization in public service delivery, and the constraints and opportunities set by the 2011 bailout. Evidence suggests that the formal independence of regulators increased after the bailout, which nonetheless kept some deficiencies unsolved; that independence varies between regulators, with the Energy Regulator being the least independent, in practice; that regulators' independence regarding financing, organization, board nomination and competencies may be improved; and that institutional and organizational change is mostly due to supra-national influence. Specific proposals for strengthening the independence of regulators are advanced.

Fiscal policy with noisy spending composition

Nuno Gonçalves and **Ana Paula Ribeiro**

This paper studies the macroeconomic effects of fiscal policy when agents have imperfect information about the temporary or permanent nature of government expenditure. We first present evidence for the US that temporary government spending shocks have larger multipliers under periods of high economic policy uncertainty, controlling for recession periods. Then, extending a RBC model with distortionary taxes and government debt, we introduce a learning problem about the true composition of government expenditure, where agents are assumed to observe total government expenditure and a noisy public signal regarding

the permanent component. We conclude that, through the wealth effect channel, imperfect information amplifies multipliers in the case of temporary shocks, while dampening those of permanent ones, as uncertainty leads agents to weight government spending shocks differently from the true ones. We also explore how a purely noise shock regarding spending composition affects the economy, with results showing that the announcement of larger permanent expenditures that ended up not being implemented, even under symmetric but imperfect information, can lead to positive impacts on real activity without effectively change the amount of government spending.

The ECB's APP's impact on non-financial firms' cost of borrowing and debt choice

Joana F. Kanda, **João M. Pinto** and Beatriz P. Silva

We examine the impact of the ECB's asset purchase programmes on euro area non-financial firms' cost of borrowing and choice between corporate bonds and syndicated loans. We find that the corporate sector purchase programme (CSPP) reduced corporate bond spreads significantly, consistent with signalling, direct, and portfolio rebalancing channels of monetary policy. We show that the ECB's purchases of covered bonds spilled over to corporate bond spreads: while the first and third programmes induced positive spillover effects, the second programme led to a widening of corporate bond spreads. Consistent with the bank lending channel, we find that the CSPP led to a syndicated loan spread compression, while the purchase of asset-backed securities induced a positive spillover effect for loans similar to eligible corporate bonds. On the contrary, the purchase of covered bonds under the second programme increased loan spreads. Results also show that firms' debt financing choices were affected by the CSPP. Surprisingly, these effects are more important for non-switchers, those firms that may have more difficulty accessing the bond market.

Heterogeneity of business models and banking sector resilience

Bernardo P. Marques and Carlos F. Alves

This paper studies the relationship between the heterogeneity of business models and banking sector resilience, in light of the interplay between diversification, market power, and resilience.

Our main goal is to tackle the open puzzle related to the effects of diversification-induced homogeneity of banks' business models on the banking sector's stability. Drawing on a sample of 1,268 banks from 33 countries (Europe, Asia, America), we estimate a 3SLS model that accounts for the interplay between revenue diversification, heterogeneity, market power and resilience. We apply principal components and clustering analysis to identify the banks' business models and compute an ecology-based measure of heterogeneity per country. Finally, we breakdown the baseline results for bank- and market-oriented financial systems. We find that revenue diversification significantly reduces bank heterogeneity, in tune with the view that banks tend to pursue uniform diversification strategies. We also uncover a positive relationship between bank heterogeneity and market power, suggesting low rivalry among different business models. Importantly, our results indicate that bank heterogeneity positively and significantly impacts resilience. Namely, we estimate a 7.0% increase in the Z-score due to a one standard deviation increase in business model heterogeneity. Despite several theoretical studies discussing the effects of diversification and heterogeneity on the resilience of banking sectors, this is one of the first papers to shed light on this debate empirically.

On endogenous education and agglomeration dynamics

Jorge Saraiva, João Correia-da-Silva and Sofia B. S. D. Castro

We study how entrepreneurs make spatial and educational decisions endogenously. We implement the two-region quasi-linear log utility footloose entrepreneur model in an overlapping generations model to explore how forwardlooking agents decide where to live and whether to study. The agents may follow one of four different life paths, and we find that qualified and unqualified workers can become segregated between regions. We conclude that when the productivity gains from education are sufficiently high, everyone chooses to study. However, we also conclude that even for relatively low productivity gains, it may be optimal to study due to price decreases. Finally, we also find that the equilibrium seems invariant to changes in economic conditions, except for changes in productivity gains.

