

FALL 2024

PHBS
Peking University HSBC Business School
University Town, Nanshan District
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PHBS MAGAZINE

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PHBS MAGAZINE

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NEWS BRIEFINGS

1 The Inaugural PHBS Finance Symposium Held at PHBS

The Inaugural Peking University HSBC Business School Finance Symposium

首届北京大学汇丰商学院金融论坛



On June 14 and 15, the Inaugural PHBS Finance Symposium was held. PHBS Dean Wang Pengfei delivered the opening speech.

Focusing on new technologies and ESG finance, the symposium brought together more than 100 experts and scholars from top universities from leading universities at home and abroad, including Columbia University, INSEAD, National University of Singapore, and The Hong Kong University of Science and Technology, to exchange academic achievements and discuss research frontiers.

It attracted over 15,000 participants online. As part of the school's 20th anniversary celebrations, this forum underscored its growing global and academic influence.

Gathering experts from around the world, it fosters cross-cultural dialogue, enhances academic collaboration, and embodies the school's commitment to advancing knowledge and practice.

2 Li Kai Achieves High Citations in the Top-Tier Journal and AFA Rankings

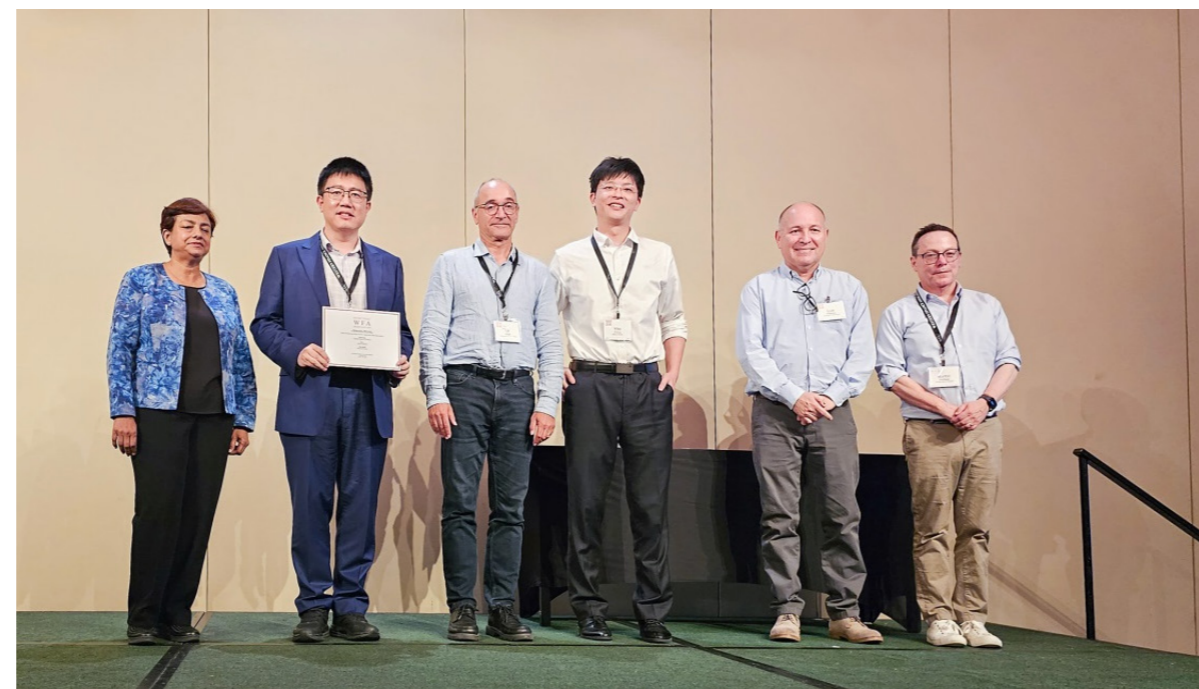
On May 29, Professor Li Kai's paper, "The Pollution Premium," was recognized as one of the top 10 most-cited papers published in the Journal of Finance, the top international finance journal, from January 2022 to December 2023. Additionally, it was listed by the American Finance Association (AFA) as one

of the 25 most-cited articles over the past five years, from January 2019 to December 2023. Among the over 70 papers published in the Journal of Finance in 2023, only two papers received this prestigious honor. The co-authors of the paper are Professor Hsu Po-Hsuan from National Tsing Hua University in Taiwan and Assistant Professor Zou Jiyang from the University of Manchester. According to data from Google Scholar, the paper has been cited 426 times since its publication, with 139 of those citations appearing in other published academic papers.

3 The collaborative paper by Li Kai and Zhang Yifei Wins the Best Paper Award

In late June, the 2024 Western Finance Association (WFA) Annual Meeting convened, awarding the Wharton School-WRDS Best Empirical Finance Paper to "Climate Innovation and Carbon Emissions: Evidence from Supply Chain Networks," co-authored by PHBS Professor Li Kai, PHBS Assistant Professor Zhang Yifei, Professor Ulrich Hege from Toulouse School of Economics in France.

This paper pinpoints climate innovations utilizing the categorization frameworks of the European Patent Office and the US Patent and Trademark Office. These innovations are instrumental in promoting substantial energy savings and emission cuts among downstream enterprises within supply chains, enticing manufacturers downstream to procure novel products from suppliers leveraging climate-innovative technologies. As a globally prestigious finance academic conference, WFA received 2,187 submissions this year, and only 6.85% of these were accepted for presentation. Among the selected papers, one outstanding paper was chosen from each of the five areas: corporate finance, financial institutions, asset pricing, investment management, and empirical finance.



Li Kai (second from the left) and Zhang Yifei (third from the right) receive the award at WFA annual meeting

NEWS BRIEFINGS

4 PHBS Full-Time Master's Graduates Reach 97.8% Initial Employment Rate

As of the end of May 2024, among the 321 full-time Chinese master's graduates (including 27 full-time MBAs), seven continue their studies at top universities, while 307 will embark on their careers, achieving an initial employment rate of 97.8%. Among the 281 full-time master's graduates about to start their jobs, nearly 70% have chosen the financial industry. In terms of employment locations, 33% of these graduates will pursue their careers in Beijing, 24% in Shenzhen, and 17% in Shanghai. Nearly 15% of them have opted to join the workforce in emerging first-tier cities such as Chengdu, Hangzhou, Nanjing, and Hefei. The 26 full-time MBA graduates starting their careers have diversified job prospects. Beyond the financial and management sectors, employment and entrepreneurship in the technology industry have also become significant options for them. Specifically, 35% of these students will enter the financial industry, while 23% have chosen to engage in innovation and entrepreneurship in sectors like technology, media, and education, fully utilizing their knowledge to introduce new ideas, inject new vitality, and make fresh contributions to the high-quality development of local economies.



5 PHBS Hosts Annual Student Forum

In early July, over 170 outstanding students from more than 40 top universities nationwide convened in Shenzhen for the PHBS Student Forum.

Following the opening ceremony, this annual forum featured nine sub-forums with paper presentations, delving into diverse areas such as macroeconomics and finance, social and economic issues, international trade and finance, micro-financial markets and banking, corporate strategy and management, innovation in various fields, and the intersection of media and society.

During the four-day event, participants also engaged in intense group activities, including quality development programs and faculty-student discussions. These extensive experiences offered a vivid glimpse into the characteristics of the school's full-time master's program. The forum concluded with participants reaping a harvest of knowledge, forging enduring friendships, and undergoing personal growth.

6 The Inaugural PHBS Innovator Forum Held in Shenzhen

On June 25, 2024, the inaugural PHBS Innovator Forum was held in Shenzhen. The forum was co-hosted by the PHBS Innovation and Entrepreneurship Center and Xishan AngelHub and organized by the PHBS Innovation Engine Lab and Xiyou Species. During the forum, several esteemed guests delivered speeches emphasizing the significance of technological innovation. The guests participated in a round-

table discussion throughout the event, engaging in profound discussions on cutting-edge topics such as the transformation, incubation, and evolution of scientific and technological achievements. In addition, the PHBS Innovator Collaboration Camp was launched, providing a platform for innovators to showcase their talents, integrate resources, and grow their ventures. Looking ahead, PHBS will remain committed to fostering interactions and collaborations among academia, finance, and industry, aiming to offer aspiring innovators more opportunities for presentation, integration, and growth.



Ye Weiming (left) and Lin Zhiyi pose for a photo at the event

7 PHBS Faculty and Students Excel at AEJMC 2024 Annual Conference

From August 7 to 11, the 2024 Annual Conference of the Association for Education in Journalism and Mass Communication (AEJMC) was held in Philadelphia, USA. This year, a total of 990 papers from around the world were selected. Among these, 69 research achievements were awarded, including honors for faculty and students from the PHBS Financial Media Program. A collaborative paper by PHBS students, including Lin Zhiyu, distinguished itself by winning the Top Student Paper Award in the "Minorities" session. Furthermore, Associate Professor Ye Weiming, together with 2023 graduates Dai Shuangze and Fu Fenju, garnered accolades. Their paper, "When News Agencies Meet Platform Content Moderation," with Dai, earned Third Place Faculty Paper and Debut Faculty Paper Awards, while "Does Cultural Discounting Theory Work in the Mobile Gaming Sector?" with Fu, secured the Top Faculty Paper Award. The inclusion of student coauthors in these prestigious awards underscored the robust collaboration between faculty and students at PHBS and their shared dedication to achieving excellence in research endeavors. Looking forward, the PHBS Financial Media Program will remain dedicated to advancing frontier, interdisciplinary, and global research, enhancing its academic influence, and fostering innovative contributions to journalism and communication studies.

PHBS Reaccredited by AMBA with a Maximum Period of 5 Years

By Annie Jin



On May 21, 2024, the Association of MBAs (AMBA), one of the three leading international business education accreditation organizations, sent a letter confirming that Peking University HSBC Business School (PHBS) has once again been awarded accreditation for a maximum period of 5 years.

A peer review team led by Professor Veneta Andonova-Zuleta, a member of the AMBA Latin America Advisory Committee and the former dean of the School of Management at Universidad de Los Andes in Colombia, conducted an on-site review of the school from March 20 to 21.

“According to the AMBA's feedback, the peer review team highly praised the school's achievements, acknowledging its top-notch facilities, impressive progress in research, and faculty development.”



The peer review team with the school leaders



AMBA only accredits the MBA portfolio within a business school, focusing on the development of business and management practices. Currently, only about 2% of business schools worldwide have received AMBA accreditation. "



AACSB
ACCREDITED



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OF
AMBA
ACCREDITED



EQUIS
ACCREDITED

The team engaged in intensive discussions with the school's leadership, thoroughly examining aspects such as the school's mission, vision, strategic roadmap, internationalization efforts, financial management, faculty quality, and research endeavors. Additionally, they had discussions with directors of EMBA and MBA programs, faculty members, students, alumni, and employers to gain a comprehensive understanding of their evaluations and suggestions for the school and its programs, covering the curriculum design, innovative cultivation, and social service.

According to the AMBA's feedback, the peer review team highly praised the school's

achievements, acknowledging its top-notch facilities, impressive progress in research, and faculty development. The delegation was impressed with the school's outstanding EMBA and MBA students and alumni, emphasizing the commendable efforts in fostering exchanges between EMBA, MBA, and full-time master's alumni. They also made suggestions for the future development of the school and its EMBA and MBA programs in terms of development strategy, international cooperation, faculty recruitment, and core curriculum design.

Founded in the UK in 1967, AMBA, along with AACSB (Association to Advance Collegiate Schools of Business) and EQUIS (European

Quality Improvement System), is recognized as one of the three leading international accreditation systems for business education. Unlike the other two systems, AMBA only accredits the MBA portfolio within a business school, focusing on the development of business and management practices. In May 2019, PHBS passed AMBA accreditation with a maximum period of five years.

Currently, only about 2% of business schools worldwide have received AMBA accreditation. Though a young institution, PHBS is now among only around 1% of business schools worldwide to hold the "Triple Crown"—AACSB, AMBA, and EQUIS.

2% of business schools worldwide have received AMBA accreditation.

1% of business schools worldwide hold the "Triple Crown"—AACSB, AMBA, and EQUIS.

QS Global Executive MBA Rankings 2024: PHBS Ranked 32nd Globally and 6th in Asia-Pacific

By Annie Jin

In the recent QS Global EMBA Rankings 2024, Peking University HSBC Business School (PHBS) was ranked 32nd globally and 6th in Asia-Pacific. This year's rankings highlighted the best programs from across the world by evaluating over 222 programs of nearly 200 business schools from more than 48 countries and regions. Each ranking is based on the five key metrics of career outcomes, diversity, employer reputation, executive profile, and thought leadership.

In thought leadership, PHBS achieved a high score of 90.6 out of 100 points, far exceeding the global average of 46.5 and the Asia-Pacific average of 58.6, placed 13th in the world and 1st in the Asia-Pacific region. This indicator, based on the annual QS Academic Reputation Survey, underscores the strong academic excellence perceived by global academics. In addition, in the evaluation of the Career Outcomes indicator, the school's Graduates Promoted index scored as high as 95.4, demonstrating the school's strong competitiveness in the job market.

“This year's rankings highlighted the best programs from across the world by evaluating over 222 programs of nearly 200 business schools from more than 48 countries and regions.”



