

Six Responses on Research Questions in Finance - A Canadian Perspective

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We report the results of a survey conducted among finance academics in Canada. We sent a survey to 456 finance academics in Canada asking them the question “In your opinion what are the TEN most important research questions in finance?” We received only six responses despite e-mail reminders. From these responses we conclude that there is no consensus on research questions. That means Finance as a field is still struggling with low paradigm consensus (Hargens, 1988).

INTRODUCTION

A well known fact about academic research in finance is that, like other social sciences, finance journals have low acceptance rates compared to physical sciences. The bibliometric literature attributes this to low paradigm consensus (Hargens, 1988). To quote Freeman (Freeman, 2006):

“In a personal communication, the eminent anthropologist, A. K. Romney, distinguished between scientists and social scientists. “Scientists,” said Romney, “compete against nature; social scientists compete against each other.”... .. Because they share a paradigm, normal scientists, like physicists and chemists, work together in a systematic effort to uncover nature’s secrets. But Romney suggests that social scientists, like sociologists and anthropologists, lack a paradigm. *Instead of attempting to uncover nature’s secrets, they seem to struggle with each other in a never ending effort to re-define what should be studied and how.*”(Emphasis added by us) (Freeman, 2006, pp.8-9).

This survey is an attempt to find out whether we have a core set of questions that, in the consensus opinion of the profession, “should be studied”.

SURVEY DESIGN

We decided to make the survey attributable and not anonymous in order to ensure that only qualified finance academics are giving the responses. Our survey design was simple. It consisted of three pages. The first page was a cover letter where we explained the purpose of the survey and gave instructions. The second page asked the question “In your opinion what are the TEN most important research questions in finance?” The second page then provided ten boxes where participants could write their responses. Beside each response there were check boxes which could be used to indicate the relevant subfield of finance pertaining to the question. The last page asked for some biographical details. The complete questionnaire is attached in Appendix I.

The list of Canadian finance faculty was obtained from the 2010 edition of the Directory of Canadian Finance Faculty (Farooqi, 2010). The survey was electronically sent to the respondents via email. The questionnaire provided the option to be completed either electronically or via printed copy. A reminder email was sent after a month of the initial message to remind respondents to complete the questionnaire. A total of 456 finance faculty members were sent emails, out of which only six responses were received.

RESULTS

We had six responses. We had these responses after we had sent reminders. The research questions that were deemed important are given in Table 1.

TABLE 1
RESPONSES FROM THE SURVEY

Respondent Number	Suggestions for Research Problems
Respondent 1	<ul style="list-style-type: none"> • Unified models of human biases. • Equity premium puzzle. • Methodology for calculation of long-term abnormal returns. • The slope of the demand curve for stocks.
Respondent 2	<ul style="list-style-type: none"> • What are the most important questions in finance? • What are the limits of market based finance theories (Is there an uncertainty principle in finance)? • How to best incorporate measurement error into financial studies (continuation of Black's "Noise" paper). • How to measure correlation. • The volatility of volatility. • Financial Education in Business Schools. • Governance and Regulation. • Sociological effects in finance (beyond behavioral finance). • How to measure risk in an ERM context.
Respondent 3	<ul style="list-style-type: none"> • Why do we have speculative bubbles in the stock market? • What is the impact of the changing role of institutional versus retail investors? • How can we minimize the systemic risk posed by hedge funds and investment banks. • How can we adjust incentive contracts in financial institutions to induce long term behavior. • How can we make derivative positions more transparent. • How can we move most derivative trading onto exchanges to minimize systemic risk. • How can we insulate countries from the US in a world without currency or capital controls. • How can we coordinate monetary policy so that the US does not spread its problems around the world and "beggar their neighbors". • How can we insulate stock exchanges from electronic trading by large hedge funds and investment banks and "flash crashes" which damage the integrity of the markets.

Respondent 4	<ul style="list-style-type: none"> • Is the market truly efficient? • Are any risk/return estimation strategies superior? • Are investors risk-neutral or risk-averse? • Is the global market integrated or segregated? • Do all securities trade at efficient prices? • Are statistical methods appropriate to skewed results? • Can we predict the next recession? • Do derivatives increase efficiency or volatility? • Is corporate governance really important?
Respondent 5	<ul style="list-style-type: none"> • To what extent are asset prices determined by fundamental factors as opposed to self-fulfilling expectations? • Determinants of Exchange Rates. • Asset Pricing with Interacting Heterogeneous Agents. • Determinants of International Capital Flows. • Reform of Banking Regulation and Determinants of Banking Crises. • Modeling Risk of Sovereign Debt Default. • Forecasting Portfolio Risk
Respondent 6	<ul style="list-style-type: none"> • Our current framework relies very heavily on the assumptions that financial assets are normally distributed; an assumption that empirically does not hold true. Markets are not close to following a random walk. In the light of the work of the French mathematician Mandelbrot as well as the work by the physicist Sornette, we should be re-thinking our framework.

DISCUSSION

The survey was characterized by a very poor response rate despite reminders. The poor response rate itself is a significant fact and we need to understand this. We would hypothesize that the reason for the poor response rate is that there is, as yet, insufficient coagulation of paradigm consensus in finance. We can see it in two ways-by comparing the responses we have received with each other and by comparing the responses we have received with another list of research gaps provided by a well know textbook of finance (Brealey, Myers and Allen, 2014).

