Essays on Corporate Finance and Financial Intermediation

by

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An Abstract of a Thesis Submitted to the Graduate

Faculty of Rensselaer Polytechnic Institute

in Partial Fulfillment of the

Requirements for the degree of

DOCTOR OF PHILOSOPHY

Major Subject: Management

The original of the complete thesis is on file

In the Rensselaer Polytechnic Institute library

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Rensselaer Polytechnic Institute
Troy, New York

July, 2007
(For Graduation August 2007)

ABSTRACT

This dissertation consists of three distinct papers in corporate finance and financial intermediations. In the first paper, I analyze profit and cost efficiency of using 266 annual observations over 1994-2003 on commercial banks in China with different majority ownership – Big Four, non-Big Four state-owned; private domestic; and foreign. Empirical results suggest strong favorable efficiency effects from reforms that reduce the state ownership of banks in China and increase the role of foreign ownership. More importantly, I find that minority foreign ownership increases expected efficiency of both state and private domestic banks.

In the second paper, I investigate the possible explanations of the tech-non-tech underpricing differences. More specifically, I conjecture that technology IPOs, because of their fewer assets-in-place, face higher litigation risk than other IPOs. To reduce this higher litigation risk, technology IPOs have more incentive to do conservative earnings management, which will lead to higher underpricing. In other words, I hypothesize that technology IPOs are more underpriced because of their conservative earnings management behavior rather than as compensation for investment risk as is usually the explanation. Using a sample of US IPOs over the 1986-2004 time period I find supporting evidence of my hypothesis.

In the third paper, I empirically examine the effect of stock splits on the bid-ask spread of the syndicated loans, which serves as a measure of information asymmetry (or opaqueness) of the borrowing firm. In addition, I empirically explore whether the private information signaled by splits (if there is any) has affected the prices of loans. Based on a sample of firms that announced stock splits during 1999 to 2004, I find that bid-ask spread of the loans significantly decreases around the splits event, implying that splits signal private information to the market, and such signaling reduces the opaqueness of the firm. The results also show that loans experience significant negative abnormal returns around the splits, both wealth transfer and prepayment risk hypotheses are supported by further cross-sectional analysis.