It is a pleasure for me to update the alumni and friends of the department of finance on the developments of the last year. Your continued support is invaluable to the success of the department. In my role as department chair, I work primarily with three important groups: alumni and the business community; faculty and staff; and students. As you read this edition, it is evident that top-flight human capital is what those three groups have in common.

The department continues to attract outstanding students. Finance now houses 540 undergraduates in the professional program. This figure represents a number of honors students, quite a few students with two or even three majors, numerous National Merit Finalists, and young people who make a difference through leadership in the community. Quite simply, finance students as a group are among the top students at ASU. Our MBA and Ph.D. students are excellent as well. In this edition you will read about the successes of all students from undergraduate to MBA and Ph.D.

PROGRAMS THAT MAKE A DIFFERENCE
We continue to focus on delivering educational programs that help students achieve professional and personal success. This year, with the leadership of Rhett Wilson in the business career center, we implemented a program called Investment Banking Industry Scholars. A substantial number of students earn internships and launch careers in top investment banks. Through the IBIS program this year we will also launch our real estate specialization in the W. P. Carey MBA program. The program will combine the MBA core with specialized courses in real estate and the latest developments in finance as they apply to real estate. This year also brings a new course in risk management and insurance to the undergraduate program. Our Ph.D. students continue to do extremely well, projecting the knowledge imprint of ASU around the world.

In the 2003 AACSB survey of teaching quality, the department of finance ranked first among the departments in the W. P. Carey School of Business, second among seven finance departments in comparison schools (including Virginia and Indiana), and eighth among finance departments in 63 Carnegie-Class universities. The finance faculty emphasize delivering a high-quality, rigorous classroom experience.

A DEPARTMENT AMONG THE BEST
The quality of a department depends heavily on its faculty. Based on their efforts and excellence, our department ranks 16th in the world in knowledge creation and our outstanding programs continue to improve. This year, with generous financial support from Bob and Sharon McCord, we hired Dr. Crocker Liu, formerly of New York University, as professor of finance and the McCord Chair in Real Estate. Dr. Liu is the single most influential professor in the investments side of real estate. Robert Marquez (Ph.D., MIT), who is internationally known for his work in banking, joins us from the University of Maryland and the Wharton School. Deniz Yavuz (Ph.D., Yale) joins us as assistant professor.

ALUMNI AND THE BUSINESS COMMUNITY
The department of finance seeks active collaboration with the business community. In addition to providing expertise through consulting, perhaps our most important explicit interface is through the Finance Advisory Board, which attracts distinguished members of the business community from a variety of companies and sectors. Board members provide critical financial support for scholarships, curriculum and research. Board members also provide perspective, expertise and advice. The board has made indelible contributions to the structure of our curriculum, the processes that place our students, and the development of our alumni network.

We have approximately 14,000 alumni, many of whom are distinguished members of the business community. Please take a look inside for features on distinguished alumni and new board members.

The department enjoys outstanding students and faculty and delivers exceptional value in our educational programs. I believe that alumni, students, faculty and the community can be proud of what they and the W. P. Carey School finance department have achieved.
It takes resourcefulness, creative problem-solving acumen, flexibility and a staunch determination to be “the last man standing” to achieve success in the complex, ever-expanding world of real estate, according to Professor Crocker Liu.

He knows first-hand what it takes to produce MBA and doctoral graduates capable of becoming key decision makers in today’s challenging real estate industry. Professor Liu’s vision as director of the “currently under construction” division of real estate in the W. P. Carey School’s department of finance stems from his recent success in developing the highly ranked real estate program at New York University’s Stern School of Business.

“For the W. P. Carey School’s division of real estate, our goal is to make it a nationally ranked top-10 real estate program within five to seven years,” noted Liu. “One of the critical components is having top-notch professors to mentor our real estate students. Creative thinking and applying real estate theory effectively in real-world situations will be two of our program’s focal points.”

Scheduled for its official launch in the spring of 2008, the division of real estate will prepare MBA and doctoral students for careers in such fields as asset management, investment banking, real estate development, investment management, consulting, securitization, transactions, entrepreneurship, private equity, venture capital, corporate management and commercial banking. Core courses will emphasize the strong relationships between real estate and finance, with electives offered in the areas of law, construction, design and environmental studies. The division will collaborate with other ASU programs such as the School of Design, the Sandra Day O’Connor College of Law and the Del E. Webb School of Construction.

In addition, division of real estate students will interact with industry leaders during field study projects, case analyses and classroom seminars. One of those leaders is Wm. Polk Carey, the prominent New York City-based real estate investment banking executive who is the business school’s namesake. Students also will be able to complete internships with prominent real estate companies.

SOME OF THE NEW DIVISION’S PROPOSED COURSES ARE:

- Real Estate Capital Markets – Debt
- Real Estate Capital Markets – Equity
- Real Estate Development I and II
- Location Analysis (marketing course)
- Real Estate Market Analysis
- Practicum in Real Estate

For more information on the division of real estate, contact Professor Liu at (480) 965-3259 or email him at crocker.liu@asu.edu. Visit the division of real estate online at wpcarey.asu.edu/realestate.
University of Hawaii, a master’s degree from the University of Wisconsin, and a Ph.D. in finance/real estate from the University of Texas.

Professor Liu currently is co-editor of the *Journal of Real Estate Economics* and on the editorial board for the *Journal of Property Research*. He also serves on the advisory board of the Real Estate Research Institute and has been on the board of directors of the American Real Estate and Urban Economics Association (AREUEA).