Adaptable or Stuck? The Dynamics of Vertical and Horizontal Mismatch in Early Graduate Careers

Anabela Carneiro, Isabel Araújo and José Verónico

Exploring a longitudinal sample of 15 thousand recent graduates who entered the Portuguese labour market in 2010-2011, this study analyses the effects of educational mismatches on graduates' subsequent job and wage mobility in early career. The data indicate that about 40% of the recent graduates in Portugal are vertically mismatched at entry. Of this total, those who are not able to switch to a well-matched job over the 2010-2018 period, about one-fifth of the newly graduates, experienced a persistent wage penalty of about 12% when compared with their peers continuously matched. This group of graduates are mainly employed in occupations related with clerk and sales tasks. Moreover, the data show that about 44% of the graduates did not change their first employer over the analysed period. In this regard, mismatched graduates at entry do not exhibit a higher propensity to change jobs when compared with their similar counterparts who entered the labour market adequately matched.

Revenge on Behalf of Another Customer in an Intercultural Service Encounter: Cultural Differences or Discrimination?

Mohamed Sobhy Temerak, Ruby Wenjiao Zhang and **Cristiana Lages**

Purpose: This study aims to compare attributions (i.e. either to cultural differences or discrimination attributions) and behavioural reactions of native and immigrant observing customers to a mild form of service incivility incident against a focal immigrant customer by a native frontline employee. The reasons for the service incivility and a revenge reaction by the observing customer are subsequently investigated.

Design/methodology/approach: The study adopted a scenario-based experiment on a sample of 201 respondents in the U.K.; the data were analysed by the means of SEM.

Findings: The results show that mild forms of employee service incivility are attributed by the observing customer to discrimination, which is more strongly perceived by the native than the immigrant observing customers. In the case of cultural differences' attributions, the native, but not an immigrant, observing customer will take revenge on the restaurant. Further, the intercultural competence of observing customers was found to aggravate the effect of witnessing an employee service incivility on their discrimination attributions of that employee behaviour. **Practical implications:** This study provides an understanding of the observing customers' reactions when service incivility by a culturally distant employee takes place in an intercultural service encounter, namely whether they attribute the service incident to cultural differences or discrimination. **Originality/value:** This study extends the employee service incivility literature to the outcomes on the observing customer (rather than the focal customer) as well as to an intercultural service context (rather than a monocultural context).

Do Forgiving Leaders Make Teams More Effective? A Moderated Mediating Model

Arménio Rego

As role models and salient sources of social information, forgiving leaders play a key role as prosocial facilitators of team interactions, with consequences for team performance. Through three studies (one experiment and two field studies), we show that (a) leader-expressed forgivingness is predictive of team performance through, serially, team forgiveness climate and team helping behavior, and (b) such an indirect effect is stronger when the strength of leader-expressed forgivingness and team forgiveness climate are high. Findings also show that (a) leader-expressed forgivingness predicts team performance through, serially, team psychological safety and team creativity, and (b) such an indirect effect is stronger when the strength of leader-expressed forgivingness is high. The study suggests that forgiving leaders may play an important role as enactors of the mutual interdependence that makes teams more effective.

Economic Policy Uncertainty, Insider Trading, and Accounting Profits/Losses

Tianshu Ma, Wei Jiang and **Nuno Soares**

This study examines how the information contained by the zero (current or future) earnings threshold affects insider trading in presence of external macro-level uncertainty. Li (2020) documents that economic policy uncertainty (EPU) increases insider trading. Using the U.S. sample of 137,378 firm-year observations over the period of 1986-2019, we find that insiders of loss-making firms are more likely to sell their shares when facing high EPU relative to those of profit-making firms. By considering the heterogeneity in losses, we find that, within loss-making firms, insiders of likely distressed firms sell more relative to insiders of loss firms with better prospects. The findings are robust to alternative measures for dependent and independent variables, and after controlling for the historical EPU. Additional analysis suggests that the effects of EPU on firm-level decisions and firm value are more pronounced in loss-making firms relative to profit-making firms, and in likely distressed firms relative to other loss firms. Also, insider trading in presence of high EPU contains information about future earnings. Taken together, our study highlights that the profit versus loss heuristic and the nature of loss-making firms play an important role in explaining insider trading in a high EPU period.