Nestled in the vibrant city of Shenzhen, PHBS was established in 2004 with the vision to build on Peking University's inspirational traditions and develop as an internationally renowned epicenter of business education excellence. It offers innovative Chinese/Asian perspectives to address complex global challenges faced by modern managers and leaders, while its tailored programs empower professionals from top industries with advanced managerial skills, innovative ideas, and confident C-suite leadership.

Over the past 20 years, PHBS has steadfastly maintained its position as a beacon of academic excellence and intellectual prowess, as evidenced by

its relentless pursuit of rigorous research, groundbreaking publications, and insightful case studies. In addition to PHBS, related programs of many key universities in the Chinese mainland also participated in the 2024 QS Global EMBA Ranking: For instance, the School of Management at Fudan University is ranked 41st, the Renmin University of China is placed 49th, and China Europe International Business School secures the 50th position. Globally, Saïd Business School at the University of Oxford has been ranked as the best business school in the world, followed by IESE Business School and HEC Paris in second and third, respectively.



2024 PHBS Think Tank Forum Held at the Qianhai Institute of China-Britain

By Annie Jin

Themed "Building a More Open Market Economy," the 2024 Peking University HSBC Business School (PHBS) Think Tank Forum was held on June 22 at the Qianhai Institute of China-Britain. With 20 guest speakers from China, the US, Singapore, Malaysia, and beyond, as well as over 120 industry participants, the forum explored topics like world politics and economy, China's macro economy, financial development, and the Guangdong-Hong Kong-Macao Greater Bay Area. The event was hosted by PHBS, organized by PHBS Think Tank and the Qianhai Institute of China-Britain, and co-organized by China Economic Journal.

Professor Wang Pengfei emphasized that PHBS Think Tank integrated resources and combined theory with practice since the establishment, committed to building a new-type think tank platform featuring specialization and internationalization. He noted that the think tank would continue to conduct in-depth research, maintain strong interactions with various sectors, and contribute to high-level opening up and high-quality economic and social development in areas such as financial reform and development, the construction of the Greater Bay Area, coordinated and sustainable urban-rural development, economic and trade cooperation with countries along the Maritime Silk Road, and

international trade and investment.

In her speech, Professor Ni Jinlan outlined the journal's key details and initiatives. She noted that founded in 2008, CEJ is currently co-hosted by the Center for Chinese Economic Research (CCER) at Peking University and the Chinese Economists Society (CES) in the US. It is published and distributed globally by Routledge Journals, with the aim to introduce in-depth observations and professional analyses on China's economic development to English-speaking readers. In recent years, the

"With 20 guest speakers from China, the US, Singapore, Malaysia, and beyond, as well as over 120 industry participants, the forum explored topics like world politics and economy, China's macro economy, financial development, and the Guangdong-Hong Kong-Macao Greater Bay Area."

journal's academic reputation has significantly grown, with its latest impact factor standing at 3.7 and attaining a JIF Quartile ranking of Q1. She welcomed contributions from scholars and encouraged them to work together to enhance the international influence of CEJ.

In his keynote address titled, "China's Economy in the Context of Global Transformations," Professor Hai Wen offered insights and analysis from two perspectives: "recent global transformations" and "China's economy in the midst of these changes." He emphasized that despite the myriad



of uncertainties and emerg-ing challenges that China's economy may encounter in the short, medium, and long-term, it continues to progress in a historically significant growth phase, offering vast potential for further development. He underscored that, faced with challenges and opportunities, the keys are self-strengthening, adherence to market principles, legal frameworks, and international standards, proactive action, and responsibility, which could enable individuals to successfully manage their businesses, foster economic growth, and contribute to peace and development in China and the world.

In his keynote speech on "Achieving Global Shared Prosperity under the New International Normal," Professor Wing Thye Woo analyzed the challenges of major power competition and climate change. Tracing the new normal to Adam Smith's prediction, he proposed solutions to halt the escalating tensions between China and the US. He argued that decoupling trade, technology, and geostrategic competitions through an arms control treaty and an agree-ment on unfair industrial policies could prevent the consequences of this vicious cycle. According to Professor Woo, the lack of trust between the two nations hindered consensus on these critical issues. And he suggested that a third party could play a constructive role in bridging the gap and fostering mutual trust between the two major powers.

During the roundtable discussion, the participating guests engaged in in-depth ex-changes on topics such as macroeconomics, international trade investment and coopera-tion, as well as the integration and develop-ment of the Greater Bay Area.

Ni Jinlan, associate professor at the University of Washington and co-editor-in-chief of *China Economic Journal (CEJ)*



Hai Wen, vice chairman of Peking University Council (formerly vice president), chair professor, founding dean of PHBS, and director of the PHBS Think Tank



Wing Thye Woo, vice president for Asia of the United Nations Sustainable Development Solutions Network (SDSN), director of the East Asia Program at Columbia University's Center on Sustainable Urban Development, and emeritus professor of Economics at the University of California, Davis



Wang Pengfei, Peking University Boya distinguished professor, dean of PHBS, and deputy director of PHBS Think Tank, delivers opening remarks



Ren Ting, the party secretary and associate dean of PHBS, and deputy director of PHBS Think Tank, presides over the opening ceremony and keynote speeches.

During the discussion themed "Challenges and Countermeasures Facing China's Macro Economy" hosted by Li Kai, professor at PHBS, several esteemed scholars offered their insights and actively exchanged their views. Among them were Gan Li, dean of the School of Economics and Management Research at Southwestern University of Finance and Economics and professor of economics at Texas A&M University; Li Chengjian, director of the Second Research Office of the Macroeconomic Research Department at the Development Research Center of the State Council; Zhou Jingtong, deputy dean of the Bank of China Research Institute; Shen Minggao, global chief econo-mist of GF Securities and dean of the Industry Research Institute; Yu Xiangrong, chief economist of Citibank China; and Zou Xin, associate researcher at PHBS.

The roundtable discussion themed "Deepening Trade and Investment Cooperation New Momentum and New Models" was hosted by Professor Lin Shuanglin, deputy director of the PHBS Think Tank. Among the participants were Wang Yan, former senior economist of the World Bank and senior fellow at the Global Development Policy Center of Boston University; Ni Jinlan, associate professor at the University of Washington and co-editor of *China Economic Journal*; Chen Dingding, president of the Haiguo Tuzhi Institute and a professor at the School of International Relations of Jinan University; Tong Yueting, senior fellow at the East Asian Institute of the National University of Singapore; and Cai Rong, deputy secretary-general of the PHBS Think Tank. All of them shared their profound insights and engaged in lively discussions.

The roundtable discussion, themed "Promoting the Development of Guangdong, Hong Kong, and Macao through High-Level Institutional Openness," was hosted by Gu Yizhen, associate professor of PHBS. Among the participants were Fu Zhengping, dean of the Institute of Free Trade Zones at Sun Yat-sen University; Ren Ting, party secretary and deputy director of the PHBS Think Tank; Li Zhilan, professor at City University of Hong Kong's Department of Public and International Affairs, and director of the Hong Kong Sustainable Development Research Centre; Song Shunfeng, tenured professor from the Economics Department of the University of Nevada, Reno; and Cheng Yuwei, associate researcher of PHBS Think Tank. All the participants actively engaged in a wide-ranging discussion on the related topics.

PHBS Think Tank, along with *China Economic Journal*, jointly launched a paper solicitation initiative for this forum, and 11 papers were selected for discussion from the submissions during the forum.

Since its establishment, PHBS Think Tank has been at the forefront of China's reform and opening up, providing research findings and policy recommendations for the government, enterprises, and the public through publications, reports, lectures, and meetings. As an annual gathering of leading intellectuals, the forum upholds its mission of "standing in the Greater Bay Area, embracing the world, and serving the nation," striving to contribute valuable intellectual capital through fostering a robust exchange of ideas and insights.

Source: PHBS Think Tank and Public Relations & Media Office



PHBS Financial Media Program Celebrates 10th Anniversary with Its Inaugural International Conference on Media and Communication Studies



Wang Pengfei delivers a welcoming speech



Nicole Ellison gives a keynote speech



Ang Peng Hwa gives a keynote speech



Shyam Sundar gives a keynote speech

While the Chinese proverb "The best time to plant a tree was 10 years ago" may spark debate, it holds profound resonance among faculty and students of the Master of Journalism and Communication (Financial Media) Program at Peking University HSBC Business School (PHBS).

On March 3, 2024, the program celebrated its 10th anniversary with a much-anticipated academic conference. Themed "AI, Platform and Communication," the conference was the inaugural international conference organized by the program in its decade-long development, attracting communication experts and scholars from around the world to discuss the trending topic in Shenzhen, the very frontier of China's reform and opening up practice.

"Themed 'AI, Platform and Communication,' the conference was the inaugural international conference organized by the program in its decade-long development, attracting communication experts and scholars from around the world to discuss the trending topic in Shenzhen, the very frontier of China's reform and opening up practice."



Bao Luye



Mou Yi



Meng Jing



Qiu Yunxi



Hu Yangjuan



Dong Chenyu

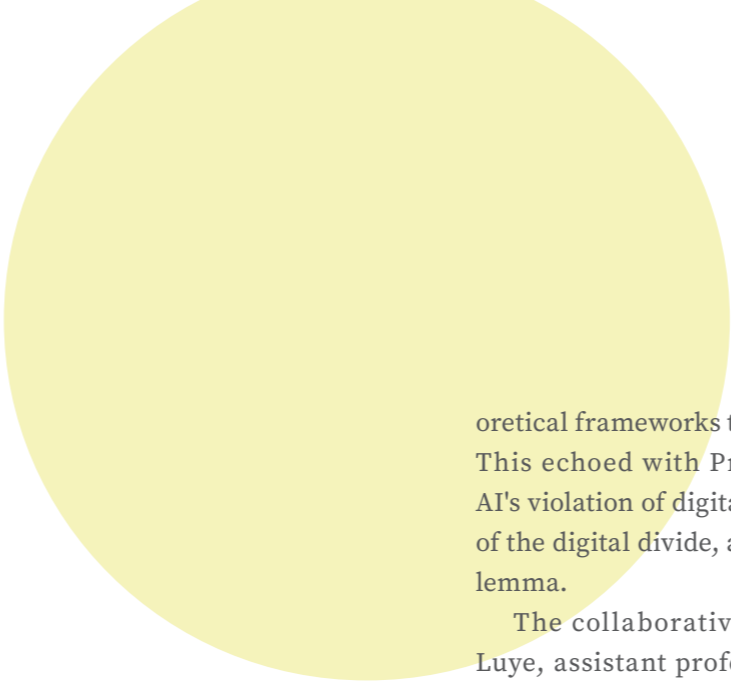
"It is my sincere hope that this conference, as an integral part of the celebration of PHBS' 20th and Financial Media's 10th anniversary, could provide insights into the impact artificial intelligence and platform will bring to the communication studies and media industry," said Wang Pengfei, dean of PHBS and chair professor of economics, in his welcoming remarks.

The 150 registered conference attendees were fully engaged in keynote speeches, paper presentations, and discussions. They raised insightful questions and gave comments that could not only enhance their academic studies but also assist technology companies in gaining a deeper understanding of their social implications.

Nicole Ellison, professor at the University of Michigan, discussed the mechanism of Human-Computer Interaction (HCI) in her keynote speech. She elaborated on the relationship between information and personal self-identity from the perspectives of "viewing" and "interacting." In addition, she raised crucial questions about the future of media, communication studies, and education, particularly how AI could shape our understanding of relationships and intimacy.

Artificial Intelligence is becoming increasingly involved in media and communication studies in today's society, as Professor Ang Peng Hwa from the Nanyang Technological University emphasized in his keynote speech, highlighting the widespread challenges such as ethics issues it could pose.

Platform, media, and their relationship was another important issue the conference paid attention to. Shyam Sundar, professor and director at the Center for Socially Responsible AI, Penn State University, discussed the challenges posed by AI to discrimination, ethics, and trust. He then proposed several possible solutions and the-



oretical frameworks to address these challenges. This echoed with Professor Ang's keynote on AI's violation of digital privacy, the exacerbation of the digital divide, and the resulting ethical dilemma.

The collaborative study presented by Bao Luye, assistant professor at PHBS, probed the impact of AI on modern communication. The study revealed the different roles of GPT-4 and Google Search in shaping public attitudes towards emerging science-related issues. "It is a must that we understand the risk of potential misinformation when using GPT," said Bao. Mou Yi, professor at Shanghai Jiao Tong University, commented that human-computer interaction in science communication served as a basic issue in the era of AI.

Meng Jing, assistant professor at PHBS, touched upon a specific AI technology-Deepfake. Based on the concepts of "authenticity" and "indexicality", her study explored how AI can achieve authenticity through subjective interaction. Paper discussant Qiu Yunxi, associate professor at the Communication University of China, acknowledged that the AIGC-focused study could inspire scholars to think deeply about the social impact brought by this new-born technology.

Hu Yangjuan, assistant professor at PHBS, introduced her paper in collaboration with Associate Professor Ye Weiming. The study focused on the application of gamified work systems in the gig economy, highlighting workers' exacerbated anxiety. Paper discussant Dong Chenyu, lecturer from the Renmin University of China, delved into the intricate relationship between individuals and algorithms from the perspective of a qualitative researcher.

