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Finance

Index Membership and Capital Structure: International Evidence

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Abstract

We exploit exogenous variation in index composition to examine the impact of equity index membership on debt policy. Based on a novel dataset that encompasses more than 200 exogenous index events related to more than 8,000 stocks across 21 countries, we show that exogenous addition to an index results in an increase in leverage by about 1-2 percentage points. The results hold both in a difference-in-differences as well as regression discontinuity setting. We further find that stocks added to an index are followed by more analysts and that increases in leverage mainly stem from higher public debt ratios. The effect is more (less) pronounced in countries with more developed equity markets (weaker creditor protection). Overall, the results are consistent with the view that index membership increases investor attention, lowers adverse selection costs, and thereby increases a firm's supply of debt.

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A Short Biography of Prof. Vidhan K. GOYAL

Vidhan GOYAL is Professor of Finance at Hong Kong University of Science and Technology. Professor GOYAL's research interests are in capital structure, corporate governance, and debt contracts. His research papers have been published in top academic journals including the Journal of Business, Journal of Finance, Journal of Financial Economics, Journal of Financial and Quantitative Analysis, Review of Finance, Journal of Financial Intermediation, Financial Management, and Journal of Corporate Finance. Professor GOYAL has also contributed a chapter to the Handbook of Empirical Corporate Finance.

Professor GOYAL won the Jensen Prize for the Best Paper Published in the *Journal of Financial Economics* in the Areas of Corporate Finance and Organizations in 2003. He has many other research and teaching awards. In 2014, he received the Citation of Excellence Award for being the best and most highly cited Citation of Excellence winner for the past 15 years.

Professor GOYAL is an Associate Editor of the Journal of Corporate Finance and Financial Management and Editor of the International Review of Finance. He is a member of the American Finance Association and Western Finance Association. He co-chaired the program committee of the Asian Finance Associations meetings in 2008 and 2009. Professor GOYAL has also received many teaching awards including the Michael Gale Medal for Distinguished Teaching, which is the highest honor awarded to a single faculty each year by the Hong Kong University of Science and Technology.

ALL ARE WELCOME!