Three Essays in Financial Markets and Intermediations

by

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ABSTRACT

This dissertation consists of three distinct papers that examine the impact of law and institutional factors on financial intermediations and corporations. The first two essays are primarily focused the influence of legal environment and institutional factors on bank stock information content and financial contracts using multi-country analysis, whereas the third article uses US data to examine how passage of antitakeover laws affects firms' investment-cash flow sensitivity.

In the first paper, I uses bank stock synchronicity (R^2 statistics of the expanded market model) to measure the level of bank-specific information content in bank stock price, and examines the relevant institutional and bank-specific factors influencing it. Using data on 37 countries over the period 1996-2005, I find that bank stocks in countries that are less bank oriented, countries which have explicit depository insurance, and those countries that have higher bank-level disclosure, incorporate more bank-specific information. The result holds for both emerging and developed economy sub-samples. Further, in emerging economies, bank stocks in countries with more bank state ownership have less bank-specific information content, similarly, in developed markets, higher banking freedom enhance bank-specific information incorporation.

In the second paper, I examine how borrowers' corporate governance influence bank loan syndicate structure and contracting terms after controlling for country-level governance. Using data on firm-level corporate governance rankings across 14 emerging markets, evidence confirms that lenders create smaller and more concentrated loan syndications to facilitate monitoring and low cost re-contracting in the event of default in response to borrower's lower corporate governance. Borrowers with better corporate governance obtain more favorable bank loan contracting terms, such as larger amount, longer maturity, lower interest rate spread, and less collateral requirements. Evidence also reveals that firm-level corporate governance provisions matter more to determine bank loan contracting process in counties with weaker country-level corporate governance such as legal systems. This suggests that firm-specific corporate governance and legal environment are substitutes in writing and enforcing financial contracts.

In the third paper, I empirically test the relationship between investments and internal financing using direct and exogenous measure, generated by state adoption of

antitakeover laws. Consistent with the theoretical predictions, our analysis using differences-in-differences approach, shows that the investment-cash flow sensitivity is greater when managers are insulated from takeovers. The results are robust to alternative sample periods, sample construction methods, and regression specifications. We also find the supportive results implying that firms have lower access to external capital markets and decrease payout after managers become more entrenched.