Algorithms have an impact on individuals, which further influences the reorganization of interpersonal relationships. In a collaborative



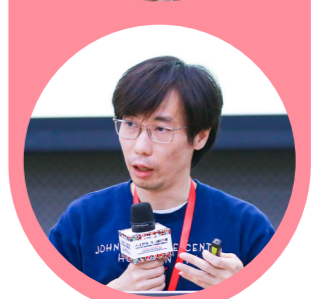
Chen Zhuo



Wang Chengjun



Ouyang Rongxin



Wang Hongzhe



Leopoldina Fortunati delivers a closing speech



Ye Weiming expresses her gratitude to speakers and audience

"By hosting its inaugural international conference on media and communication studies, PHBS Financial Media Program is more than ever devoted to equipping students with practical skills in finance, economics, and management, nurturing professionals with journalistic flair, communicative finesse, and cultivating the ability to navigate the intricate tapestry of contemporary society."

study with Lecturer Zhang Yiyan from Renmin University of China, PHBS Assistant Professor Chen Zhuo explored the voluntary actions of fan communities that lack economic incentives. Wang Chengjun, associate professor at Nanjing University, pointed out that the study revealed a unique organizing mechanism in the era of AI's growing prevalence.

In addition, Ouyang Rongxin, a PHBS graduate (class of 2021) and Ph.D. student at the National University of Singapore, presented his collaborative paper on information communication and technological innovation. Discussant Wang Hongzhe, associate professor at Peking University acknowledged the academic significance of platform governance in the era.

Group photo of conference attendees



"Today's gathering is bound to push forward the discussion around artificial intelligence as the technological foundation for shaping media and the society," commented Leopoldina Fortunati, professor at the University of Udine in Italy, in her closing speech.

"It serves as an encouragement to all those who paid efforts for this young program over the years," said Ye Weiming, associate professor at PHBS and the coordinator of the Financial Media Program, who has witnessed the program's growth from "0" to "1" over the past decade.

"This was the first time that I visited China," noted Professor Nicole Ellison, sharing her experience in Shenzhen. Accompanied by PHBS faculty and student representatives, she visited leading technological companies and engaged in discussions with industry experts in Shenzhen.

The invited speakers, akin to Nicole Ellison, served not just as conference speakers but

also as "cultivators" of this nascent program. Professor Wang Pengfei highlighted that their constructive suggestions could enhance the program in various aspects, including its curriculum design and faculty career paths. He emphasized the immense significance of the recognition and appreciation received from esteemed scholars for this groundbreaking Financial Media Program, being the first of its kind at a business school in Chinese mainland.

As the conference drew to the end, a custom-made cake commemorating PHBS Financial Media's 10th anniversary was presented amid the surprise of the audience. The keynote speakers and paper discussants were then invited on stage, together with faculty and students of the program, to celebrate this milestone as both "cultivators" and "architects" of the program's growth.

By hosting its inaugural international conference on media and communication studies, PHBS Financial Media Program is more than ever devoted to equipping students with practical skills in finance, economics, and management, nurturing professionals with journalistic flair, communicative finesse, and cultivating the ability to navigate the intricate tapestry of contemporary society.

By Dai Jiawen and Yan Yuchen
Photography:
Li Yapei and PR & Media Office



A cake specifically designed to celebrate the program's "birthday"



PHBS Hosts the 8th Workshop in Macroeconomics and Finance

The Peking University HSBC Business School (PHBS) recently held a landmark workshop in management on December 3, 2023, focusing on the burgeoning field of digital economy and platform strategy. As part of the 20th anniversary celebrations of PHBS, this event provided a vibrant platform for more than 80 renowned experts and scholars from domestic and international institutions such as the University of Cambridge, the University of Toronto, the University of Florida, Virginia Tech, Singapore Management University, Tsinghua University, Shanghai Jiao Tong University, Peking University, Fudan University, Cheung Kong Graduate School of Business, Chinese University of Hong Kong (Shenzhen), Southern University of Science and Technology, Shenzhen University and Harbin Institute of Technology (Shenzhen).

The 8th PHBS International Workshop

in Macroeconomics and Finance was held at Peking University HSBC Business School (PHBS) on June 16 to 17, 2024. More than 60 distinguished and emerging scholars in the field of macroeconomics and finance participated in the event to exchange their research findings and stay updated on the latest developments in the field. Among them were renowned scholars from Duke University, Princeton University, Boston University, Washington University in St. Louis, the University of Notre Dame, European University Institute, the University of Melbourne, National University of Singapore, Singapore Management University, The University of Hong Kong, The Chinese University of Hong Kong, Peking University, Tsinghua University, Renmin University of China, Shanghai Jiao Tong University, Shanghai University of Finance and Economics, and The Chinese University of Hong Kong, (Shenzhen).

“ More than 60 distinguished and emerging scholars in the field of macroeconomics and finance participated in the event to exchange their research findings and stay updated on the latest developments in the field.”



Thomas Sargent, Nobel laureate in economics and honorary director of Sargent Institute of Quantitative Economics and Finance (SIQEF) at PHBS



Xu Yi from Duke University delivers a keynote speech



Joseph Kaboski from Notre Dame University delivers a keynote speech

Professor Thomas J. Sargent delivered the opening remarks at the workshop, underscoring the dual nature of machine learning and ChatGPT advancements — both a groundbreaking opportunity and a significant challenge for macroeconomics. He expressed optimism, citing the collective expertise of the scholars in attendance, and asserted that while machine learning has the potential to achieve remarkable feats, the continued efforts of macroeconomists on the analysis of structural models are as important as ever. Professor Sargent eagerly anticipated the presentation of insightful papers that would further advance the field.

Professor Xu Yi shed light on his collaborative paper titled "Adverse Selection in Carbon Offset Markets: Evidence from the Clean Development Mechanism in China"(CDM). He argued that carbon offsets could address climate inequity and inefficient carbon regulation, but warned of the risk of adverse selection, or "additionality." Using the panel data of CDM offset projects matched with



Zhang Donghai and Jia Dun

Yongseok Shin and Xu Sichuang

Xie Jin and Luo Dan

Chinese firm and the staggered DID method, the study found that participation in CDM has led to reductions in CO₂, although not as much as promised in initial projects' applications. To address endogeneity issues, the authors proposed a structural model that considered firms' investment decisions and separated emissions growth into scale and selection effects. The paper concluded that although they found evidence of adverse selection taking place in CDM, the UN's internal screening of potential non-additional projects has contributed to a relatively high institutional efficiency. The authors proposed exploring alternative registration criteria using richer data to improve the per dollar "additional" emission reduction.

Professor Joseph Kaboski delivered a keynote speech on his co-authored paper "Outsourcing Policy and Worker Outcomes: Causal Evidence from a Mexican Ban". Using confidential Mexican economic census data from 1994 to 2019, as well as the manufacturing panel survey data from 2013 to 2023 and the natural experiment of Mexico's domestic outsourcing ban in 2021, the author investigated the effects of the outsourcing ban on wages, output, and employment. The research showed that the outsourcing firms evaded taxes and underpaid their employees, a term authors called "wage

discounts". The outsourcing ban implemented by the Mexican government has increased workers' wages, did not decrease firm output or employment, but led to reductions in capital investment and increased market exit. Consistent with the existence of monopoly power, the largest companies had the largest wage discounts, and the reduction in discounts was mainly concentrated in companies with high discounts.

Assistant Professor Zhang Donghai from the National University of Singapore introduced his co-authored paper titled "Lumpy R&D and the Great Twins: The Great Moderation and Great Recession." The paper found that the share of firms with R&D spikes is pro-cyclical and could account for 75% of the aggregate R&D pro-cyclicality. This finding motivated the authors to study the relationship between heterogeneous innovative firms and lumpy R&D investment under fixed adjustment costs by utilizing firm-level data and a medium-run business cycle model, give a rise to a novel "Great Twins" hypothesis. PHBS Assistant Professor Jia Dun commented on the paper, discussing ideas' persistence, physical capital adjustments, innovation's wealth effects, and the Great Twins' role, along with financial frictions.

Professor Yongseok Shin from the Washington University in St. Louis presented the col-



Ernest Liu and Xu Le

Chris Edmond and Jake Zhao

Alexander Monge-Naranjo and
Zhang Lichen

laborative paper titled "Is Software Eating the World?" The paper examined the steady decline in labor income share in most advanced economies since the 1980s, which could be attributed to capital-labor substitution, intangible capital, and reallocation. Using the data of Korean firms, the study highlighted the rise of software as a common thread, revealing that software substitution for labor could explain over 60% of the labor share decline. Assistant Professor Xu Sichuang from the Chinese University of Hong Kong, (Shenzhen) discussed topics such as the introduction of software capital in the model, production equipment and ICT equipment (hardware), software purchase versus internal development, and extensive margin.

PHBS Assistant Professor Xie Jin presented the paper titled "Nominal Rigidities, Earnings Manipulation, and Securities Regulation." Motivated by quasi-experimental evidence from the US, he argued in a new Keynesian model with a financial accelerator that managers of sticky-price firms have incentives to manipulate profits. Using PPI microdata from 2002-2012, results showed sticky-price firms would be more prone to misreporting and sensitive to punishment, increasing auditing costs and loan spreads. Assistant Professor Luo Dan from the Chinese University of Hong Kong pointed out

that Bayesian models rely heavily on strong assumptions about commitments, and it may be a better choice to use more natural models to formulate hypotheses.

Assistant Professor Ernest Liu from Princeton University presented a collaborative paper titled "Neoclassical Growth in an Interdependent World," which explored a more generalized framework of an open economy across nations by incorporating trade and capital market frictions as well as imperfect substitutability between goods and capital. Assistant Professor Xu Le from Shanghai Jiao Tong University pointed out that further discussion could be needed on whether exchange rate adjustments would mitigate or exacerbate the impact of market frictions on convergence.

Professor Chris Edmond from the University of Melbourne presented the paper "Local Concentration, National Concentration, and the Spatial Distribution of Markups," which explored the national and local market concentration and its impact on market competition and markups. Jake Zhao, a tenured associate professor at PHBS, suggested that the model should incorporate more detailed data to enhance its explanatory power and proposed fruitful directions for future extensions.

Professor Alexander Monge-Naranjo from



Ma Lin and Xu Mingzhi

the European University Institute presented the paper titled "Alumni as Assets: Legacy Preferences, Expected Donations, and Selective Admissions in Elite Colleges," which explored a dynamic model of alumni preferences and donations in elite universities. Assistant Professor Zhang Lichen from the University of Hong Kong suggested that the model could further investigate the impact of talent mismatch resulting from alumni preferences and how these preferences hinder high-ability non-alumni students from gaining access to elite education opportunities.

Assistant Professor Ma Lin from the School of Economics, Singapore Management University, presented the paper titled "Educational Migration." The article established a general equilibrium dynamic spatial model that incorporates lifecycle factors to analyze the impact of educational resources. Assistant Professor Xu Mingzhi from the Institute for New Structural Economics, Peking University, discussed issues such as the inconsistencies between individual migration and teacher resource migration, the relationship between inequality and welfare, and the measurement of educational quality.

Associate Professor Liu Zehao from the School of Finance, Renmin University of China presented the paper "Borrowing like China? A



Liu Zehao and Su Dongling

Theory of Guarantee Multipliers." His paper developed a model analyzing collateralized lending and private information to rationalize this, shedding light on the prevalence of such guarantees in China and loan guarantee programs in advanced economies. Assistant Professor Su Dongling from the School of Business, Shanghai University of Finance and Economics discussed potential extensions of the paper in terms of government fiscal capacity, land finance, and land banking.

At the closing ceremony, Professor Wang Pengfei, dean of PHBS and executive director

of SIQEF, expressed his gratitude to Professor Sargent and all the scholars in attendance on behalf of the organizers, and introduced the school's recent academic achievements. He pointed out that this year marked the 20th anniversary of the school's establishment, which was a milestone symbolizing two decades of dedication, innovation, and development. He aspired for the school's research to leap forward, maintaining its leading position in macroeconomics, financial innovation, and education, thereby contributing to the global economy.

Since its inception in 2018, the PHBS Workshop in Macroeconomics and Finance has served as a powerful platform for eminent scholars and emerging young researchers to exchange ideas, deepen their understanding of China's macroeconomic and financial challenges, and translate research insights into practical contributions to China's reform and development. In addition, this workshop not only highlights PHBS's dedication to becoming



Wang Pengfei delivers closing remarks



a world-class academic institution, but also lays a solid foundation for future collaborations between PHBS and distinguished scholars both domestically and internationally, thus strengthening the academic community in this crucial field.

Source: Sargent Institute of Quantitative Economics and Finance and Public Relations & Media Office
Written by: Annie Jin, Yang Zijun, Shu Danyi, Zhang Jiayu, Zhao Shijie, and Sun Bo
Images: Youmi and Liu Haizhen



PHBS Hosts 2024 PKU Shenzhen Forum

The 2024 Peking University Shenzhen Forum, initiated by Peking University HSBC Business School (PHBS), was held on March 30. Themed "Technology Creates the Future, Reform Leads Development," the forum attracted more than a thousand participants, including renowned experts and scholars from the fields of economics, finance, technology, and international relations. They convened to delve into the latest technological advancements and offer valuable insights into China's reform and development.

“the forum attracted more than a thousand participants, including renowned experts and scholars from the fields of economics, finance, technology, and international relations.”



