

Dissertation Proposal

“Essays on Closed-End Funds and Advance Disclosure of Trading”

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The Closed-End Fund Puzzle: Management Fees and Private Information

We present a partial equilibrium model in a simple economy with a closed-end fund and demonstrate that a combination of management fees and private information can account for several empirically observed characteristics of closed-end funds. The model also provides a rationale as to why funds tend to issue at a premium as well as why investors purchase funds that trade at a premium even though those funds are expected to underperform funds that trade at a large discount.

Activist Arbitrage, Lifeboats, and Closed-End Funds

We present a dynamic rational expectations model of closed-end fund discounts that incorporates feedback effects from activist arbitrage and lifeboat provisions. We find that the potential for activism and the existence of a lifeboat both lead to narrower discounts. Furthermore, both activist arbitrage and lifeboats effectuate an ex post transfer of wealth from managers to investors but an ex ante transfer of wealth from low-ability managers to high-ability managers. On average, investor wealth is unaffected by either activist arbitrage or lifeboats because their potential benefits are factored into higher fund prices. Moreover, activism and lifeboats act as substitutes.

Some Potential Consequences of Advance Disclosure

We examine the impact of advance disclosure of trading activity by a corporate executive who possesses private information regarding the profitability of a firm in a noisy rational expectations equilibrium model. Our preliminary results indicate that, at least for a subset of parameter values, advance disclosure reduces not only the profits that the executive earns by trading on the basis of her private information but also the expected utility of both the executive and outside investors. Additionally, we evaluate the implications on incentives and compensation.