Liu’s research, which has been published in leading real estate finance and economics journals, deals with such issues as agency, organizational forms, market efficiency and valuation. He has been a professional realtor in Hawaii for a number of years, and was a vice president with Prudential Real Estate Investment Group. In addition, he has done consulting work for firms such as Milliman & Robertson as well as Standard & Poor’s.

Robert Marquez is a new associate professor of finance at the W. P. Carey School of Business. He previously served on the faculty of the Robert H. Smith School of Business at the University of Maryland at College Park.

Professor Marquez’s research interests are in corporate finance and financial intermediation. Much of his work has involved analyzing the role of information as a determinant of industry structure, with particular focus on the banking industry. He has studied the impact of information technology on competition in financial services, as well as the incentives of independent competing bank regulators to centralize regulation when credit markets are well integrated, such as across European Union countries or U.S. states. He has studied the causes and consequences of financial crises, including banks’ roles in the development of such crises.

More recently, his work has focused on the role of external governance mechanisms on firm value, such as the market for corporate control. His research work has been published in the *Journal of Finance*, the *RAND Journal of Economics*, the *Review of Financial Studies*, and the *Journal of Financial Economics*.

Marquez has a B.A. in economics from the University of California at Berkeley and a Ph.D. in economics from the Massachusetts Institute of Technology. In between, he worked in the research department of the Federal Reserve Bank of San Francisco, and was a visiting scholar at the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve.
The finance department’s advisory board provides a vital link between our department and finance professionals. The feedback and insight on curriculum, placement and research issues have helped us create a world-class department.

This year we had two of our members retire from the board. John McDonnell with American Express was a founding member of the board and provided valuable insight during his tenure.

Maureen Vittoria with Intel Corporation joined the board in 2001. Maureen played a vital role in the ASU/Intel Finance Honors Collaborative Thesis program since its inception.

Thank you, John and Maureen, for all of your contributions over the years.

We are delighted that we can continue to attract distinguished industries to the board. This year two new members joined the board: George Gresham of eFunds and Swati Lingnurkar of Intel. The companies represented ensure the department remains coordinated with the business needs of those that hire the students we train and with current business finance practices. Many board members go even further, offering internships to our undergraduate and MBA students, and hiring graduates as full-time employees.

If you or members of your firm are interested in learning more about the board and possible membership opportunities, please contact John Tierney at (480) 965-4959 or john.p.tierney@asu.edu.
CRAIG J. CERNY believes a great education is one of the keys to success. “I’ve been fortunate during my career to be surrounded by some great finance academics – people like Dr. Douglas Breeden, dean of the Fuqua Business School at Duke, Stanley Kon from the University of Michigan, and Dr. John McConnell from the Krannert School of Business at Purdue,” Cerny explains. “They and folks like Dr. Herb Kaufman and Dr. Jeff Coles from ASU further impressed on me the need for and benefits of a great education.

“In discussing options with Jeff Coles, we decided that the contributions I could make should be directed to an outstanding scholar in finance at ASU and also to fund new associate professorships to raise up the expertise of the finance faculty at the W. P. Carey School.”

Cerny has been chairman of the board and chief executive officer of Harrington West Financial Group, Inc. since 1995, when he formed the company to acquire Los Padres Bank. Harrington West is a $1.1 billion diversified banking company. It operates Los Padres Bank in California’s central coast region and the Phoenix market, as well as Harrington Bank in metro Kansas City. The company also owns Harrington Wealth Management Co., a trust and investment management company with $161 million in assets.

Until 2002, Cerny was chief executive officer, president and a director of Harrington Financial Group, Inc. of Richmond, Indiana, and also chairman, chief executive officer and president of HFGI’s subsidiary, Harrington Bank, FSB. In 2002, HFGI and Harrington Bank merged with an unaffiliated financial institution after the sale of the assets of HFGI’s Shawnee Mission, Kansas operations to Los Padres Bank.

Cerny also has served as a principal and board member of Smith Breeden Associates, Inc., a money management and bank consulting firm with more than $30 billion in assets under management or advisement. Prior to joining Smith Breeden, he held financial management-related positions with Hallmark Cards, Inc. and Pizza Hut Restaurants, Inc. A resident of Scottsdale, Cerny holds both an MBA and bachelor’s degree in finance from ASU.

After receiving her bachelor’s degree in management and later an MBA from ASU, Morgan began her investment banking career with Hambrecht & Quist as an enterprise software research analyst. She served as the firm’s director of global technology investment banking until 2001, when she was named a vice chairman in Investment Banking. H & Q went public in 1996 and was acquired by Chase Manhattan Bank in 2000. Chase was then acquired by JPMorgan in 2001.

Morgan serves on JPMorgan’s Private Placement Commitment Committee and the California Operating Committee. In her own practice, she has represented her firm on more than 100 IPOs and worked on a variety of transactions with companies like Adobe, Pixar, Netscape, Google, Khermetrics, Siebel and Verisign.

Morgan has been recognized by Working Woman magazine as one of the Top 10 Women in Technology, by Worth magazine as one of the Bay Area’s Most Powerful Investment Bankers, and by Fortune as one of America’s 50 Most Powerful Women. She also was named Financial Woman of the Year by the Financial Women’s Association. A frequent panelist and speaker at technology and IPO forums, Morgan has appeared on such programs as “Bloomberg’s Forum” and KGO radio’s financial segment of “Marketplace.”