Hai Wen, vice chairman of Peking University Council (former vice president) and founding dean of PHBS, presides over the forum

Zhang Jin, member of the Chinese Academy of Sciences, member of the Standing Committee of the Party Committee of Peking University, vice president of Peking University, and chancellor of PKU Shenzhen Graduate School

Bai Chunli, honorary chairman of the Presidium of the Academic Divisions of the Chinese Academy of Sciences, honorary president of the University of Science and Technology of China and the University of Chinese Academy of Sciences, and former president of the Chinese Academy of Sciences

Yi Gang, chairman of the China Finance Council and former governor of the People's Bank of China

In his welcoming speech, Hai Wen noted that the 2024 PKU Shenzhen Forum has become more extensive than before, encompassing fields such as economics, technology, and international relations; and with a "cutting-edge and practical" focus, the high-level forum invited leading scholars from various fields to share forward-looking insights into the most concerned, pressing, and critical issues of this era.

In opening remarks, Zhang Jin emphasized Peking University's commitment to driving scientific and technological progress and social development. He hoped that PKU Shenzhen Forum would serve as a bridge between academic frontiers and Chinese practices. By integrating PKU's wisdom with Shenzhen's reform and opening-up spirit, the forum aims to generate innovative ideas and plans that propel China's economic and social progress, ultimately strengthening national power and realizing national rejuvenation through modernization.

In his keynote speech, "Technological Innovation and Industrial Development," Bai Chunli underscored the latest advancements in IT, life health, materials, and advanced manufactur-



Jin Liqun, president and chairman of the Board of Directors of the Asian Infrastructure Investment Bank (AIIB)

Jia Qingguo, member of the Standing Committee of the 14th National Committee of the Chinese People's Political Consultative Conference, professor and former dean of the School of International Relations at Peking University

Zhou Qiren, professor of the National School of Development at Peking University

ing. He emphasized that with the new generation of information technology poised for significant breakthroughs, technological innovation could serve as a crucial factor shaping the global economy; and the digital economy, driven by "Internet+" and "Smart+," is also fostering new formats and models. Furthermore, he noted that AI, genomics, brain science, precision medicine, and new materials would profoundly influence future industries, social life, and economic growth; and advanced manufacturing and innovative technologies, coupled with key scientific infrastructure, could drive the growth of high-tech industries.

In his keynote speech titled "Digital Finance and Privacy Protection," Yi Gang introduced the concept of digital finance and elaborated on the development of digital finance in China in four areas: mobile payment, mobile banking, personal credit reporting, and digital RMB. Yi pointed out that digital finance did not change finance's essence but enhanced its efficiency with inclusiveness, immediacy, and convenience. He suggested that facing the challenge of privacy protection brought by digital finance, the financial sector should adopt strategies, including adhering to the principle of minimal necessity in data handling, enforcing

“ 2024 PKU Shenzhen Forum has become more extensive than before, encompassing fields such as economics, technology, and international relations.”

corresponding laws to safeguard privacy rights, and strengthening data protection design and risk assessment, to embrace the advent of the digital economy and digital finance era.

Jin Liqun delivered a keynote speech titled "Innovation Driving International Development Cooperation." He reviewed the background of the establishment of the AIIB and shared the innovative governance principles and cooperation innovations adopted by the AIIB, the world's first multilateral international financial institution initiated by China. Jin emphasized that the AIIB, in response to the new global economic landscape, will actively innovate and drive the development of regional and global economies towards openness, inclusivity, cooperation, mutual benefit, connectivity, innovation, and sustainability, as it has emerged as a prime example of practicing multilateralism and fostering international cooperation.

In his keynote speech, "Seeking Certainty in Uncertainty: The Current State and Future of China-US Relations," Jia Qingguo delved into the evolution of China-US relations, from confrontation to détente, and examined the reasons behind the tension and stabilization of their bilateral ties.

"By integrating PKU's wisdom with Shenzhen's reform and opening-up spirit, the forum aims to generate innovative ideas and plans that propel China's economic and social progress, ultimately strengthening national power and realizing national rejuvenation through modernization."

To mark the 20th anniversary of PHBS, special exhibition boards were set up outside the venue, attracting a large number of audiences.



Wu Yihuan, member of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) and vice chairman of the Shenzhen Municipal Committee of the CPPCC



He emphasized that China's emergence as a global power, along with the domestic political imperatives of both countries, has been significant contributors to the deterioration of the relations. Acknowledging the difficulties that lie ahead in China-US relations, Jia pointed out that both countries still share numerous common interests across various domains in the long term, leaving room for détente and the possibility of improved relations.

Zhou Qiren gave a keynote speech, "What is the Foundation of Modern Economy." By referring to an article written by Jiang Yiwei, the former director of the Institute of Industrial Economics at the Chinese Academy of Social Sciences, he maintained that enterprises organized through contracts could meet the needs

of expanding transactions and serve as the organizational backbone of the modern economy. Through examples, he showcased the pivotal role of modern enterprise systems in the US history, the Industrial Revolution, and China's technological development, highlighting the importance of contractual and mechanistic advancements in attracting diverse talents and driving technological transformation. He urged a return to fundamental economic principles and the re-establishment of modern economic foundations in the face of industrial competition and innovation challenges.

To mark the 20th anniversary of PHBS, special exhibition boards were set up outside the venue, attracting a large number of audiences.

Wu Yihuan, member of the National Committee of the Chinese People's Political Consultative Conference and vice chairman of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference, attend the forum.

Initiated in 2021, the PKU Shenzhen Forum, known as a springtime intellectual extravaganza, aims to combine the profound academic tradition of PKU and the innovation genes of Shenzhen and will continue to establish a forward-looking, practical, high-end, and open communication platform for society and academia to advance the reform, opening up, and development of China's economy.

By Annie Jin

The forum venue



The 8th PKU-NUS Annual International Conference on Quantitative Finance and Economics Held in Suzhou

The 8th PKU-NUS Annual International Conference on Quantitative Finance and Economics was held at the Suzhou Research Institute of National University of Singapore (NUS) from May 18 to 19, 2024. Jointly organized by the Risk Management Institute (RMI) of the National University of Singapore (NUS), Peking University HSBC Business School (PHBS), and the Key Laboratory of Mathematical Economics and Quantitative Finance of the Ministry of Education at Peking University (PKU), this year's conference attracted nearly 200 scholars to attend online and onsite, sharing the latest research findings in the field of quantitative finance and economics.

In his speech, Professor Chen Yi-Chun reviewed the history of the PKU-NUS Conference and welcomed the participants, expressing hope for continued cooperation between PKU and NUS. Associate Professor Cheng Xue introduced the research trends of the Key Laboratory of Quanti-

tative Economics and Mathematical Finance, hoping that this conference could promote more in-depth and extensive exchanges and cooperation. Associate Professor Peng Xianhua expressed his gratitude to the co-organizers, reviewed the academic achievements of PHBS in 2023, and hoped that this event could enhance the communication and friendship between the scholars.

This year's keynote speakers included Kay Giesecke, the founder of the Advanced Financial Technology Lab at Stanford University, director of the Mathematical and Computational Finance Program, and professor at the Institute for Computational and Mathematical Engineering; Wang Neng, chair professor of finance at Columbia Business School, and Ciamac C. Moallemi, chair professor in the Department of Decision, Risk, and Operations at Columbia Business School.

Professor Kay Giesecke delivered a keynote on "AICO: Model-Agnostic Feature Significance Testing for Supervised Learning." Although machine learning has been increasingly used for screening and decision making in many fields, the opaqueness of machine learning limited its adoption in highly regulated fields requiring transparency such as healthcare and financial services. To address this, he introduced AICO (Add In Covariates), a new model-agnostic hypothesis testing framework. AICO defines the baseline sample as the sample with all features being equal to their mean values respectively and then defines the effect of a feature as the improvement of score value when the feature in the baseline sample is changed to the true feature value. Based on the defined feature effect, AICO provides interpretable measures of feature importance with confidence intervals. Its advantages include flexibility in model specifications and scalability to high-dimensional features. He illustrated AICO's effectiveness in handling discrete, non-normal, correlated features and classification tasks, comparing



From left to right, Chen Yi-Chun, director of RMI at NUS, Cheng Xue from the Department of Financial Mathematics of the School of Mathematical Sciences at PKU, and Peng Xianhua from PHBS.

it to Shapley value, deep model-X knockoffs, and holdout randomization tests. He emphasized AICO's low computational requirements and broad applicability, including in mortgage risk, real estate pricing, and climate financial risk assessments.

Professor Wang Neng presented his study on the "Economics of Dynamic Capital Structure," focusing on the core of finance: capital structure comprising project, debt, and equity. Despite extensive research, capital structure literature often overestimates leverage ratios compared to actual data. Drawing from Graham's survey, firms link financial flexibility to debt decisions. Professor Wang proposed an integrated dynamic framework that combines the Tradeoff Theory and the Pecking-Order Hypothesis into a financial-flexibility model. Specifically, he developed a time-variant dynamic tradeoff theory, simulating debt prices through Markov Subgame Perfect Equilibrium. Incorporating costly external equity, he explained the origin of adverse selection. Treating debt as a state variable, he highlighted firms' need for financial flexibility, justifying the value of equity issuance delays. Lastly, he revealed that higher equity financing costs paradoxically lead to lower leverage due to the higher value of financial flexibility.

Professor Ciamac C. Moallemi gave a keynote speech on "The Economics of Automated Market Making and Decentralized Exchanges." The automated market making (AMM) protocols, such as Uniswap have emerged as an efficient alternative to traditional central limit order books, eliminating the need for active intermediaries. Consequently, AMMs have become the dominant market mechanism for trust-less decentralized exchanges (DEXs) on blockchain platforms like Ethereum, with



Kay Giesecke gives a keynote speech online, Wang Neng presents his study, and Ciamac C. Moallemi shares his insights with participants.

Uniswap's trading volume surpassing that of Coinbase. Professor Moallemi and his co-authors developed a model exploring AMMs' economics from the perspective of passive liquidity providers (LPs), introducing a "Black-Scholes formula for AMMs." They considered LP returns post-market risk hedging and identified the main adverse selection cost, 'loss-versus-rebalancing' (LVR). In a Black-Scholes framework, they derived the closed-form expression for this cost. Their model highlights factors driving AMM LP returns, including asset characteristics (volatility), AMM characteristics (curvature/marginal liquidity), and blockchain characteristics. Their model's expressions accurately match Uniswap v2 WETH-USDC trading pair's LP returns, providing insights into AMM LP investment decisions.

Other scholars presenting papers came from world-renowned universities and institutions, including the University of Texas at Dallas, the National Uni-

versity of Singapore, Peking University, the Hong Kong University of Science and Technology, the Chinese University of Hong Kong, the City University of Hong Kong, Hong Kong Polytechnic University, the Renmin University of China, Fudan University, Wuhan University, Tongji University, and Soochow University. Eight faculty members and students from PHBS, including Peng Xianhua, Seungjoon Oh, Yang Aoxiang, Zhao Lingxiao, Shen Chao, Liu Yifu, Zhan Xingyi, and Xu Weixi, presented their papers and shared their recent research findings with attendees.

Initiated in 2016, the PKU-NUS Annual International Conference on Quantitative Finance and Economics has been held to provide a platform for researchers and practitioners from academia and industry to discuss and exchange ideas on the new developments in quantitative economics and finance.

By Annie Jin, Liu Yifu, Zhan Xingyi, and Xu Weixi
Source: Research Office and PR & Media Office

"this year's conference attracted nearly 200 scholars to attend online and onsite, sharing the latest research findings in the field of quantitative finance and economics."

A group photo of participants



A Movable Feast! PHBS Hosts the second International Culture Day

By Annie Jin

On March 31, 2024, Peking University HSBC Business School (PHBS) hosted its second International Culture Day, welcoming over 800 students, faculty, and guests from over 20 countries and diverse regions to embark on a remarkable journey around the globe.

This springtime festival, held at Xili University Town, was a vibrant mosaic of global cultures with delicious treats, fascinating traditions, groovy music, and engaging games. It reflected the school's dedication to fostering international understanding and appreciation for diverse cultures, creating an inclusive atmosphere for all to relish.

A Taste of Home and Global Delights

In the opening ceremony, PHBS Dean Wang Pengfei extended his warm welcome to all the participants, wishing them a wonderful and unforgettable experience on this special day, and cut the ribbon to begin the event with other leaders.

From 4:00 p.m. to 8:00 p.m., students were given the opportunity to run their booths, demonstrating the diverse cultural heritages of their respective countries through vibrant attire, traditional games, and appetizing cuisines.

A glimpse into the culinary delights revealed an array of gastronomic extravaganza: velvety French crêpes, fresh and crunchy Vietnamese Spring rolls, sweet and sticky Beijing Tanghulu, hearty Russian pancakes, creamy Malaysian Nasi Lemak, zesty Italian bruschetta, savory German pretzels, and crispy Korean fried chicken.