The influence of populism on the volatility of stock prices

Tatiyaporn Sirisakdakul and Júlio Lobão

This research aims to identify the influence of populism on the volatility of stock prices and the impact of macroeconomic variables on the fluctuations of stock markets, considering four

1961 to April 2022. The Augmented Dickey-Fuller Unit Root test (ADF test) and the Phillips-Perron (PP) test were used to measure the stationarity of the variables. We also used the Jarque-Bera test for normality, correlation matrix and the variance inflation factor (VIF) for multicollinearity, Breusch-Pagan-Godfrey for heteroscedasticity, the Durbin-Watson test and the Wooldridge Serial Correlation LM Test for correlation and Panel Regression method with the HAC Newey-West estimator. Results show that when a populist party is leading the government, the stock market would fluctuate. The status of populism in Asian, European, and other regions had a negative significance on the volatility of stocks, while the South American region positively impacted the stock market volatility. The behaviour of the stock market of each region has a different direction from the movement of economic indicators. The results show that most economic variables have a negative and statistically significant relationship with volatility, while South America's stock market's behaviour has a highly positive significant effect on stock market fluctuations. However, the interest rate for all regions was significant and positively impacted stock volatility.

A Simple Globally Consistent Continuous Demand Model for Market Level Data

Peter Davis, Laura Grigolon and **Ricardo Ribeiro**

This paper considers a new method of uncovering demand information from market level data on differentiated products. In particular, we propose a globally consistent continuous-choice demand model with distinct advantages over the models currently in use and describe the econometric techniques for its estimation. The proposed model combines key properties of both the discrete- and continuous-choice traditions: (i) it is flexible in the sense of Diewert (1973, 1974), (ii) it is globally consistent in the sense it can deal with the entry and exit of products over time, and (iii) incorporates a structural error term. The estimation procedure follows an analogue to the algorithm derived in Berry (1994), Berry et al. (1995). The contraction mapping for matching observed and predicted budget shares is analytic, making it relatively simple and fast to estimate, which can prove a key advantage in some applications such those in competition policy, where time and transparency are important. We provide also a series of Monte Carlo experiments to illustrate the estimation properties of the model. Finally, we discuss how it can be extended to account for consumer heterogeneity and to cope with consumer dynamic behaviour.

Sharing Rules in Heterogeneous Partnerships: An Experiment **Hélia Marreiros**

This paper experimentally investigates the welfare implications of two distinct sharing rules in partnerships with a heterogeneous composition. In particular, the paper examines the trade-off between the potential benefits of an equal sharing rule and an unequal distribution rule that accounts for different skills and maximizes total welfare, the second-best sharing rule. The experimental setup is based on a team production technology model, where Nash equilibrium contributions are located in the interior of the set of feasible contributions. The experimental results indicate that a sharing rule that accounts for different skills leads to a higher total welfare compared to the equal sharing rule. Both high and low skilled partners overcontribute in both sharing rules. However, the overcontribution of low skilled members is more pronounced under an equal sharing rule. This results in a significant increase in total wealth creation under an equal sharing, which is significantly higher than predicted. This result suggests that less skilled partners exhibit a sense of fairness when receiving an equal share of output, leading to a higher level of contributions. Consequently, there is, a tradeoff to be considered when determining the team composition and the sharing rule. On the one hand diverse skills is advantageous, and while a proportional sharing rule generates more wealth, an equal sharing rules may motivate low skilled individuals to work hard.

Emissions and GDP growth: the role of population **Catarina Peralta** and Klaus Prettnner

We study the relationship between population growth and emissions. We develop an R&D-based growth model with endogenous fertility, human capital accumulation, and energy in the production process. The results show that a lower population growth rate might impact emissions differently across economies. Moreover, when lower fertility increases income per capita and reduces carbon emissions, it eliminates a trade-off central to most policies aimed at slowing global climate change. This study emphasizes the need to consider population dynamics in addressing climate change mitigation policies.