GEORGE A. SCHREIBER, JR. is president and chief executive officer of Semco Energy, Inc., and serves on its board of directors. Semco distributes natural gas to more than 400,000 customers in Michigan and Alaska, and also is involved in propane distribution, intrastate pipelines and natural gas storage.

Schreiber previously served as chairman of Credit Suisse First Boston’s Global Energy Group, and prior to that was president of Pinnacle West Capital Corp., a $7 billion diversified holding company whose principal businesses are Arizona Public Service Co. (APS) and Suncor Development Corp. His professional experience has covered the gamut of financial matters in the utility industry as well as corporate finance, mergers and acquisitions and restructuring activities.

Additionally, Schreiber has testified before the U.S. Congress on various energy policy matters, and has been involved in rate, tax, finance and operational regulatory issues before 10 different state commissions. He earned both his bachelor’s degree and MBA at ASU. He was also inducted into the W. P. Carey School of Business Hall of Fame in October 2006.
A select group of 22 students from Arizona State University’s W. P. Carey School of Business recently spent eight weeks learning about careers in investment banking from successful Wall Street practitioners who are also W. P. Carey alumni.

The first Investment Banking Industry Scholars (IBIS) were selected to participate in the new program that pairs top business school scholars with W. P. Carey alumni mentors from the investment banking profession. The program is designed to prepare high-achieving graduates for placement in Wall Street firms. About 80 percent of new hires in investment banking come from the ranks of college students who have worked in junior analyst summer internships.

Participating students were selected based on their academic performance, work experience and demonstrated interest in investment banking. These seniors spent time with their Wall Street mentors in a combination of group mentoring activities, investment banking career service training and guest lectures focused on a variety of topics related to investment banking, including mergers and acquisitions and hedge funds.

“The Investment Banking Industry Scholars program exceeded my expectations. IBIS has provided me the opportunity to network with industry professionals and to learn more about the investment banking industry. My success in landing a handful of top investment banking offers upon graduation has been due in part to the IBIS program,” said senior Brett Caughran, who is pursuing degrees in finance and economics. Caughran, a National Merit finalist, is currently employed as an analyst at a venture capital firm and is a member and co-manager of the $165,000 undergraduate investment fund.

“As the peer advisor of the IBIS program, I have had the opportunity to interact with outstanding alumni, faculty and peers,” said Elizabeth Batsche, a senior majoring in finance. She was a summer analyst at Lehman Brothers Holdings, Inc., a lead analyst at Outsource Financial Services, LLC, and is the founder of Animal Care Co. “Without a doubt I have developed my professional skills and, hopefully, I’ve also helped my peers advance their career goals.”

W. P. Carey alumnus Doug Bradley, managing director and head of Consumer & Retail Group, Americas Global Investment Banking for HSBC Securities, Inc. said, “The students in the inaugural group are having tremendous success in finding positions with investment banking firms and the IBIS program is a major factor in that success. The W. P. Carey School and the IBIS program have done a great job with those students in only a few months.” HSBC is among the program’s mentor companies.

The seniors also attended a private pre-homecoming reception with W. P. Carey alumna Cristina M. Morgan, vice chairman, investment banking, JPMorgan Chase & Co. Morgan was among three W. P. Carey alumni inducted into the school’s Alumni Chapter Hall of Fame as part of the 2006 Homecoming Celebration.

Capping the eight-week program, a panel of W. P. Carey alumni who are partners and managing directors of investment banks discussed careers in the field before a group of about 200 undergraduate business school students.
Chad Potter likes a challenge and enjoys being “part of something new” in the finance world.

A May 2006 honors finance graduate of the W. P. Carey School, he works as an equity incentive analyst for Scottsdale-based Gradient Analytics. This independent research firm specializes in forensic accounting, providing earnings quality analytics, equity incentive analytics and quantitative stock ratings to subscribing clients such as mutual fund managers.

One of the things Potter appreciated most as an undergraduate at the W. P. Carey School was the help and support he received from instructors like Jennifer Juergens, Glenn Wilt and Laura Lindsey. “The professors’ backgrounds in finance are so diverse, and my instructors were very helpful – but they definitely challenge you. That’s what prepares you for the working world,” Potter said.

In 2005, Potter was surprised and honored to receive the department’s Craig Cerny Outstanding Scholar in Finance award of $5,000. “You work hard as a student, and to see that effort rewarded makes you feel validated,” Potter explained. “The Cerny award also took off the financial burden of finishing my degree so I could focus on school that much more.

“I’m from Seattle, and the University of Washington had offered me pretty substantial scholarship money when I was in the process of choosing where to go to college,” Potter said. “But that school seemed too familiar, too comfortable of a choice. I really wanted to branch out, but it cost me more to come to ASU.”

He was able to secure an internship at Morgan Stanley the summer after his junior year at the W. P. Carey School, and then interned at Gradient Analytics during his senior year. Working as an equity incentive analyst for Gradient involves “looking more deeply into the accounting of different companies. The investigative work involving executive compensation is really interesting to me,” Potter explained. “Gradient is one of the front-runners on the issue of options backdating.”

A number of W. P. Carey School finance alumni work at Gradient Analytics. The firm’s founder and CEO, Carr Bettis, has co-authored research papers with Department of Finance Chair Jeffrey Coles.
**HONORS NEWS**

**NEW DEVELOPMENT**
Starting next fall, the department of finance will be offering a new honors core course, FIN 303. The new core course will be open to honors students only and will cover the material that is currently covered in FIN 300 (Fundamentals of Finance) and FIN 361 (Managerial Finance). In addition to the smaller class size (relative to the larger class sizes in the traditional core course) the new offering will allow students to advance more quickly to upper division finance courses. One additional benefit is that the course will promote interdisciplinary exchanges with students from other departments looking to take advanced coursework in finance.