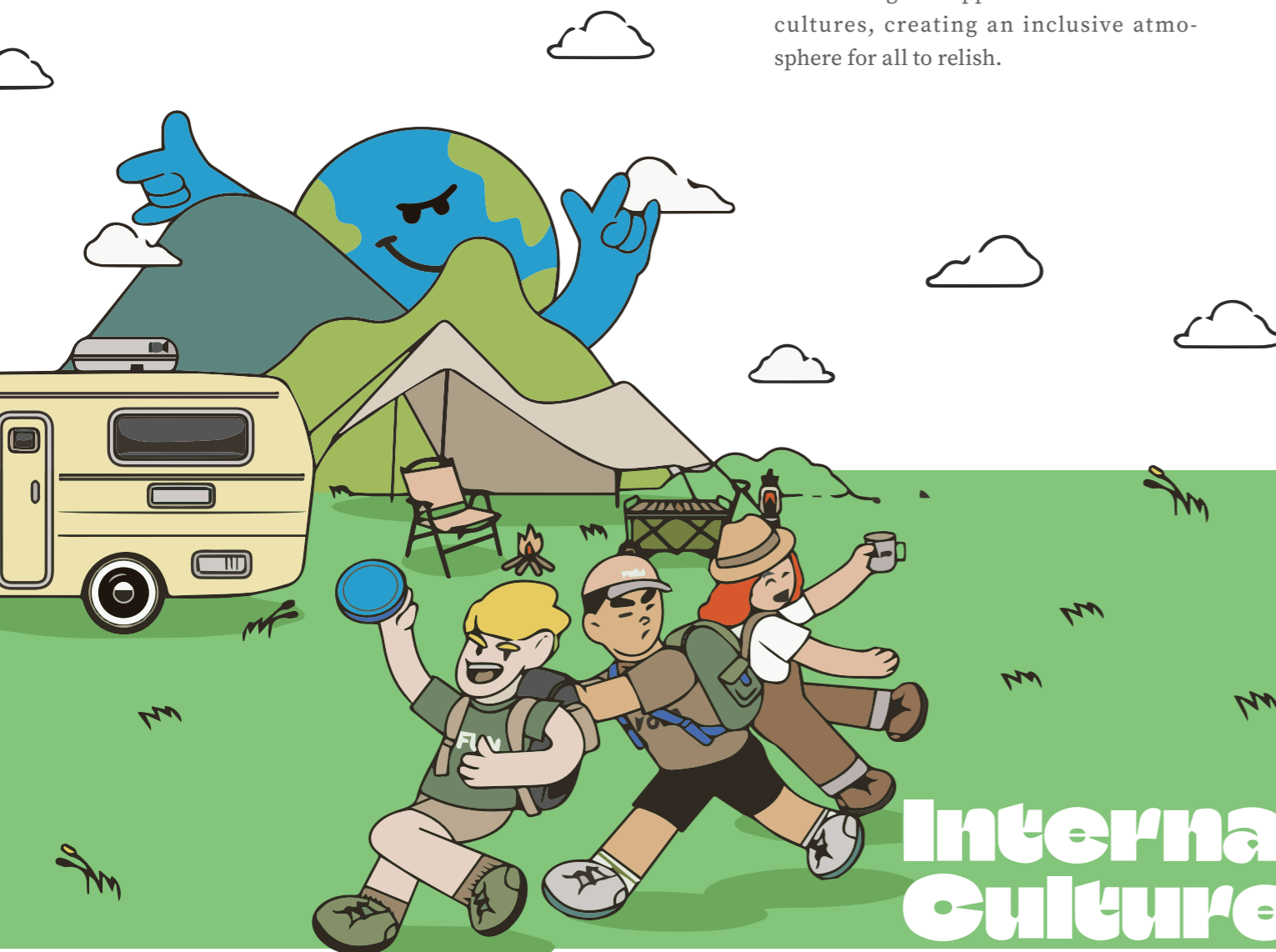
"Our booth had only two of us, making it a significant challenge as we aimed to create something both appealing and of high quality," noted Héloïse, adding that they started the preparation three weeks prior, brainstorming for decorations, activities, and the cuisine. "Fortunately, we stumbled upon a store stocked with French ingredients just three days before the event, which was a stroke of luck indeed," she reflected.

The beginning of the culture day



“This annual festival reflected the school's dedication to fostering international understanding and appreciation for diverse cultures, creating an inclusive atmosphere for all to relish.”

From left to right: PHBS Associate Dean Young Joon Park, Founding Dean Hai Wen, Dean Wang Pengfei, and Associate Dean Ren Ting



International Culture Day



Limited edition of PHBS passport for a journey of discovery



Vibrant Tapestry of Global Cultures

In addition to diverse delicacies, the event was also a blast of fun and excitement, filled with activities like apple bobbing, global trivia challenges, hands-on crafts, traditional dances, and plenty more! Each booth offered a stamp upon successfully completing a challenge and those who managed to gather 10 stamps had the opportunity to participate in an exciting lucky draw with the chance to win fabulous prizes.

Participating in the festival for two consecutive years has been a privilege and a joy for Rafael. "There's something incredibly fun about letting loose and dancing with those you love and appreciate, so I was more than happy to teach Soca, 9,000 miles away from home," noted Rafael, eager to share one of his favorite aspects of the Panama culture: music and dance. Recalling last year's experience of managing a home country booth, he admitted it was indeed a challenge but became very rewarding to hear comments like, "You were the first Panamanian I've ever met" or "It was the first time I heard about Panama."

As the night fell, the activities of the culture day were still in full swing, and participants could also make their way to the lawns or sit by the Mirror Lake to discover an outdoor paradise ushered in a harmonious blend of thrilling adventure and serene relaxation.

After fierce voting by the audience, the Uzbekistan booth was awarded the "Best Design Award" for its outstanding design concept and cultural decorations. The British booth, with its appealing



Héloïse (left) cooks traditional French cuisine



Students in Hanfu



Students run their booths and enjoy the culture day



Henna art tattoos

"Just like other places in China, Shenzhen becomes a home for anyone who arrives, and having a space to celebrate what makes each of us special is a unique experience."

A group photo of participants



interactions and games, won the "Most Popular Award," while the Korean booth took home the "Best Food Award" for its delicious and inviting cuisine. These awards were not only a tribute to the brilliant cultural displays of various countries but also a vivid interpretation and powerful demonstration of the concept of multicultural exchanges.

The success of this year's event was attributed to the joint efforts of PHBS staff and students, especially the students' autonomy in setting up booths, which was impressive. "I feel like everyone was very proud and trying to make their booth memorable, which led to an amazing event where all the booths were well decorated, filled with food, and packed with people queuing to discover all these countries!" commented Héloïse.

For Rafael, what made the culture festival special was that "just like other places in China, Shenzhen becomes a home for anyone who arrives, and having a space to celebrate what makes each of us special is a unique experience." Indeed, this enriching "global journey" on campus not only serves as a strong impetus for future endeavors, but also acts as a bridge fostering new dialogues and closer friendships, making the International Culture Day an important springboard for cultural exchanges among students, faculty, and expats in the University Town, Shenzhen, and even the Greater Bay Area.



PHBS Holds Its 2024 Commencement

By Annie Jin

Peking University HSBC Business School (PHBS) held its 2024 Commencement Ceremony on June 1, 2024, during which 701 PhD, MA, MBA, and EMBA program graduates were dressed in caps and gowns, ready to celebrate their achievements and embark on new adventures. School leaders, faculty members, alumni representatives, and guests gathered to share in this special moment and honor the graduates' hard work and dedication.

The ceremony started with a video featuring graduates' unforgettable memories and the faculty's best wishes. It was followed by students and graduates singing "Love for PKU" to express their aspirations and responsibilities toward society and the nation.

Speeches on Behalf of the 2024 Graduates

Lu Wenqi said that the three-year academic journey at PHBS cultivated a profound bond among the students, enriching their professional knowledge, enhancing their comprehensive qualities, broadening their international perspectives, and developing a sense of social responsibility. The school's lifelong impact on its students will remain significant indefinitely. After graduation, the 2024 graduates will uphold responsibility, contribute



MA graduate
Lu Wenqi



International
graduate Vahan
Geghamyan



MBA graduate
Feng Wei



EMBA
graduate
Li Xiyan



to national rejuvenation, and boldly embrace the responsibilities of China's modernization.

Vahan Geghamyan, an international student from Armenia, maintained that PHBS could combine the educational strengths of the East and West, offering innovative and comprehensive academic programs. In addition, he noted that his two-year journey at PHBS profoundly transformed him, introducing him to new friendships and cultures and an introspective journey of self-discovery and growth. Embarking on a new phase of his journey, he hoped that the knowledge he gained here could empower him to make achievements he never imagined possible.

Feng Wei said that studying at PHBS was an unforgettable memory for graduates because they not only gained knowledge and friend-



ships but also learned how to cooperate to face challenges and become excellent leaders. Looking back, he put forward three requirements for himself and shared them with all graduates: First, maintain a spirit of innovation; second, embrace globalization; and third, uphold social responsibility. He called on graduates to bravely face every challenge with what they had learned and thought about at PHBS, seize opportunities, and create brilliant chapters for themselves.

Li Xiyun said that his two-year challenging yet rewarding EMBA study enriched his knowledge and led to self-growth and transformation. This has been a journey of harvest, one that embodies the spirit of "achieving personal growth to serve the greater cause and pursuing dreams for a broader future." He summarized his feelings with "gratitude" and "remembering": gratitude to the school and classmates for their support and remembering

"701 PhD, MA, MBA, and EMBA program graduates were dressed in caps and gowns, ready to celebrate their achievements and embark on new adventures."



his responsibilities. As he embarks on a new journey, he wishes the 2024 graduates to uphold gratitude, responsibilities, and the spirit of personal growth for a broader future. Together, they will face challenges and write brilliant chapters with diligence and wisdom.

Speeches by Faculty and Guests

Professor Li Kai pointed out that graduation is a summary of academic achievements and a celebration of resilience and perseverance. As a senior PKU alumnus, he shared three insights with the graduates: first, stay focused and work hard silently; second, economies have cycles, and life is the same; and finally, love yourself well. He emphasized that life's journey might be fast or slow, but fortunately, we could be constantly moving forward, and life would eventually lead us to the right path. He noted that the strongest navigator was not honed on calm seas but in turbulent waters. He encouraged students to "keep on keeping on, remain unwavering in adversity, and always on the journey!"

Shi Rui reminisced about her journey of studying, working, and entrepreneurship. As one of the school's first cohorts, she is grateful for her teachers' profound teachings and expectations, which have been the foundation of her confidence and courage in making life choices. She encouraged graduates to reunite with classmates and



Alumni Representative
Shi Rui



Li Kai, professor
of PHBS



Christopher Loch,
visiting professor of
PHBS and former dean
of Cambridge Judge
Business School

Hai Wen, chairman of PHBS Council and founding dean of PHBS, delivers a speech; students present a painting he created alongside him



revisit their alma mater whenever they feel lost or confused, to regain strength and courage for new adventures. She concluded that teachers' wisdom could remain in our hearts, and that our reunion would come someday.

Professor Christopher Loch shared three topics with the graduates in Chinese: Firstly, the valuable knowledge learned at PHBS was not only about professional research methods but also about reflections and perspectives on life. Secondly, regard your problem-solving ability as your "core competitiveness," which could profoundly impact the graduates' future career development. Thirdly, while achieving success in one's career, it is also important to positively and profoundly impact the people around you. He emphasized the importance of believing in oneself: although the future may seem unclear at present, one should trust that "there must be a road before the car reaches the mountain." He believed that PHBS graduates have enough potential to seize the opportunity and succeed while hoping they remember

to share their success with those around them.

Dean's Message

Professor Wang Pengfei emphasized that the 20th anniversary of PHBS signifies a major milestone, mirroring the significance of graduation as a life milestone. Thus, he urged graduates to "share dreams with the country and bravely take on responsibilities." His wishes coalesced into three fundamental aspirations: far-sighted planning and perseverance, personal cultivation for excellence, and optimism paired with resilience. The school, he assured, could stand as a steadfast home and backbone for its alumni. He wished the 2024 graduates success in sounding the call of dreams, raising sails for new horizons, and creating a life worthy of their aspirations, the nation, and the times.

At the commencement, Professor Hai Wen gave graduates a copy of his painting depicting the wildebeest migration to represent the



“ The dean's wishes coalesced into three fundamental aspirations: far-sighted planning and perseverance, personal cultivation for excellence, and optimism paired with resilience.”

