PhD Dissertation Defense

Candidate: Ali Taatian
Degree: Doctor of Philosophy
School/Department: School of Business / Business Administration
Date: Tuesday, May 4, 2021
Time/Location: 12:00-2:00 pm/ https://stevens.zoom.us/j/97174635737

Title: Three Essays in Public Capital Markets

Chairperson: Dr. Stefano Bonini, Finance, School of Business
Committee Members: Dr. Suman Banerjee, Finance, School of Business
Dr. Ying Wu, Finance, School of Business
Dr. Steve Yang, Financial Engineering, School of Business
Dr. Lindsey Cormack, Political Science, College of Arts and Letters

ABSTRACT

This dissertation consists of three independent essays:

In Essay 1, “Dual Holding and Bank Risk”, we show that banks with investors holding simultaneously both their equity and bond (dual-holders) exhibit lower risk and superior performance. Using the 2007-9 financial crisis as a quasi-natural experiment, we find that the presence of dual-holders reduces risky investment and risky business portfolio choices. Dual-holders' influence is higher in more opaque banks, indicating that the mechanism of transmission is through a decrease in information asymmetry and a reduction in debtholder-shareholder conflict. This effect translates into higher unconditional and risk-adjusted stock returns. Our results have important normative implications in improving the stability of financial systems.

In essay 2, “Debt Holders and the Choice of Restructuring: Evidence from Dual Holders", we find a channel through which debt holders can affect corporate transactions. We show that dual holders (equity holders who also have the firm's bond in their portfolio) are sensitive to wealth transfer in the event of a leveraged buyout, and decrease the likelihood of LBOs. We show that stock excess return in LBO events is higher for a firm with dual holders due to their loss on their debt. We also find that LBO deals with pre-LBO dual holding have a higher expected performance, implying a screening mechanism.

There has been extensive literature on how segmentation of informed and uninformed traders affects stock market quality. In essay 3, “Market Segmentation and Switch to NASDAQ", we show that the switch to NASDAQ increases market segmentation and encourages uninformed traders to move to dark platforms. We find that the trade execution quality, including liquidity and price discovery, in the exchange markets improves when a firm switches to NASDAQ.