Accepted Manuscript

Moral Hazard in Active Asset Management

David C. Brown, Shaun William Davies

PII: S0304-405X(17)30101-0
DOI: 10.1016/j.jfineco.2017.05.010
Reference: FINEC 2774


Received date: 9 March 2016
Revised date: 3 August 2016
Accepted date: 12 September 2016

Please cite this article as: David C. Brown, Shaun William Davies, Moral Hazard in Active Asset Management, Journal of Financial Economics (2017), doi: 10.1016/j.jfineco.2017.05.010

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.
Moral Hazard in Active Asset Management

David C. Brown\textsuperscript{a,}*, Shaun William Davies\textsuperscript{b}

\textsuperscript{a}Eller College of Management, University of Arizona, McClelland Hall, Room 315R, P.O. Box 210108, Tucson, AZ 85721-0108, USA
\textsuperscript{b}Leeds School of Business, University of Colorado, Boulder, Campus Box 419, Boulder, CO 80309, USA

Abstract

We consider a model of active asset management in which mutual fund managers exert unobservable effort to earn excess returns. Investors allocate capital to actively managed funds and passively managed products. In equilibrium, investors are indifferent between investing an additional dollar with an active manager or with a passively managed product. As passively managed products become more attractive to investors, active managers’ revenues from portfolio-management services fall, reducing their effort incentives. More-severe decreasing-returns-to-scale are also associated with reduced incentives and increased moral hazard. Performance-based fees and holdings-based data are all unlikely to mitigate moral hazard.

\textit{JEL classification:} G11
\textit{Keywords:} Mutual Funds, Moral Hazard, Active Management, Passive Management

1. Introduction

A large literature is devoted to evaluating the performance of active mutual funds, and in particular, attempting to identify skilled managers.\textsuperscript{1} For example, recent research by Berk and van

\textsuperscript{a}We would like to thank Vincent Glode, Neal Stoughton, Rick Green, Luke Taylor, Martijn Cremers, Simon Gervais, Wei Li, Youchang Wu, Ryan Williams, Chris Leach, Bruce Carlin, Rick Sias, Aazam Virani, Rob Dam, Tony Cookson, Ed Van Wesep, Jason Lunn, Nathalie Moyen, Sergei Kovbasyuk, Scott Cederburg, Mathias Kronhund, Kevin Crotty, Diego García, an anonymous referee and seminar participants at the UBC Summer Finance Conference, 13th Paris December Finance Meeting, Midwest Finance Association Annual Meeting, the 2016 ITAM Finance Conference, the University of Colorado, the University of Arizona and the Einaudi Institute of Economics and Finance for their helpful insights and suggestions.
\textsuperscript{*}Corresponding author. Tel.: +1 520-621-0746; fax: +1 520-621-4261
\textit{Email address:} dcbrown@email.arizona.edu (David C. Brown)
دریافت فوری
متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات