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Abstract

Banking Market Structure, Liquidity Needs, and Industrial Volatility

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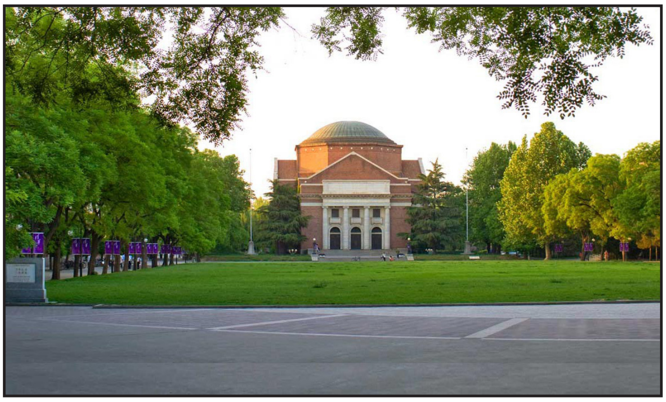

Abstract:
The traditional view on CEO pay suggests that the use of equity-based incentives (e.g., stocks and options) should increase when stock prices become more informative about managerial action. In this paper, we show this is only true in the relative sense, when comparing with CEOs non- equity-based incentives (e.g., bonus). We confirm our model s prediction to show that the use of equity-based incentives actually falls when institutional traders impound more information in stock prices. In other words, these two mechanisms are substitutes. These predictions are crystallized by our empirical results, focusing on S&P 1,500 firms from 1992-2007. Despite the lower use of equity-based incentives and even lower still use of bonus incentives, the CEO works harder and her total compensation increases, as suggested by our model. Our paper not only helps clarify the relation between CEO incentives and price efficiency due to informed trading, but also utilizes a new way to infer price informativeness from the number of institutional informed traders as well as the magnitude of their trades from a swing measure of informed trading. In its first application to the United States, we show that the swing measure can be inferred from SEC 13 f filings and is robust to a number of tests.

Biography:

Jiaren Pang is working at Tsinghua University, China

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