**INVESTMENT PORTFOLIO MANAGEMENT CLASS**
Last year was the inaugural investment portfolio management class and the students did an outstanding job. Professor James Booth and his team of six finance honors students gained invaluable practical experience by managing a portfolio of approximately $150,000. As part of the process, the student team had to report to a group of professional money managers from around the country. The first group of students made their presentation to the board and beat their benchmark by 525 basis points controlling for risk. The upcoming group looks great and is ready to start. They will manage the money for two semesters and present to the fund advisory board in December and May.

**FINANCE STUDENTS RECEIVE SEVEN OF TEN INAUGURAL MCCORD SCHOLARS AWARDS**
In May 2006, Robert and Sharon McCord established the McCord Scholars Program through a generous $10 million donation to three Arizona university business schools. The program was established to provide talented students with financial need an opportunity to complete their education in a top business program. This fall, seven of the recipients were finance majors. The students had the opportunity to meet Robert and Sharon McCord at a reception held in their honor in September.


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**Ph.D. Profile**

For DR. LALITHA NAVEEN, the support she received from the department of finance faculty as a W. P. Carey School Ph.D. candidate has made fairness and objectivity some of the key elements in her teaching approach.

Now a visiting assistant professor of management at Purdue’s Krannert School in Indiana, Naveen fondly remembers “the terrific group of people” on ASU’s finance faculty. “The level of support they gave me is not something all Ph.D. programs have,” she notes. Naveen and her husband, Daniel Naveen, completed the W. P. Carey doctoral program in finance at the same time. For the past two years, they have been teaching and conducting research in corporate finance at Purdue.

“In the classes I teach, I give feedback to my students and get feedback from them almost on a daily basis,” Naveen said. “I try to explain things very clearly. As for my research, attention to detail is something people like Jeff Coles and Mike Hertzel at ASU always stressed. I learned you can never be too careful with your data collection and that accuracy and level of detail are critical.”


A native of Chennai, India, Naveen is a graduate of southern India’s Anna University and earned her MBA at the Bharathidasan Institute of Management. She then worked for an investment bank in Bombay for four years before coming to the United States.
FINANCE STUDENTS SHINE AT THE HOMECOMING HALL OF FAME

Every year, eight of the best and brightest students in the W. P. Carey School of Business are showcased at the Homecoming Hall of Fame Celebration, and this year six of those spots were filled by finance majors! Congratulations to each of these students on their outstanding achievements.

MICHAEL ANDREW BARNEY
Finance, May 2008

Michael is involved with the Pat Tillman Foundation's Leadership Through Action program for a second year. As part of the first class of Tillman Scholars, Michael was integral in the design of a business plan aimed at educating students about who Pat Tillman was and the values he stood for. The program involved a scalable high school curriculum that can be used over several years. Through his involvement with the Leadership Through Action program, Michael found what his passions are and how he can use them to motivate those around him into action. Michael is a student success facilitator with the W. P. Carey School of Business, vice president of community service/fundraising chair with the professional fraternity Delta Sigma Pi, ASU residential life ambassador, ASU student risk management intern, ING Investment Management senior debt group intern and co-founder of Run Devils.

Michael's academic achievements include DiSylvestre Memorial Scholar, University Scholar, ASU's Deans List, the National Dean's List and Pat Tillman Leadership Through Action Scholar.

ELIZABETH F. BATSCHE
Finance, May 2007

The summer of 2006 was memorable for Elizabeth, as it marked the beginning of her career in investments. Elizabeth worked in New York City as a capital markets summer analyst at the headquarters of premier investment bank Lehman Brothers. The experience gave her the opportunity to apply the skills she learned in her finance coursework and solidified her desire to work on Wall Street. Elizabeth's internship with Lehman Brothers is just one of her many accomplishments. She is very active in the ASU community as well. Her activities include serving on the Business Honors student advisory board/steering committee, Camp Carey facilitator, recruitment liaison for the Barrett Honors College, Order of Omega founder, and member of the financial management association. Elizabeth's academic achievements include Alpha Lambda Sigma Honor Society, Phi Eta Sigma Honor Society, National Society of Collegiate Scholars, and Dean's List. Professionally, Elizabeth has served as lead analyst for Outsource Financial Services, LLC, project manager with U.S. Bank 5 Star Leadership Academy, and intern with Merrill Lynch Global Private Client Group.

BRETT CAUGHRAN
Finance, May 2007

Brett has been involved in many organizations while at the W. P. Carey School of Business and held internships with AIG and Venture Capital. Brett has proven successful in all of his endeavors but his most rewarding experience has been his involvement with Big Brothers Big Sisters of Arizona. The opportunity to influence young people has been incredibly powerful and humbling. For Brett, being a “big brother” to Quentin is more gratifying than earning an A+ in the most difficult business courses. Brett is the recipient of many scholarships and awards, including a full academic scholarship, the Meritage Home Scholarship for Most Outstanding ASU Finance Senior, Ford Motor Scholarship for Business Honors Student, National Merit Scholarship, Washington Campus Scholarship and is on the Dean's List. Along with his involvement with Big Brothers Big Sisters he is also very involved in the ASU community. Brett is the co-president of the Undergraduate Student Investment Fund and managing director of the W. P. Carey Investment Banking Industry Scholars. He is also in the Pat Tillman Leadership Through Action Program, Delta Sigma Pi Professional Fraternity, Beta Gamma Sigma Business Honors Fraternity and Student Economics Association.