PHOTO GALLERY



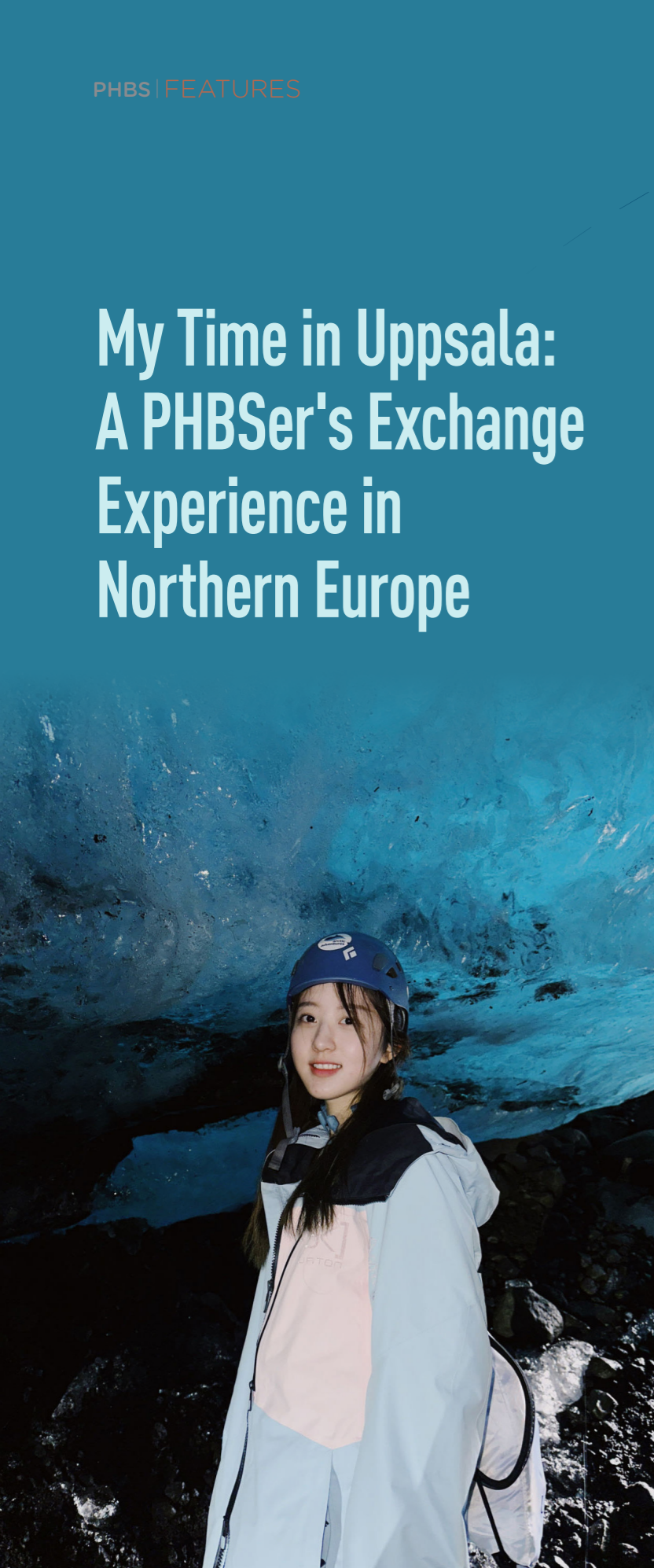
Wang Pengfei, dean of PHBS, delivers remarks

spirit of "United to Achieve." The wildebeest migration is known as one of the most spectacular animal migrations on Earth, with over 1.5 million wildebeests traveling over 3,000 kilometers every year, migrating back and forth across the grasslands of East Africa. He pointed out that the migration process is arduous, but the species survives and thrives through unity and perseverance. He wished that every PHBS could possess the same spirit as the wildebeest migration, continually achieving new victories on their journey in the future.

After the ceremony, all leaders, guests, mentors, and graduates took a group photo to commemorate this moment. As graduates step into society, they will pursue their dreams in different industries and forge ahead on their respective paths.

Congratulations to the 2024 graduates, and all the best to their future endeavors!

My Time in Uppsala: A PHBSer's Exchange Experience in Northern Europe



Once so unfamiliar, we'd always get it mixed up with Switzerland, Sweden has made itself known in China through H&M, IKEA, Volvo, and many others.

To me, more than the products from its popular brands, the Scandinavian country offered an escape from Shenzhen's fast-paced life that I'd been longing for. Yearning for simplicity and calmness of the Nordic countries, I chose to study in Sweden. It did take me some time to get used to the lack of sunlight in winter, the vast yet sparsely populated areas, and the individualistic nature of the people—I was lonely and uncomfortable at first. But time went by, and as I gradually adjusted and integrated into the country and culture, I also began to enjoy its peace and beauty.

I went to Uppsala University, Nordic's oldest university. Founded in 1477. Uppsala University is famous for its profound historical heritage. Its advanced teaching methods and international academic environment attracted me, and through my time there, I got to experience a learning model that's different from traditional classroom teaching. Presented through seminars, workshops, guest lectures, tutorials, and other formats, it emphasizes independent learning and teamwork, encouraging us to actively explore knowledge.

Xu Wenxin

Class of 2022 Full-Time MBA Student
Exchange study at Uppsala University, Sweden from August 2023 to January 2024



The Business Strategy Course & Learning About Médecins Sans Frontières (MSF)

Out of my many wonderful classroom experiences, it was the Business Strategy course that impressed me the most. It combines large lectures with small group seminars where students teach each other.

Initially, I felt uneasy because my spoken English wasn't fluent enough, making each seminar a big challenge. But continuous encouragement from my team, combined with lots of practice and communication, made it easier to push through and eventually, I was able to express my opinions freely.

One topic in the Business Strategy course stuck with me, and that was the operations of Médecins Sans Frontières (MSF) in Nigeria. I gained a solid understanding of international development and developed a strong interest in global health issues from analyzing the various challenges MSF faces in Nigeria, such as health crises caused by war and violence, weak infrastructure, and other issues. The discussions we had gave me a lot of insights into the importance of technology in emergency medical assistance and how to better utilize technology to improve the efficiency and quality of medical services.

The Business Strategy course allowed me to re-examine the rise of China and the issue of global poverty from a Western perspective, providing me with a new dimension of thinking. Through my discussions with teachers and classmates, I came to realize the importance of different cultures and perspectives in the context of global-

A glimpse of Uppsala University



Uppsala Cultural Night



Scenic views of Swedish streets





My six months of wandering created countless moments that soothed my soul and will stay with me for a lifetime. During this journey, I learned to let go of my past obsessions and embrace every new day."

At Black Sand Beach of Iceland

ization. The cross-cultural collision and integration not only enriched my knowledge but also made me more open and tolerant towards different perspectives and cultures.

The Uppsala Life and Sweden's Tradition of Fika

Outside of the classroom and the courses, I really enjoyed the fun and vibrant everyday life in Sweden. Other than competitive sports and partying, a common thing to do for students is to join the Nation, which is the oldest student society of Uppsala University with a history dating back to the 17th century. There are 13 Nations in Uppsala University, named after different provinces in Sweden. These Nations provide students with unique and diverse services based on the characteristics of their respective locations, making students' campus life more colorful.

Another significant part of Uppsala is Uppsala Cultural Night. Held on the second Saturday of September every year since 1989, Uppsala Cultural Night is a traditional event featuring exhibitions, dances, singing, and delicious food stalls that involve local cultural workers, institutions, and enthusiasts as organizers and performers.

Apart from the student life and annual festivities, the Swedish people are known for their tradition of fika: the custom of enjoying a cup of coffee with family and friends, no matter how busy they are. It's not about the cup of coffee, but rather the concept of drinking it together, slowing down, and enjoying the moment with loved ones—surely is part of the Swedish culture that made me appreciate their pursuit of quality of life more.

It takes courage to set off and leave one's home, but traveling to a strange place alone was something I had been longing to do. And when I was out there, I got to chase the gorgeous aurora in Iceland, see the flying Santa Claus in Switzerland, and learn that there's no Grand Budapest Hotel in Budapest like the movie—and neither is there Prague Square, from the song, in Prague.

"People don't live a lifetime, they don't live a few years, a few months, a few days, but they live in those few moments" *. My six months of wandering created countless moments that soothed my soul and will stay with me for a lifetime. During this journey, I learned to let go of my past obsessions and embrace every new day. I'm grateful for everyone and everything I encountered along the way, as they all helped me grow and become more resilient. Looking back, each challenge led me to understanding myself and the world better.

There's still a long way to go, but I'm using this courage and tenacity to continue moving forward, exploring more unknown worlds, and pursuing a better version of myself.

* This translation is a paraphrase, not a direct quotation. This article was originally written in Chinese by Xu Wenxin.

Source: MBA Program



Ma Fangyuan

Motivating Collusion



Ma Fangyuan

Assistant Professor
Research Interests:
Corporate Finance,
Product Market Competition,
CEO Compensation,
Merger and Acquisition

Shareholders use corporate governance mechanisms to align management strategies with the goal of increasing firm value. According to industrial organization theory, colluding with market peers can be profitable, depending on discount factors, market conditions, and antitrust enforcement. Even if shareholders prefer collusion, managers often have different incentives. In such cases, compensation contracts can be designed to align incentives and encourage collusion.

Several factors can create a mismatch between management's and shareholders'

preferences regarding market coordination. For example, U.S. executives face criminal charges for participating in illegal collusion, such as price fixing or bid rigging. While firms may cover fines, imprisonment imposes a significant personal cost. Additionally, managers have career and reputational concerns that discourage collusion, making them less inclined than anonymous investors to engage in such behavior.

In their paper, "Motivating Collusion," published in the *Journal of Financial Economics*, Sangeun Ha (Copenhagen Business School), Ma Fangyuan (Peking University HSBC Business School), and Alminas Zaldokas (Hong Kong University of Science and Technology) explore how executive compensation can be designed to promote collusion when antitrust enforcement is weakened. They argue that shareholders and boards can structure compensation packages to encourage managers to engage in collusion without explicitly instructing them to do so, leading to the prediction that weakened antitrust enforcement may result in compensation changes that favor less competition.

The authors focus on U.S. firms from 2008 to 2017 and conduct a comprehensive examination of a 2013 regulatory change where the Department of Justice (DoJ) closed four regional antitrust offices (Cleveland, Dallas, Atlanta, and Philadelphia). These offices were responsible for investigating local market collusion. The DoJ's decision to centralize casework at its headquarters and remaining offices



"By crafting compensation packages that indirectly encourage collusion, shareholders and board members can plausibly deny any intent to collude, avoiding direct liability for antitrust violations."



was intended to cut costs and focus on larger firms, reducing oversight in regions near the closed offices. The authors propose that this reduction in oversight made collusion more attractive to firms in these areas. They thoroughly investigate whether the regulatory change led to adjustments in CEO compensation that reduce incentives for competition or foster collusion.

Their analysis focuses on the link between CEO compensation and the performance of local industry peers. If CEOs are rewarded based on outperforming these peers, their pay should be negatively correlated with peer performance. However, when shareholders benefit from reducing competition, the compensation structure may shift to reward CEOs based on better peer performance. Weaker antitrust enforcement makes collusion more appealing, leading shareholders to adjust compensation to encourage softer competition.

The paper provides empirical evidence supporting this prediction. For firms located near the closed DoJ offices, CEO pay became more positively linked to the performance of local rivals. This shift is likely due to boards proactively adjusting compensation schemes, with a more pronounced effect on cash com-

penetration compared to equity. Additionally, the changes are more significant in firms with strong board governance, indicating that the adjustments are driven by shareholder value maximization rather than managerial entrenchment. Finally, these compensation adjustments are associated with improved firm performance: the affected firms exhibited higher gross profit margins after the reform, aligning with the expected anti-competitive effects.

Overall, the paper suggests that shareholders may design incentives to induce managers to pursue collusive strategies, thereby harming consumer welfare. By crafting compensation packages that indirectly encourage collusion, shareholders and board members can plausibly deny any intent to collude, avoiding direct liability for antitrust violations. This creates a public policy dilemma: While corporate governance standards aim to align shareholder and managerial incentives, enabling collusion through compensation schemes could lead to reduced competition and consumer harm. Policies designed to promote consumer welfare might inadvertently encourage short-term managerial behavior, exacerbating principal-agent problems while aiming to enhance market competition.

Liu Baixiao

The Influence of Media Slant on Short Sellers



Liu Baixiao

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Research Interests:
Financial Media, Asset Management,
Short Selling, and Political Economics

Short sellers are often perceived as sophisticated investors, immune to the influences that sway less experienced market participants. However, are they truly impervious to biases in popular media coverage? In the paper "The influence of media slant on short sellers," published in the *Journal of Corporate Finance*, PHBS Associate Professor Liu Baixiao, and his coauthors explore whether short sellers' investment decisions are affected by the slant in media coverage, particularly focusing on the Fox News Channel (Fox) and its shift in tone following the

2000 election of George W. Bush.

The election of George W. Bush marked a significant change in the tone of Fox's coverage of macroeconomic events, becoming more positive compared to other news outlets. This study leverages this shift, comparing the behavior of short sellers in Republican-leaning (RL) townships with access to Fox News to those in non-Republican-leaning (non-RL) townships or areas without Fox coverage. They hypothesize that the availability of Fox News and its positive slant led short sellers in RL townships to reduce their short positions despite their reputation for rationality and sophistication.

The Bush presidency began as the dot-com bubble burst, a period that saw short interest rise from 2.0% to 3.5% of total shares outstanding between 2000 and 2003. Despite this overall increase, their findings indicate that short sellers in RL townships with Fox access increased their short positions significantly less than those in non-RL townships or areas without Fox coverage.

Three key premises underlie their analysis. First, existing literature documents Fox's Republican-leaning slant in its macroeconomic news coverage. For instance, studies by Groseclose and Milyo (2005), DellaVigna and Kaplan (2007), and Martin and Yurukoglu (2017) provide substantial evidence of this bias. Second, consumers tend to choose news outlets that align with their preexisting beliefs, exhibiting what is known as confirmatory bias. Studies by Popper (1972), Klayman and Ha (1987), and Gentzkow and Shapiro (2008) have shown that media consumers prefer outlets whose reporting aligns with their prior beliefs. Third, investors are prone to invest in firms geographically closer to them, influenced by their local economic outlook, a phenomenon known as home bias. This has been documented by Coval and Moskowitz (1999), Strong and Xu (2003), and Sialm, Sun, and Zheng (2020) for institutional investors and by Ivkovich and Weisbenner (2003) for retail investors.



"Even sophisticated investors like short sellers are not immune to the influences of media slant, leading to a reevaluation of their role in financial markets and the factors that influence their decision-making."



The underpinnings of their interpretation are that during the Bush presidency, Fox introduced a more optimistic view of the economic outlook compared to its competitors. As a general proposition, during the Bush presidency, Fox presented a significantly more positive macroeconomic outlook under Bush's administration than under the preceding Clinton administration, and Fox was more optimistic about economic events than its non-Republican-leaning rivals during the Bush administration. This is illustrated by Lowry (2008) and Knill, Liu, and McConnell (2021), who report that Fox coverage of economic news was more positive than that of other TV networks during the Bush administration. Further, during the Clinton administration, Fox was less positive in its economic news coverage than other TV networks.