Long-term analysis of Kaldor's law applied to Brazil (1909-2020) Eliane Araújo and **Natalia I. Doré**

Nicholas Kaldor, a critic of the neoclassical literature, asserts that the industry is a crucial factor in promoting economic growth, suggesting that the sector's increasing returns to scale significantly impact the overall productivity of the economy. This research employs Kaldor's law to explore their applicability to the Brazilian economy over a very long-term period (1909-2020). The paper's methodology entails (i) a theoretical review of Kaldor's laws; (ii) a historical contextualisation of Brazil's industrialisation process; and (iii) an econometric exercise using Markov Regime-Switching (MS) approach. The estimated MS models, involving two different growth regimes of output, productivity, and employment, demonstrate that Kaldor's laws are still applicable when tested in the context of Brazil. The study's principal findings support the notion that the industrial sector is critical to promoting economic growth and enhancing productivity and employment.

Do Earnouts Create the Right Incentives?: Earnings Management Around Earnout-Based Acquisitions **Pedro Coelho** and Gilberto Loureiro

We investigate whether acquiring firms with earnout agreements engage in earnings management during the earnout period. Using a sample of completed deals between 1998 and 2017, we find that acquirers manage their earnings downwards during the earnout period to avoid or reduce the earnout payment to the target. We also show that lower earnout payments are associated with greater earnings manipulation. Moreover, only earnout deals with a first payment in cash are associated with income decreasing earnings management through real activities. Our findings also indicate that acquirers are more likely to engage more in real earnings management than accrual-based earnings management during the earnout period.

Dual Ownership, Capital Structure and Investment **Paulo J. Pereira** and Artur Rodrigues

This paper provides a theoretical model for a better understanding of the impact of dual ownership (DO) on different types of corporate finance decisions, focusing on the dynamics of debt restructuring, default, capital structure, and irreversible investment decisions. The study links the recent trend of literature on DO with that on dynamic capital structure and debt renegotiation. In our model bank debt and market debt coexist with different types of seniority. The main findings show that moderate levels of DO may lead to underinvestment and lower leverage, while the optimal bank (market) debt decreases (increases) as the weight of DO increases in the firm. Additionally, the bank (market) credit spreads decrease (increase) as DO increases.

'Barking dog never bites': neutrality principle of greenwashing as a driver of market leadership in the Portuguese footwear industry

Vítor Ribeiro

This research examines the Portuguese footwear industry (PFI) and its internal dynamism. Despite the growing recognition of high-quality products developed by PFI companies, there is a lack of research on the underlying factors. The study employs statistical techniques including principal component analysis and cluster analysis to analyze data spanning from 2010 to 2017. Results reveal two distinct groups among PFI companies: leaders and followers, with operational activity, product lifecycle management, and financial performance justifying the categorization. Survival analysis is then used to identify factors influencing follower-to-leader transitions. Interestingly, the effect is close to zero for greenwashing in the form of advertising expenditures, which suggests a neutral character in influencing followerto-leader transitions. The assessment of attention mechanisms, which accommodates the inference of self-attention and unidimensional convolutional attention parameters, supports the same finding by confirming that greenwashing is only statistically significant in affecting the business context faced by PFI firms, but not in driving follower-to-leader transitions. These results not only assist managers in the design of appropriate sustainability strategies, but also legitimize that the optimal approach to deal with greenwashing practices is the implementation of light-touch regulation.

The Redistributive Impact of Public Health Expenditure: The Portuguese Case

João Moreira Campos

The present research aims to understand the impact of public healthcare provision on income distribution. This understanding has been suggested by entities such as the Commission on the Measurement of Economic Performance and Social Progress (2009) or academics like Aaberge et al. (2019), not only because of the amounts involved but also due to the relevance of their distributive effects (Vaalavuo, 2020). Carrying out such an analysis implies considering public services as an in-kind benefit enjoyed by individuals and households (Pereirinha, 2019), whereby the market value of the rights exercised through consumption is imputed to disposable income, like Haig and Simons suggest (Koutsampelas and Tsakloglou, 2013), resulting in what Atkinson (2015) calls extended income. Thus, based on the 2015/16 edition of the Household Budget Survey and using the profiles calculated by the Central Administration of the Health System, it is possible to conclude that the in-kind benefit imputation to disposable income determines a reduction in inequality, more accentuated when considering the specific needs of the household members, namely due to the age of each one. The progressive nature of the public healthcare provision is therefore observed, more significant than that of some social transfers but less than others.