CHRISTIAN EDIN
Finance and Marketing, May 2009

Christian is a top student in the W. P. Carey School of Business, but also knows that his skills have a positive impact on the community. For over a year Christian has been volunteering at the Stardust House, a community center at a Habitat for Humanity community. Christian also teaches computer skills to third through eighth graders at the center's after school program. He enjoys being a role model to the students and showing them the importance of an education. Christian has also been involved with field trips to the ASU campus to familiarize these students with higher education. Along with his volunteer work, Christian is also the founder of the W. P. Carey School of Business Mentoring Program, Barrett Honors College Council Community Service committee member and founder/president of Club EXP. He is also on the Dean's List and a McCord Scholar.
FINANCE STUDENTS SHINE AT THE HOMECOMING HALL OF FAME
(continued from previous page)

AARON OAKS
Finance, May 2007
Aaron is the current president of Devils’ Advocates, a paraprofessional organization that is celebrating its 40th birthday this month. Leading a 70-member group that is rich in tradition can be a challenging task, but Aaron saw this as an opportunity to enhance one of the most prestigious groups on campus. Devils’ Advocates has always provided tours to campus visitors but with Aaron’s leadership the group now has a cataloguing system that matches prospective students with guides who have common interests, offering a more individualized service. Other changes implemented by Aaron include smaller tour groups, increased training and personal notes from guides to prospective students. Aaron is also the director of the Executive Luncheon Series, BSC and the Edson Student Entrepreneur Initiative communication coordinator.

DAVID WERNER
Finance and Economics, May 2007
David exemplifies the entrepreneurial spirit of the W. P. Carey School of Business. He and a partner put their skills to work by developing and implementing a business plan for University Geeks LLC and it has been going strong for three years. University Geeks offers students in residence halls a hassle-free means for purchasing, installing and supporting computers. The business has grossed nearly $1 million with over 700 consumer and small business clients and currently has a staff of five. This has given David a vehicle through which he can use the skills and tools he learns through the finance and economics curricula, and the opportunity to develop his own methods of business. David’s honors thesis will pursue the concept of franchising the successful business model of University Geeks. David is also very involved with the ASU community. He is a member of the Financial Management Association, Business School Council director of alumni relations and a research assistant with CAOS Research Institute for Supply Chain Management.

Finance Thesis | Spring 2006

ASHLEY CARLISLE
“Intel Collaborative”

JONATHAN CARTER
“Money Management: Developing a Student-Managed Investment Fund”

ANDREW CUBRIA
“Strategic Planning for Event Planning Business”

STEPHANIE DAMIANI
“Money Management: Developing a Student-Managed Investment Fund”

JOHN GRAY
“Money Management: Developing a Student-Managed Investment Fund”

ALISON GRERBENS
“Intel Collaborative”

KATHRYN HIGGINS
“A Cost-Benefit Analysis of Optimizing Factory Scheduling”

MEREDITH HOLMES
“The Assist: New Venture Proposal”

MANAGERIAL INCENTIVES AND RISK-TAKING
Jeffrey Coles
Naveen Daniel
Lalitha Naveen

EARNINGS MANAGEMENT AROUND EMPLOYEE STOCK OPTION REISSUES
Journal of Accounting and Economics | January, 2006
Michael Hertzel
Jeffrey Coles
Swaminathan Kalpathy

BAYESIAN ANALYSIS OF LINEAR FACTOR MODELS WITH LATENT FACTORS, MULTIVARIATE STOCHASTIC VOLATILITY, AND APT PRICING RESTRICTIONS
Journal of Financial and Quantitative Analysis | 2006
Federico Nardari
John Scruggs

COMPETITION AMONG REGULATORS AND CREDIT MARKET INTEGRATION
Robert Marquez
Giovanni Dell’Ariccia
COMPETITION AND STRATEGIC INFORMATION ACQUISITION IN CREDIT MARKETS
Review of Financial Studies
Robert Marquez
Robert Hauswald

DO INVESTORS TRADE MORE WHEN STOCKS HAVE PERFORMED WELL? EVIDENCE FROM 46 COUNTRIES
Review of Financial Studies | 2006
Federico Nardari
John Griffin
Rene Stultz

EXPLAINING THE EARLY YEARS OF THE EURO EXCHANGE RATE: AN EPISODE OF LEARNING ABOUT A NEW CENTRAL BANK
European Economic Review | 2006
Federico Nardari
Michael Melvin
Manuel Gomez

THE FINANCIAL ACCELERATOR IN HOUSEHOLD SPENDING: EVIDENCE FROM INTERNATIONAL HOUSING MARKETS
Review of Finance | 2006
Heitor Almeida
Murillo Campello
Crocker Liu

LENDING BOOMS AND LENDING STANDARDS
Journal of Finance | 2006
Giovanni Dell’Ariccia
Robert Marquez

SHARE RESTRICTIONS AND ASSET PRICING: EVIDENCE FROM THE HEDGE FUND INDUSTRY
George Aragon

KATE KARNOS
“Factory Scheduling- A Demand Related Issue with Intel Corporation”

DAVID KASSEL non-finance major
“Port of Alexandra: Once the Gateway to the Middle East, Will It Once Again Regain the Title?”

