Angela Ma is a PhD Candidate in Business Economics at Harvard Business School. She received an A.B. in Economics with a secondary concentration in Computer Science from Harvard College. She is broadly interested in financial intermediation, with research on the experience of underbanked households in the traditional & alternative financial systems, and the real effect of commercial real estate intermediation on retail business activity.

Abstract:

Segmented Going-Public Markets and the Demand for SPACs
Angela Ma, Harvard University
Jessica Bai, Harvard University
Miles Zheng, University of Illinois at Urbana-Champaign

This paper provides a unified explanation for the existence, time-series variation, and recent boom of the Special Purpose Acquisition Company (SPAC). We document empirically that the market share of SPACs is strongly positively correlated with equity market sentiment and that SPAC operating firms are smaller and riskier compared to IPO firms at the moment of going public but then grow at similar or even higher rates in the three years after going public. Consistent with our hypothesis that the SPAC market is one type of regulatory arbitrage where SPAC sponsors act as non-bank intermediaries who bypass stricter litigation risks in the IPO market and take riskier but potentially higher-growth firms public, our difference-in-differences analyses show that elevated litigation risks in the IPO market result in increased supply of SPACs, particularly for states that are more plaintiff friendly and thus more sensitive to the litigation shock.
Abstract:

**Financing Green Entrepreneurs Under Limited Commitment**
Nam Nguyen, University of Texas at Dallas
Alain Bensoussan, University of Texas at Dallas
Alejandro Rivera, University of Texas at Dallas
Benoit Chevalier-Roignant, Emlyon Business School

Risk-averse entrepreneurs contract with financiers to fund their projects. Projects can be operated under green or dirty technologies. We explore the role of limited commitment in determining the adoption of green technologies when governments enact carbon taxes and/or directed investment subsidies. We show that entrepreneurial (resp., financier) limited commitment makes it more (resp., less) costly for governments to encourage green technology adoptions. Because green technologies are still at an early stage, the cash flows they generate are back-loaded. Entrepreneurial limited commitment forces consumption to increase over time thereby undermining risk-sharing and making dirty technologies more attractive. By contrast, under financier limited commitment, the possibility that front-loaded dirty technologies become obsolete forces consumption to decrease over time thereby undermining risk-sharing and making green technologies more attractive. We also show that carbon taxes (directed technology subsidies) are more cost-effective when entrepreneurs (financiers) display limited commitment.

**Felix Nockher**
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Felix is a fifth-year PhD student in Finance at the Wharton School. He is on the 2022/23 job market. His research focuses on corporate finance, corporate governance, and financial markets and their frictions.

Abstract:

**The Value of Undiversified Shareholder Engagement**

This paper proposes and quantifies a novel mechanism for corporate monitoring by institutional investors. I show that investors with large proportions of their portfolio allocated to a firm, which I term high "portfolio-at-risk" (PAR) institutions, are effective monitors. I find that firms owned by high-PAR investors have higher profits and valuations relative to firms owned by large, diversified shareholders. Using textual analysis of corporate conference calls, I measure monitoring and document that higher PAR is associated with greater shareholder engagement. In fact, smaller institutional investors with high PAR engage as much, if not more, as blockholders with low PAR.

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Abstract:
Buy Now, Pay Later: Innovation in credit contracts?

Background and Research Questions:
In the past decade, fintech lending has seen tremendous technological innovations that led to substantial lending volume growth. If either a customer-lender interaction is digital or if the technology used to screen and monitor borrowers is a direct result of technological innovations, then the lending has come to be known as fintech lending. Buy Now, Pay Later (BNPL) is one innovation that combines both the above-described components and puts a new twist on the old concept of layaway purchases. BNPL credit product is characterized as a point-of-sale (POS) microloan that provides an alternative payment method and allows its consumers to pay for the product over multiple installments. The underwriting process of BNPL is a key distinguishing feature from traditional unsecured consumer credit products. While traditional consumer credit products are underwritten at the borrower information level, BNPL products are underwritten at borrower-transaction level. A natural question to ask is whether there is an informational value addition due to this change in the underwriting process, and my paper aims to answer that question. To that end, this paper focuses on answering the following research questions: What information value does the additional information generated by this underwriting process add? Does this additional information result in an expansion of access to credit?

Empirical Methods and Preliminary Results:
I use a proprietary dataset on loan applicants from a leading US Fintech lending platform operating in the BNPL industry. Using a combination of statistical regression analysis (logit) and machine learning techniques (XGBoost and Random Forest), I show the internal credit score, which measures the additional information generated by the transaction-level underwriting process, helps improve default prediction capabilities. The increase in default prediction capabilities enhances the screening capabilities of the lender, thus confirming the positive value of the information generated by the underwriting process. In addition, the proprietary dataset also has a small subset of experimental loans that were randomly approved by the fintech lender, which otherwise would have been rejected by the algorithmic underwriting process. I construct a sample of experimental loans and comparable loans from the primary sample using matching techniques. An analysis of the matching sample shows that the experimental loans significantly default more by 9.9% than the comparable primary sample loans providing concrete evidence of the enhanced screening abilities of the algorithm based on transaction-level underwriting.

Finally, using machine learning techniques, I try to answer the following counterfactual questions - 1) What proportion of the approved borrowers would have been denied loans if they had relied only on traditional creditworthiness information? 2) Does the additional information (alternative data) expand credit access without adversely impacting the lender's profitability? Preliminary results suggest that a significant portion of the approved applicants would have been denied if the underwriting process relied only on traditional creditworthiness measures such as the FICO score. Particularly, borrowers with credit scores less than 620 would have been adversely impacted if traditional creditworthiness measures were the sole reliable inputs for the underwriting process. Thus, preliminary results suggest that traditionally underserved consumers, i.e. consumers with FICO scores less than 620, are benefiting due to the expansion of credit access by this new generation of fintech lenders. A natural follow-up is how this expansion of credit access impacts the lender’s profitability. Using IRR as a profitability measure, I find that profitability actually increases for the lender by providing access to the marginal groups based on this new information. The increase in profits is statistically significant and is greater than 20 pp. Hence, we can conclude that due to enhanced screening capabilities, the lender is better able to
identify creditworthy borrowers even in the lower spectrum of FICO scores who otherwise would be considered not creditworthy.

**Research Implications and Conclusion:**
To the best of my knowledge, this is the first academic paper on the BNPL industry. I provide an overview of the credit product and descriptive statistics of the loan product and its consumers. Further, using a novel dataset, I highlight the economic value of the information generated by the transaction-borrower-level underwriting process. In addition, I show that the additional information increases the prediction capabilities enhancing the screening capabilities of the lender which directly results in expansion of credit access. This expansion of credit access does not adversely impact the lender.