Their analysis employs a triple-difference approach to compare the relative short interest (RSI) of firms headquartered in RL townships with Fox availability to the RSI of all other firms before and after the year 2000 election. The results show that investors short the shares of firms headquartered in RL townships with Fox availability significantly less than the shares of other firms after the Bush election. Given that the average RSI of all firms is 2.1%, the decrease, following the Bush election, of 1.3% in the RSI of the shares of firms headquartered in RL townships with Fox availability implies a relative reduction in RSI of 61.9% for such firms. These results

suggest that media bias indeed influenced short sellers' investment decisions.

This study contributes to several lines of research. First, it challenges the notion that short sellers are entirely rational and unaffected by media bias. Prior literature has shown that short sellers, on average, do make informed trades. However, this study provides evidence that short sellers, as sophisticated as they may be, can be subject to a confirmatory bias that allows media slant to influence their investment decisions, thereby partially undermining the presumption that short sellers can be relied upon to correct apparent security mispricing. Second, it extends understanding of how media slant can influence financial decisions, previously examined mainly in corporate managers. This study shows that investors' decisions can be influenced by the same media slant. Third, it highlights how media bias can amplify the impact of partisanship on decision-making among financial professionals. The significant relative reduction in the RSI of firms headquartered in RL townships with Fox availability after the 2000 election suggests that media slant can influence the decisions of even sophisticated investors such as short sellers.

In conclusion, their study provides robust evidence that even sophisticated investors like short sellers are not immune to the influences of media slant, leading to a reevaluation of their role in financial markets and the factors that influence their decision-making.

Jon Danielsson: Human Nature Leads to "Shortsighted" Investment

Profile



Jon Danielsson

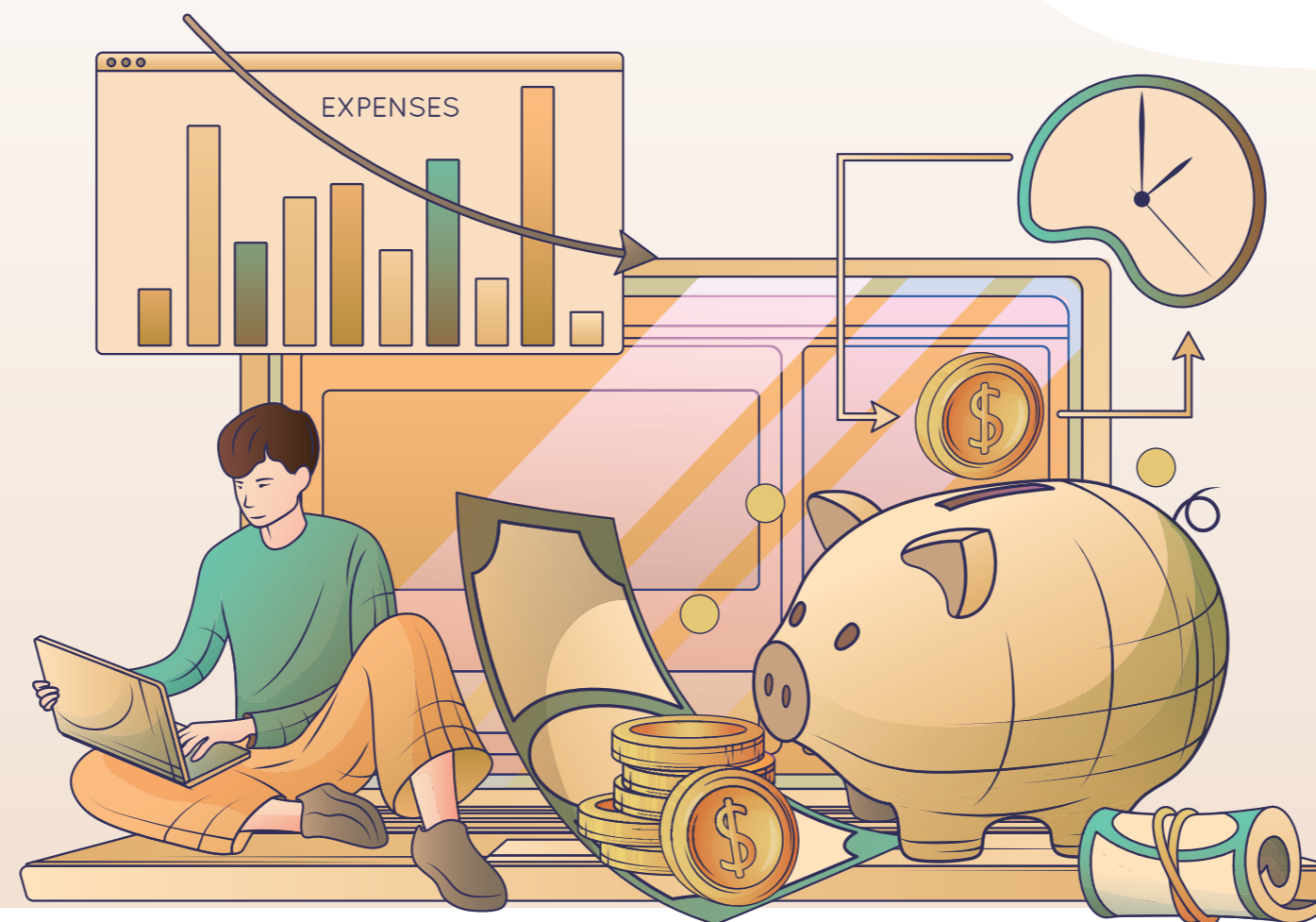
Reader in Finance at the
London School of Economics

Dr. Jon Danielsson is a Reader in Finance at the London School of Economics. His work focuses on artificial intelligence, risk forecasting, international finance, cryptocurrencies, and systemic causes of financial instability. He has written several books on finance and risk analysis and is active in domestic and international policy debates on financial regulation.

Q: In the *Illusion of Control*, you mentioned the issue of short-term risk and long-term risk. You point out that short-term risks are not that important, both to investors and to financial authorities. However, individual investors may encounter very few serious systematic risks in their lifetime but will face many daily short-term risks. So, how do you persuade people to take the long view?

Jon Danielsson: It takes a lot of work to convince people to do this. Because the processes we have in society always take us to the short-term. Everybody is thinking about what might happen tomorrow or next month. However, what we can do is that when we talk to especially fund managers who deal with long-term risks like a pension fund, a pension fund is thinking about something that may happen in the next 50 years or 30 years. Those people professionally understand long-term risk, and they are the people we need to talk to. We can also talk to the financial authorities

"To overcome this natural tendency of human investors to be too pessimistic and too optimistic at the wrong time, this is difficult to do. But I think if you understand the role of the tools we have and the roles risk measurements play in this cycle, we can make better decisions in the long run."



and convince them that if we are thinking about someone's long-term risk, we should also measure risk in the long term. So, it is a question of education and communication with the entities that invest.

However, individual investors face short-term risks every day. So, do you think it is rational for them to think in a short-term rather than a long-term way? A lot of investors care only about the short term. So, many investors are simply looking to make short-term speculative profits, and if you are a short-term investor who wants to make money. Let's say you buy a stock. You want to sell it next month, and you buy a house. If you want to sell it next year for a profit, then you are a short-term investor.

However, what I think is that those investors who are thinking long-term. They often tend to be more sophisticated, and they tend to be the people who see through this cycle. So, what we can do is educate investors to think about the short and long term. If they look at educational materials, like giving them advice, then maybe we can help them. However, in English, there is an expression, "You can take a horse to water, but it can't make the horse drink." We can tell people about the long-term and the short-term. But if they don't want to do it, then we can't help them.

Q: You mentioned in the book that one of your favorite papers is "The Emperor Has No Clothes: Limits to Risk Modeling," and the core idea is that it is impossible to measure risk perfectly, which is why you are critical of Basel II. But in the stage of economic downturns, confidence is very important because people's high sensitivity to risk may lead to deflation. So, what do you think about this situation?

Jon Danielsson: By the time you're already in a downturn, it's almost too late to do something about it except manage it. So, I think we really should think about it as a whole process from the up-swing to the down-swing. What we need to do in our society is to find a way to prevent the absence from becoming too



big, and that is, of course, very difficult to do. But that is very important because human beings go from being very optimistic to very pessimistic. I think this is just human psychology and the psychology of investors. But it's also the psychology of the government officials at the top of the agencies.

In my paper, *The Emperor Has No Clothes*, I find that when the economy is doing well, we measure risks as being too low. Moreover, we measure risk as too high when the economy is doing poorly. That leads to pro-cyclical behavior; it encourages us to be too optimistic when things are good and too pessimistic when things are bad. Therefore, anybody thinking about the cycle, the up-swing, and the down-swing needs to be aware that the risk measurements are misleading. They tell us the wrong thing. Therefore, from a policy point of view, if you are a government agency, when things are really going well, as a policy, it's sensible to try to slow things down. And when things are in a bad state, it is sensible to encourage things. To overcome this natural tendency of human investors to be too pessimistic and too optimistic at the wrong time, this is difficult to do. But I think if you understand the role of the tools we have and the roles risk measurements play in this cycle, we can make better decisions in the long run.

Q: Solving risks within the financial system doesn't have a simple answer, and decisions cannot be based solely on short-term data. To a certain extent, constructing the so-called "financial resilience" is unrealistic. How do you view the current financial problem in China resulting from the real estate downturn, where a significant number of real estate financing products face the risk of default? Interestingly, this default is seen as a deliberate policy move by Chinese regulatory

authorities to reduce real estate financial leverage, but it's now being challenged as an imprudent design. What are your thoughts on this?

Jon Danielsson: Trying to create too much resilience or stability is illusory. Trying to do so will simply encourage the Minsky effect; stability leads to instability because when things are stable, market participants are always incentivized to take more risks, and because the system is infinitely complex, the authorities can never monitor everything. The problem with a debt-fueled real estate boom is that while the biggest damage is caused when the boom bursts, it will always be very costly to prevent that eventuality before it happens.

The financial authorities will always be strongly criticized by those who either accuse them of mistakes by allowing this to happen in the first place or impose very costly measures to contain the bubble. We cannot change the past, but we have to deal with the reality in front of us. The longer we delay containing a debt-fueled real estate bubble, the bigger the damage when it bursts. This process also allows us to improve real estate regulations because the lobbying opposed to reforms will be weaker.

"So, for the senior decision-makers, when we use AI to make the most important decisions in the financial system, AI's strengths and weaknesses must be recognized. That means those people have to know how to understand and communicate with them."



Q: Today, there is a heated discussion in China about repairing household and corporate balance sheets. Many people argue that households' and companies' choices to reduce leverage are individually rational but collectively irrational. Do you think the government should take the initiative to intervene in this behavior?

Jon Danielsson: If you look at the history of housing bubbles, there's a lot of history we can use to study this problem, which is that the housing bubble is almost always caused by excessive optimism and perhaps permission to use devices to fund houses. That is not advisable. So you end up with housing prices becoming too high. People becoming very leveraged because it's a difficult process. Everybody loves it. You can't criticize it because then you get condemned. So the whole society moves in the direction of "let's enjoy the up-swing," "let's enjoy the bubble," "let's enjoy..." Everybody thinks they are brilliant. Because they decide to invest, and things go up, they recognize that brilliance is not true. In a downturn, it is one of the most dangerous things for the government to do, and history has shown this many, many times. If we face a situation where prices are excessive, leverage is too high, and debt is too high. The longer we delay addressing the problem, the bigger the eventual correction is. We cannot hold back on the force of nature; nature does what nature wants whether we want it or not. It is just like we cannot hold back water on the river; the water is coming down whether we dislike it or not, and the same is true with the forces of a real estate bubble. Fueled by excessive leverage and too much borrowing, when that corrects, there is nothing we can do to prevent that from correcting. What we can do, however, is try to make the problem more difficult or less difficult. I always think when a government is in this situation.

I don't think there's anything China-specific here. I think it's a universal thing. The government should do a few things. The government should allow the correction to happen. Because if it doesn't allow the correction to happen, things will get worse. But the government should also recognize that there's a huge amount of human misery that is connected to this. People are having difficulty and are suffering greatly. The purpose of the government is to protect people. So, I think we can create policies that protect the people in society and protect companies from the worst outcomes. But still, allow the necessary financial and economic correction to happen. There is a sensible way and a non-sensible way of doing it. But the worst thing to say is, I hope things will be better tomorrow; let's not do anything, and maybe it will be better tomorrow. I think people who have such solutions are providing the wrong solutions. It's a difficult problem, and we have to solve it as quickly as possible.

Q: Your outstanding paper "Learning from History: Volatility and Financial Crises" presents a fascinating relationship between credit fluctuations and financial crises. Applying your reasoning to both the United States and China, we find that China's recent volatility in the credit-to-GDP ratio far surpasses that of the US. According to your notion that lower volatility generates greater financial risk, does this imply that the financial risk in the US is higher than in China?

Jon Danielsson: It is always dangerous to apply a general macro result, like the one we found in our paper, to a specific situation. The data is noisy, and a result that holds in aggregate might not be statistically significant in a particular situation. Our result is a general

guidance for thinking about the role of risk perception and economic decisions. A key result of our paper is that low or high volatility (or risk) does not strongly impact investment and future growth because economic agents don't trust the risk estimates very much. What matters is the strength of their beliefs, and in the specific case of China versus US risk, that is the number I would want to see, not an aggregate number for risk high or low.