TODD KINSLING
“Money Management: Developing a Student-Managed Investment Fund”

LOURDES LOPEZ-GUTIERREZ
“Intel Collaborative”

BEN NOLAN
“Intel Collaborative”

RICARDO PACHECO
“Innovation Space”

NIRVANA PATEL
“Money Management: Developing a Student-Managed Investment Fund”

CHAD POTTER
“European Perceptions of the American Brand”

KRISTIN RUSCHER
“Increasing Cosmetic Sales Within the Hispanic Population”

ANDREW SCHEMBRI
“Intel Communications Group: Industry Analysis and Capacity Plan” and “Money Management: Developing a Student-Managed Investment Fund”

DARIN SHEBESTA
“Intel Collaborative”

ALLISON URRY
“Intel Collaborative”

CHRISTOPHER VINCENT
“Intel Collaborative”

ASANGANI YAPA
“Intel Collaborative”
Finance Honors and Awards Luncheon

RECOGNITION AWARDS

Wells Fargo Bank Award for Leadership in Finance
Recipients | Abbas John Anable
            | Ryan J. Seay
Donor Representative | Jennifer Clack

American Express Financial Center – West Excellence in Finance Award
Recipient | Briana K. Coonan
Donor Representative | Michael Boden

Finance Advisory Board Outstanding Graduating Senior Award
Recipient | John C. Gray
Donor Representative | Jeffrey L. Coles

Financial Management and Markets MBA Student of the Year Award
Recipients | Andrew Bigler
            | Lyle Korytkowski
Donor Representative | George Gallinger

Wall Street Journal Student Achievement Award
Recipient | Quinn Boortz
Donor Representative | James R. Booth

SCHOLARSHIPS

Allstate Insurance Company Scholarship in Finance
Recipient | Quinn Boortz
Donor Representative | Jeffrey L. Coles

Phoenix CFA Society Scholarship
Recipient | Gregory Peretz
Donor Representative | Wendell Licon

Henry and Betty Kaufman Memorial Scholarship in Finance
Recipient | David L. Chong
Donor Representative | Herbert M. Kaufman

Intel Scholarship
Recipient | Jennifer Wertheim
Donor Representative | Mark Simonson

Department of Finance Advisory Board Scholarship
Recipient | Brandon G. Hofmann
Donor Representative | Susan Edwards

Department of Finance Alumni Scholarship
Recipient | David R. Werner
Donor Representative | Susan Edwards

Dan and Elizabeth Mullen Scholarship in Finance
Recipients | Leo Glisic
            | Cayla S. Shearer
Donor Representatives | Dan and Elizabeth Mullen

Meritage Homes Scholarship for Outstanding Junior, Senior
Recipients | Michelle J. Dion
            | Brett Caughran
Donor Representative | Larry Seay

Shembri Honors Scholarship
Recipients | Stephanie Damiani
            | Kimberley M. Capp
Donor Representative | Wendell Licon

Craig Cerny Outstanding Scholar in Finance
Recipient | Ankush E. D’Souza
Donor Representative | James Booth
Department of Finance Internship Program

The finance department offers finance majors in their junior and/or senior year the opportunity to earn credit while working in the finance field. The program involves three different types of internships: corporate, institutional and sponsored. Students participating in the department’s internship program can earn from three to six hours in any one semester, depending upon the number of hours worked. To qualify for internship credit, the student must be compensated and his or her employment responsibilities must include an academic component that allows the student to apply the financial and/or accounting principles they have learned.

Since January 1, 2006, sixty-one students have or are currently participating in the finance department’s internship program. The vast majority of these internships are corporate internships, which run the gamut from local small businesses to Fortune 500 companies. Corporations hiring interns include national financial service companies; local, regional and national financial consulting firms; venture capital firms; real estate development corporations; health care corporations; and internationally known technology companies.

If either you or your company is interested in participating in the finance department’s internship program, please call Dr. John Cesta at (480) 965-2969.

WE WOULD LIKE TO THANK THE FOLLOWING COMPANIES FOR SPONSORING THE 2006 INTERNSHIP PROGRAM

BOEING COMPANY
Mesa, AZ
CHASE COMMERCIAL BANKING
Phoenix, AZ
DESERT SCHOOLS FEDERAL CREDIT UNION
Phoenix, AZ
ENTERPRISE RENT-A-CAR
Mesa, AZ
ETELECARE GLOBAL SOLUTIONS
Scottsdale, AZ
FREESCALE SEMICONDUCTOR
Tempe, AZ
GE CAPITAL SOLUTIONS
Scottsdale, AZ
GE COMMERCIAL FINANCE
Scottsdale, AZ
GENERAL DYNAMICS
Gilbert, AZ
GRAYHAWK VENTURE PARTNERS
Phoenix, AZ
GRUBB & ELLIS
Phoenix, AZ
HONEYWELL
Phoenix, AZ
ING FUNDS
Scottsdale, AZ
INTEL CORPORATION
Chandler, AZ
JOHNSON BANK
Phoenix, AZ
MICROCHIP
Chandler, AZ
MORGAN STANLEY
Scottsdale, AZ
NEINFELD, MEECH & CO., P.C.
Phoenix, AZ
NORTHWESTERN MUTUAL FINANCIAL NETWORK
Phoenix, AZ
T-MOBILE
Scottsdale, AZ
THE UPS STORE
Phoenix, AZ
THE VANGUARD GROUP
Scottsdale, AZ
WELLS FARGO
Phoenix, AZ

PH. D. NEWS Knowledge creation and dissemination is a central tenet of the W. P. Carey School of Business. As noted by Dean Robert E. Mittelstaedt, “Knowledge is the raw material that drives innovation and differentiation in today’s economy.” In addition to creating knowledge, the W. P. Carey School has a strong commitment to training aspiring academics who will become the knowledge creators of tomorrow. Nowhere is that commitment stronger than in the Department of Finance.

