**FEN INDIA FEBRUARY-2018**

["Family First? Nepotism and Corporate Investment"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3109123&partid=22912&did=373429&eid=1068123) Free Download   
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Nepotism emerges in a multiplicity of contexts from political assignments to firm hiring decisions, but what are its real effects on the economy? This paper explores how nepotism affects corporate investment. To measure nepotism, we build a unique dataset of family connections among individuals employed in strategic positions by the same firm. We address endogeneity concerns by exploiting the heterogeneity in ancestries across U.S. counties to construct a measure of inherited family values. We find that firms headquartered in counties where locals inherited strong family values exhibit more nepotism. Using this measure and the percentage of family households in the county as instrumental variables, we provide evidence that nepotism hinders investment. Overall, our results suggest that underinvestment in these firms is driven by both lower quality of hired workers and lower incentive to exert effort.

["Corrections in Heston Model Derivations for Bond Options"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3113557&partid=22912&did=372980&eid=689893) Free Download

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Heston developed a mathematical model to find a closed form solution for the price of an European call option using a stochastic volatility and applied it on bond options. However, for bond options, we found that the mathematical derivations of the partial differential equations involving probabilities for the call option expiring in the money obtained by him contain some errors. The errors have been rectified and a new PDE has been derived.

["The Effect of Intra-Group Loans on the Cash Flow Sensitivity of Cash: Evidence from Chile"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3116923&partid=22912&did=372532&eid=389606) Free Download   
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We examine the effects of internal capital markets on the propensity of firms to save cash from cash flows (i.e., the cash flow sensitivity of cash). We argue that firms that are net providers of funds to related parties must maintain a higher cash flow sensitivity of cash to prevent high levels of pressure on their cash holdings in contrast to net receivers of intra-holding funds. Based on a panel of listed firms in Chile, we test this premise and examine how a firm’s differences in accounts receivable and accounts payable from related companies affects its cash flow sensitivity of cash. The results confirm that firms with high levels of net loans to related companies have higher cash flow sensitivities of cash and that this relationship is strongest for firms affiliated with business groups and family-owned firms. Furthermore, providers of funds that have the propensity for high savings are those firms that are more financially constrained suggesting that the cash flow sensitivity of cash is an adequate indicator to capture financing constraints.

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This study explores stock market efficiency in India after allowing for potential structural changes induced by reforms processes and/or external shocks. Failing to consider the effect of structural breaks while testing the efficient market hypothesis (EMH) could result in the flawed acceptance of the null of unit root producing a type-II error under conventional tests. Implementing modified versions of these tests, designed to address the presence of multiple breaks and identify additive and innovative outliers, this study re-validates the earlier findings on the EMH for Indian stock markets. The essence of our findings is that the major Indian stock indices do follow a random walk implying that the markets are weak-form efficient. The endogenous determination of structural break dates, using mostly Clemente, Montañés, & Reyes (1998) (CMR) methodology, allows us to identify important events in this respect. External shocks such as occasional stock market scams, policy and political regime changes, oil price shocks and the effect of global market meltdowns have caused abrupt or one time changes in the series mean (additive outlier model), while the reforms processes stand out to be the single most important cause for the gradual shifts in the level of stock indices (innovation outlier model). This underlines the importance of institution building and the domestic policy stance in countering external shocks.

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Savings and investments are vital for economic growth of a nation. Government consistently makes an effort to boost savings and thus capital formation in the economy. Individual Investors play a significant role in this process. Although they purchase a very small amount of financial instrument in the market but since they are the major suppliers of household savings, all financial institutions try to attract them by offering various financial services and instruments so as to meet their investment needs and objectives. The present study aims to understand preference of individual investors between two popular investment avenues – equity and mutual funds. The study also establishes preference given by investors to the selection criterions for choosing investment avenues as well as investment objectives. Today investors are well informed and educated therefore they consider several factors before making an investment decision. Such decisions are also governed by their socioeconomic profile. A study in this regard is significantly important to investment marketers as well as government and regulators. They can market their product and also formulate the financial market policies better if they are aware about investor’s requirements and preferences.

[When Does the Family Govern the Family Firm?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3123589&partid=22912&did=374440&eid=390437) Free Download   
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We find that the controlling family holds both the CEO and chair positions in 79% of Norwegian family firms. The family holds more governance positions when it owns large stakes in small, profitable, low-risk firms. This result suggests that the family trades off expected costs and benefits by conditioning participation intensity on observable firm characteristics. We find that the positive effect of performance on participation is about twice as strong as the positive effect of participation on performance. The endogeneity of participation should therefore be carefully accounted for when analyzing the effect of family governance on the family firm’s behavior.

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A debt trap occurs when someone takes on a high-interest rate loan and is barely able to pay back the interest, and thus perpetually finds themselves in debt (often by re-financing). Studying such practices is important for understanding financial decision-making of households in dire circumstances, and also for setting appropriate consumer protection policies. We conduct a simple experiment in three sites in which we paid off high-interest moneylender debt of individuals. Most borrowers returned to debt within six weeks. One to two years after intervention, treatment individuals were borrowing at the same rate as control households.