Q: Many are concerned about which asset would provide a greater sense of safety during times of financial turmoil. When choosing between a strong US dollar, traditional gold, and the aggressive Bitcoin, which one do you believe stands out as a more secure option?

Jon Danielsson: The insight I have gained in my career as a finance professor is that only a few people have the ability to systematically identify which assets will outperform the rest or afford the best protection. And it is also very

hard to find a professional one to trust. I like to look at very long-term trends when thinking about safety and also the specific situation one is in. Generalizing is always dangerous because everybody has a different appetite for risk and investment horizons. Hedging against turmoil is very costly. For someone with a longer-term investment horizon, it is best to be globally diversified and invest through the cycle. Not worry too much about the turmoil in front of them. Personally, I put most of my private savings into the S&P 500. It gives me geographic hedging because my job, house, and pension are in the UK, but it also gives me good long-term performance.

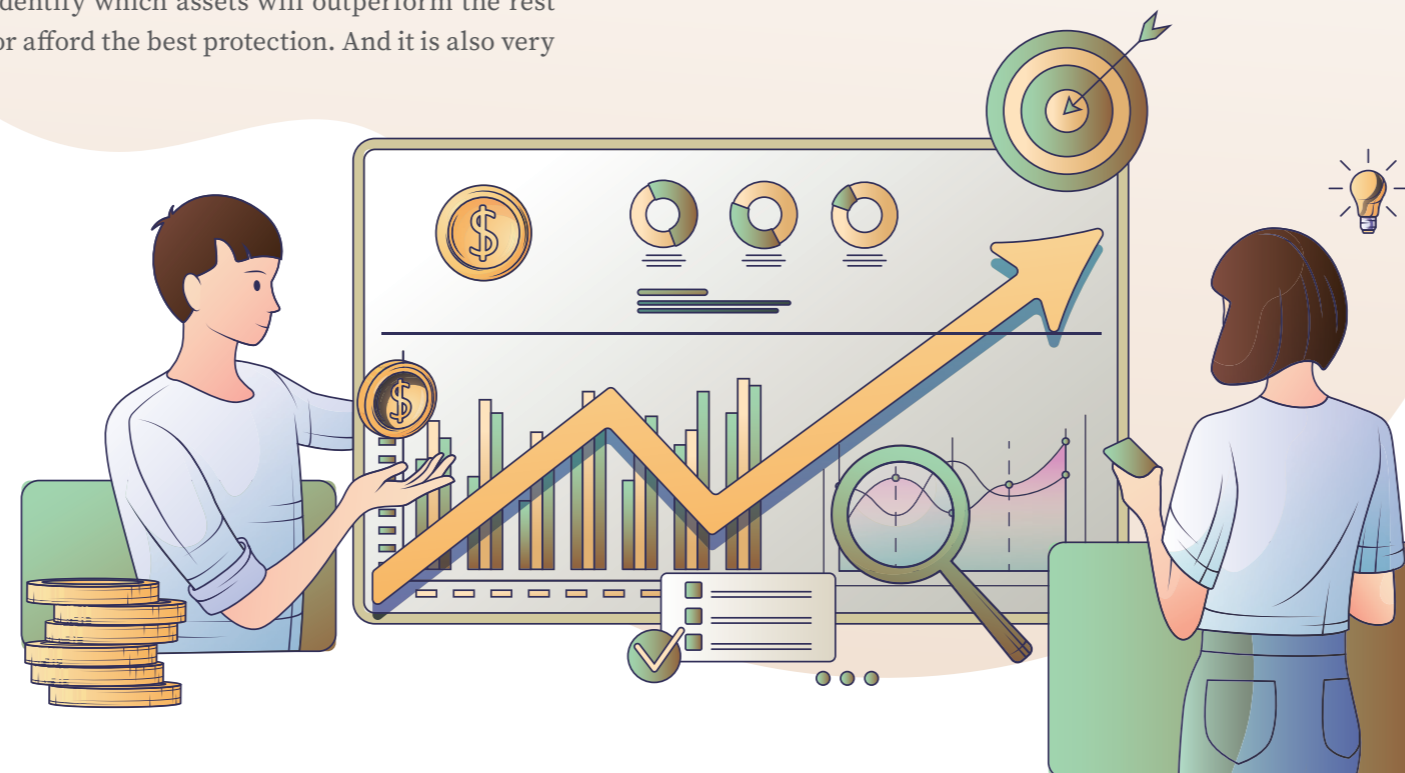
Q: Hyman Minsky argued that stability leads to panic and crisis because seemingly secure stability encourages people to take risks. So, does this mean that crises

and asset losses are inevitable for investors? Or is finance inherently and inevitably flawed?

Jon Danielsson: I think what is inevitable in a system is that people make risky investments and want to make profits. We will inevitably end up in a situation where we take too many risks. I think what Minsky described 50 years ago is human nature. This is how people are, and you can't change the way people are. I mean, people are people, and we are human beings. If we think things are safe, it is perfectly okay to take more risks. This is what Minsky is saying. And, if we think everything is highly risky, everything is dangerous, we go for safety. So, I think what Minsky is capturing is human nature. We may not like this, but you can't change people. Instead of trying to change, we should find a way to think about investments, the financial system, and financial stability, which help us to recognize that people are this way.

Q: As we all know, financial innovation leads to risks, and any innovation will bring new risks. On the other hand, innovation also brings diversity. You have stressed the importance of financial diversity in your book. So, what do you think about the risks and diversity brought about by financial innovation and the relationship between them?

Jon Danielsson: I think the idea of innovation is excellent. If human beings did not innovate, we would all be living in the Stone Age. So, your innovation brings us the prosperity we have today. I think we all appreciate that. In the financial system, innovation can bring both danger and benefits. As you say now, this is exactly where financial authorities can play a good role. Financial authorities, regulators, and





central banks can look at innovation and say this type of innovation gives you more diversification. Diversification is good. Therefore, we encourage this innovation. Some other innovations allow people to hide risk, which is bad innovation. So, if you want to classify innovation, some innovation allows people in the system to hide risk and makes the danger not visible until it's too late; that's a bad type. In 2008, subprime mortgages were put into structured credit products (CDOs), which was a hidden and dangerous risk. So, that's a bad example.

However, a good type of innovation allows people to take different types of risks. It allows people to diversify, and as we know from the basic principle of finance, diversification spreads risk out. Therefore, an innovation that brings diversity is a good innovation. I think that's exactly where the financial authorities

can play a role, which is to help us identify the good innovation and the bad innovation.

Q: Do you envision AI (Artificial intelligence) becoming the future heads of central banks? Could it achieve the "rule-like" nature of money as advocated by Milton Friedman? Alternatively, could AI be programmed to implement a "counter-cyclical adjustment" rule?

Jon Danielsson: I think AI will become increasingly entrenched in how central banks operate. It is unlikely that AI will end up being in charge of central banks, but AI will advise those in charge. AI can, of course, be a very powerful entity in implementing rule-based monetary policy, à la Friedman or John Taylor. However, the big problem is that AI is likely to be pro-cyclical. We can program counter-cyclical into it. However, because it strongly prefers best practices and processes while unaware of things not in its training dataset, its inherent tendency is to become counter-cyclical for small things and pro-cyclical for the largest outcomes. In other words, the AI in charge will lower volatility and fatten the tails.

Q: As Taleb says, black swans are not fat tails, but fat tails make them worse. Today, AI has been deeply applied in all aspects of the capital market, including robo-advisors, AI index funds, etc. So, are there any solutions to this pro-cyclical risk?

Jon Danielsson: Artificial intelligence is very good at solving short-term problems in the financial system and day-to-day risks. It is perfect for risk management, risk forecasting, identifying fraud, and things of that nature. I think artificial intelligence will affect jobs in

"In financial terms, AI lowers volatility but fattens the tails, which creates a chance of hazardous outcomes. I think the more we use AI in the financial system, we get more short-term stability, but at the risk of a very long-run dangerous crisis."

the years and decades to come. What I always tell my students is that when you try to get promoted in 10 years, the person competing against you might not have as much AI experience. Therefore, a person who knows how to communicate or utilize AI will have an advantage in the workplace.

So, I think knowledge of AI is becoming very important for our students. Now, when it comes to the financial system, AI is very good at managing day-to-day risk. As I say, it involves risk management, risk forecasting, fraudulent transactions, money transfer, and compliance with regulations. All of that is increasingly done really well with AI. The problem with AI is making the most critical decisions. So, someone who is sitting at the top of the People's Bank of China might have to make a very important decision once in their career. Something important happens. This person has been working for 30 years or 40 years and is now on top of the organization. They must make one important decision, which is what their whole career has been building up to. Here is where AI has a disadvantage. Because AI learns by machine learning, it sees repeated patterns in the system as it keeps on observing things. It becomes better and better. But if someone running the People's Bank of China is making a once-in-a-lifetime decision, you

cannot train the machine learning algorithm. And how this person makes that decision. They know how to decide because they are human beings; they know history, politics, philosophy, and economy. Moreover, they bring all their knowledge as human beings together to make critical decisions. The problem is that such decisions are not something AI can do. AI would simply make a decision, and it would make terrible decisions.

So I think we have to recognize that as we go up the organization, artificial intelligence is less and less advisable. But it's not that simple. If something big happens tomorrow, AI will increasingly provide advice to senior people. There are liquidity scenarios and stress scenarios, and AI will process the data to give advice to senior people. I think that is where we have to be aware of the risks. So, for the senior decision-makers, when we use AI to make the most important decisions in the financial system, AI's strengths and weaknesses must be recognized. That means those people have to know how to understand and communicate with them. Perhaps you want to have multiple different AI engines that have been trained and operated differently to provide competing advice or parallel analysis so that we can pick and choose. The way the senior decision maker makes a decision is by asking five people for advice, and these five people will all give them different advice. Maybe we can ask five AI engines for advice.

From a financial stability perspective, the issue with AI lies in its focus on day-to-day risk management. In financial terms, AI lowers volatility but fattens the tails, which creates a chance of hazardous outcomes. I think the more we use AI in the financial system, we get more short-term stability, but at the risk of a very long-run dangerous crisis.

* This article was initially published in the *PKU Financial Review*.

Thomas Sargent: A Positivist in the Artificial Intelligence Era

Thomas Sargent is professor at PHBS, professor at New York University, and 2011 Nobel laureate in economics. As one of the leaders of the "rational expectations revolution," Thomas Sargent devotes himself to the establishment and development of New Classical Macroeconomics. He considers himself an economic scientist, rather than an economist, and a positivist who loves figures.

Profile



Thomas Sargent

2011 Nobel Laureate in Economics

"ChatGPT is like assistance in terms of some basic and repetitive work, but you're the one who needs to complete the final steps, like revising, proofreading, and making judges.



Q: It is widely believed that artificial intelligence such as ChatGPT will reconstruct the economy, and we notice that you mentioned in your article "The Artificial Intelligence Frontier of Economic Theory" that "with big data, faster computers and better algorithms, we might see patterns where once we heard only noise." We wonder if the development of ChatGPT conforms to your observation. What do you think the ultimate ChatGPT application will look like?

Thomas Sargent: I can give you examples from the history of science. Great scientists like Galileo and Kepler did that; they had a bunch of data in various ways, either collected or looked at it. They simplified the data, took huge tables, and reduced them to a few equations. So that's pattern recognition and summary. When I was a kid, people were trying to do that. But we didn't have very much computer power. So, we had to fit little teeny models. We didn't have much data. But now, the computing powers has increased, and we can collect more data to fit bigger models. So ChatGPT is very good for some things.

At where I work, I have to file various reports. So I asked, "Would you please write this diversity and inclusion report about how I'm going to?" It wrote one that was perfectly acceptable. And then, as you said, I did a couple of fun things. For example, to show off to my wife, I wrote a love poem for her in Shakespearean. But we have a problem with something called "fake news"; scientists are trying to build AI to figure out which news is fake. What I told you is that ChatGPT just generated fake stuff.

Some people say it's going to take programmer jobs away. I don't think so. ChatGPT is like assistance in terms of some basic and repetitive work, but you're the one who needs to complete the final steps, like revising, proofreading, and making judges.

Q: According to the Schumpeterian creative destruction theory, under the market model, innovation will constantly innovate the inner economic structure as a force that creatively destroys market equilibrium; thus,

the dynamic imbalance will become the "normal" of economic development. What do you think of the "destructiveness" of innovation in the future? What challenges will it bring to our social development? How should we respond?

Thomas Sargent: Creative destruction is going on all the time. In social media, the phone is very destructive; it's also addictive. In the US, there are lots of startups and lots of failures. Most startups fail, but the whole process can't be stopped. In the last eight years, all sorts of job protection measures were carried out to stop jobs from disappearing, but they're not very wise policies. If it's creative destruction, you have to come up with something new. What ChatGPT does right now is basically a repetition or substitution of what we could do already, so it can't be "creative destruction."

The thing that excites me more is very geeky; they're using similar machine learning tools together with a lot of sophisticated math. They call it "geometric deep learning". They're doing things like advancing the frontiers of biology. I think the guys are genius.

My father just passed away, his job doesn't exist anymore, and a lot is done by computers. I thought my job might not exist as an economist or as a professor, maybe

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both. So compared with existing knowledge and skills, our job should focus on new knowledge and skills.

My understanding of "creativity" is a kind of creative thinking model which can make the prediction more accurate.

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