Recently, the Department of Finance conducted a study of the research productivity (i.e., knowledge creation) of its Ph.D. alumni. The study compares publications in the leading finance journals by our alumni since 1995 to publications by alums from other institutions around the world during the same time period. Ph.D. alumni from the Department of Finance at ASU rank 15th in the world in terms of research productivity. Given the relatively small size of our Ph.D. program (e.g., thirteen of the fourteen schools ranked ahead of ASU graduated more students during the time period, with some schools graduating nearly three times as many Ph.D. students), this is truly a remarkable accomplishment and speaks volumes about the quality of our Ph.D. students.

The accomplishments of our graduates have not gone unrecognized by the W. P. Carey School of Business or the University. School officials have agreed to a 33 percent growth in the size of the program. Increased program size should enable our graduates to leverage their contribution to the finance profession even more. Also, the

continues on back
The Privatization of Fannie Mae

Fannie Mae, the nation’s top financer and guarantor of home mortgages, has been in the news since its $11 billion accounting scandal — including alleged manipulation of earnings to trigger executives’ bonuses — was reported in September 2004. But even before that, critics, analysts and academics had urged that Fannie Mae be completely privatized.

Among those privatization advocates is Herbert Kaufman, professor of finance at the W. P. Carey School of Business, who has been studying the situation for decades.

As a Government Sponsored Enterprise (GSE), the Federal National Mortgage Association (Fannie Mae) was chartered by Congress in 1938. Fannie Mae created a secondary market for home mortgages operating under federal control, giving low- and moderate-income families access to mortgage credit – even in underserved neighborhoods.

Although 1968 privatization legislation made Fannie Mae a shareholder-owned company traded on the New York Stock Exchange, it retained its exemption from state and local taxes (except property taxes). The GSE also retained conditional access to a line of credit from the U.S. Treasury Department. (The Federal Home Loan Mortgage Corporation, known as Freddie Mac, is a similar private company, federally chartered in 1970, which can purchase mortgages and related securities, and then issue securities and bonds in financial markets backed by those mortgages in secondary markets.)

Although the securities that the GSEs guarantee and the debt instruments they issue are not explicitly backed by the full faith and credit of the federal government, they trade at yields only a few basis points over those of U.S. Treasury securities, based on the belief of many investors that the government would intervene if a GSE became insolvent. So GSEs operate at lower costs than other private firms.

K@WPC | Do you support privatization of Fannie Mae? What about other GSEs?

KAUFMAN | Yes, for both mortgage market GSEs. Fannie and Freddie.

K@WPC | Were those GSEs a mistake in the first place?

KAUFMAN | No. They served an important purpose in integrating the mortgage markets into the capital markets. By the mid-'80s it is clear that they had very well accomplished that, and my view is they should have been fully privatized then, or at least the process should have begun. Remember that they are privately owned, but the implicit government guarantee umbrella is over them, or at least the market believes that and so do I.

K@WPC | Is there reason to question the implicit government guarantee umbrella? Why has it not been explicit?

KAUFMAN | It’s not explicit, because unlike Treasury debt, it doesn’t have the full faith and credit guarantee of the government. Nevertheless, the markets have interpreted it as having an implicit guarantee against default, as shown by the borrowing rates of GSEs being only a bit higher than Treasuries and much below that of the highest-rated corporations.

In short, the market believes, and rightly I think, that the government would not allow a default. This means that the government has a possible contingent liability in case of default of about $2 trillion, though that likely wouldn’t be the actual number in case of default since clearly they have assets. Nevertheless the liability is substantial. When the GSEs were made government-chartered but privately owned, the explicit guarantee went away but there’s no reason to question the implicit guarantee as long as they remain government-chartered and have other favorable legislative preferences.

K@WPC | What effect, if any, would privatization have on borrowing rates?

KAUFMAN | My guess is that it would move those rates to about equivalent to a double A rated corporation or perhaps even a single A. Note this is on debt to finance portfolio. The GSEs securitize more than half the mortgages, and the value of the guarantee that is removed would drive these rates up but how much is hard to say – too many variables.

Kaufman believes such implicit backing should be eliminated to reduce the risk to taxpayers. In a recent question-and-answer exchange, Kaufman outlined his views.
What would the range of effect be on an average home mortgage borrower?

Hard to answer. There is a literature on how much of the subsidy that GSEs get goes to the mortgage market (best guess about half) and how much to stockholders and of course to compensation of management, a major issue these days. Anyway, it is fair to say that some of the subsidy goes to the market but much less than the subsidy actually given the GSEs.

What the equilibrium result would be is hard to know because if the GSEs are privatized they would suddenly face much more competition for the mortgage products that they offer than they currently do. Basically, they don’t face any for their major products. With competition usually comes lower prices, so the net might be no impact on the mortgage market, though even if the loss of subsidy increases rates slightly in equilibrium — and I believe it would be slight at worst — it would be worth it to take the government out of the guarantee business.

You said GSEs have “served an important purpose in integrating the mortgage markets into the capital markets.” Why was that important?

It brought much-needed liquidity to the mortgage market by essentially making mortgage financing available from the general capital markets rather than simply from financial intermediaries. There is no question that this increased liquidity was a major step forward in providing the underpinning to housing-market growth and home ownership. My point is that, at this time, this liquidity and access to the capital markets won’t go away if the GSEs lose their government-sponsored status.

What would the timetable be for privatization, and how would it work?

Clearly there would need to be substantial time for a transition and much work on how it would be done. Legislation would have to be drafted and then implemented. I would guess we are talking about a three-to-five-year period for legislation to be passed and fully implemented so as to keep any temporary disruptions to a minimum and to allow for competitive programs by private institutions to be put into place.

Remember, we are not talking about eliminating the GSEs, just taking the implicit guarantee through the charter and small line of credit to the Treasury which reinforces this interpretation. The Boards of Directors, which now include directors nominated by the president, would also have to be totally privatized. All these moves would convince the market that the government is really out of the business of guaranteeing GSEs.

So a major selling point in getting legislation passed would be the benefits of more competitive programs?

Part of it. But the major draw for legislation is getting the government out of the contingent-liability situation when they no longer serve a necessary public purpose, though there would still be some issues in case of failure, even as private institutions, because of their size. Part of the transition might be to reduce the size of these GSEs in terms of what they could hold in portfolio. There is some movement in that direction now but only in the talking stage. The sell would be that, not more competition, but the latter is still important.

To the extent there has been privatization of government services, has it been of benefit to the average taxpayer and consumer? Or is the extent of it too insignificant to make a judgment?

Remember the argument about the privatization of GSEs is not based on the efficiencies gained, although I expect them, but on the contingent-liability issue for no return to the government in terms of public purpose. Basically the issue is: Is the cost and potential cost worth it? Also remember the GSEs also are privately owned unlike truly government-owned entities that are then privatized, so comparisons are difficult. However, competition does breed efficiencies and I do expect those from full privatization.

Fannie Mae created a secondary market for home mortgages operating under federal control, giving low- and moderate-income families access to mortgage credit. Privatization legislation passed in 1968 made Fannie Mae a shareholder-owned company traded on the New York Stock Exchange, however it retained its exemption from state and local taxes (except property taxes) and retained conditional access to a line of credit from the U.S. Treasury Department.

Many investors believe that the government would intervene if a GSE became insolvent even though the securities that the GSEs guarantee and the debt instruments they issue are not explicitly backed by the full faith and credit of the federal government.
PH.D. NEWS (continued from inside)
school has given finance Ph.D. alumni access to its primary knowledge dissemination platform, Knowledge@W. P. Carey (knowledge.wpcarey.asu.edu), a platform which has previously been restricted to only W. P. Carey faculty. Giving our alumni the ability to disseminate the practical business implications of their research via the Knowledge platform should enhance not only our students’ ability to affect actual business practice, but it should also enhance awareness of the program both nationally and internationally.

For a full list of publications by our Ph.D. alums, please see wpcarey.asu.edu/fin/phd_alumni_research.cfm.

Interested in joining the impressive group of ASU graduates? As noted recently by Dean Mittelstaedt, “The intellectual assets of the W. P. Carey School of Business are a mother lode of new ideas, insight and analysis.” Come join us in the finance Ph.D. program and become part of a growing tradition of academic and research excellence. For more information please contact Professor Daniel N. Deli, director of the doctoral program in finance at (480) 965-4603, or at daniel.deli@asu.edu, or visit us on the web at wpcarey.asu.edu/fin/phd_program_main.cfm.

MBA NEWS As the W. P. Carey School of Business continues to pursue a top 25 MBA ranking enrollment in the full-time program continues to be capped at 100 new entering students. The GMAT score of 654 for this year’s entering class was the highest we’ve ever attained. The target for next year is an incremental improvement of about 15 points.

The most significant change in the W. P. Carey MBA this past year has been the return of the full-time program to ten-week trimesters, instead of eight-week terms. The school’s administration felt it was important to have both the day and evening programs on the same schedule. This approach allows for the offering of some classes that are attractive to both full-time and evening students, resulting in economies of scale.

The finance department’s response to the change to trimesters was to take our MBA courses (with the exception of the core class) and split them into 1.5 credit modules. Each module is taught over five weeks. The objective of this change is to streamline our offerings to reduce redundancies and integrate the courses better with subsequent finance classes.

Another new feature the finance department has developed for implementation with 2007 fall classes is a finance emphasis for students in the evening program. Students must take nine credit hours of finance classes. With the growth in the evening program, we expect significant demand to continue for graduate-level finance classes.

A new program being implemented later this academic year is a new specialization in real estate finance. Headed by Professor Crocker Liu, a prominent real estate academician from New York University (see W. P. Carey’s Division of Real Estate Is ‘Under Construction’ on page 2), this specialization has excited the real estate industry both in the Valley and nationally. With Crocker’s reputation, we expect the program to become the best in the country.

An exciting piece of news is that we’ve successfully placed a second-year finance student with Goldman Sachs. Will Fairbourn did an internship with Goldman Sachs this past summer and was deemed one of the best interns – better than several students from the “top-rated” schools. Hopefully, next year we can report a similar result.

Last year we reported a new specialization called supply chain financial management. This specialization is a joint venture between the finance department and the supply chain management department. It has been well received by both students and recruiters. We will continue to look for opportunities to collaborate with other functional areas, whether they are specializations or joint classes.

On a closing note, our full-time program has another honor. A team of students finished first in a PAC 10 Case Competition. This is the second time in three years, clearly showing that our students can compete with any in the country!