When we look through the responses to our survey we don't find any congruencies. Some well known research questions like the Equity Premium Puzzle are mentioned. But otherwise it appears that all the research problems stated by our respondents are along different dimensions. Using the second approach, we use a well known text book (Brealey, Myers and Allen, 2014). In their book they have a chapter titled "Conclusion: What We Do and Do Not Know about Finance." Their list of ten unsolved problems in finance are quoted below:

1. What Determines Project Risk and Present Value?
2. Risk and Return -What Have we Missed?
3. How Important are the Exceptions to the Efficient-Market theory?
4. Is Management an Off Balance Sheet Liability?
5. How can we explain the success of New Securities and New markets?
6. How can we resolve the Payout controversy?
7. What risks should a firm take?
8. What is the value of Liquidity?
9. How can we explain Merger Waves?
10. Why are financial systems so prone to crisis?

By comparing the list with the list generated by respondents to our survey we see that there is very little overlap. So we conclude that there is very little paradigm consensus in finance.

CONCLUSION

We have already referred to the list given by Brealey, Myers and Allen. After giving the list they write:

“We have given you the 10 uppermost in our minds. If there are others that you find more interesting and challenging, by all means construct your own list and start thinking about it.” (Brealey, Myers and Allen, 2014, p.889).

It appears from our survey that there is very little consensus among finance academics about the most important research questions in finance. So for researchers it is important to form their own research agenda and build a body of research around it. Our field is still young and evolving and this lack of consensus around paradigms will explain the low acceptance rates in finance journals. As our field matures more consensus will emerge around research questions and appropriate methodologies. Maybe futures surveys will tell us of the status of that consensus.

There could be another possible reason for the limited response. Our survey was conducted in Canada. Maybe had we conducted the survey in the US we would have obtained a better result because the US has more finance academics and the US is the biggest financial market. So it is possible that more consensus could have developed in the US over Research Issues than it did in Canada. That is an empirical question to be tackled by future research.

REFERENCES

- Brealey, R. A., Myers, S. C. and Allen, F. (2014). *Principles of Corporate Finance*, Boston, Irwin/McGraw- Hill.
- Farooqi, M. N. (2010). *Pearson Directory of Canadian Finance Faculty*, Canada, Pearson Education.
- Freeman, L.C. (2006). Editing a Normal Science Journal In Social Science. *Bulletin De Méthodologie Sociologique*, 91, 8–19.
- Hargens, L. L. (1988). Scholarly Consensus And Journal Rejection Rates. *American Sociological Review*, 53, (1), 139–151.

APPENDIX I

The consent form version will be the same for the web-based, email (as a fillable pdf attached document) and for the mailed questionnaire. The email and web-based questionnaire will have a check box to indicate consent of the respondent.

Consent Form

Survey on Ten Most Important Finance Research Questions

Dr. M. N. Farooqi, Mount Allison University, Canada & Dr. N. Bhattacharyya, University of Alaska,
USA

Dear Sir/Madam,

We are conducting a survey of finance academics to determine whether there is a consensus in the profession on the ten most important research questions in finance. We know that like other social sciences finance journals have low acceptance rates compared to physical sciences. The biblio metric literature attributes this to low paradigm consensus (Hargens 1988). To quote (Freeman 2006):

“In a personal communication, the eminent anthropologist, A. K. Romney, distinguished between scientists and social scientists. “Scientists,” said Romney, “compete against nature; social scientists compete against each other.” Because they share a paradigm, normal scientists, like physicists and chemists, work together in a systematic effort to uncover nature’s secrets. But Romney suggests that social scientists, like sociologists and anthropologists, lack a paradigm. Instead of attempting to uncover nature’s secrets, they seem to struggle with each other in a never ending effort to re-define what should be studied and how.” (Emphasis added by us).

This survey is an attempt to find out whether we have a core set of questions that in the consensus opinion of the profession “should be studied”. Very simply this survey requests you to list what, **in your opinion, are the ten most important research questions in finance**. We have decided not to make this an anonymous survey. We have asked for some very limited biographical information. We assure you that these will be used only for aggregative and classificatory purposes. Please let us know if you have any questions or concerns.

The survey should not take longer than 15 minutes to complete. **Your participation is completely voluntary. You may withdraw from this study at any time without penalty.**

All information obtained in this study will be kept strictly confidential and anonymous. Your biographical information will be separated from your survey responses and will be aggregated so individuals cannot be identified.

By signing this consent form, you are indicating that you fully understand the above information and agree to participate in this study.

Participant's signature _____ Date: _____

Please enclose this signed consent form along with your completed survey. We strongly advise that you keep a copy of the consent form for your records.

If you have any questions about this study, please contact Dr. N. Farooqi at nfarooqi@mta.ca or Dr. N. Bhattacharyya at nalinaksha@gmail.com.

With best wishes,

(Nauman Farooqi) (Nalinaksha Bhattacharyya)

This research has been reviewed and approved by the Mount Allison University Research Ethics Board. If you have any questions or concerns about this study, you may contact David Bruce, Director, Office of Research Services, Mount Allison University Research Ethics Board, at reb@mta.ca.

References

1. Freeman, Linton C. Editing a Normal Science Journal in Social Science. 2006; 91, 8-19.
2. Hargens, Lowell L. Scholarly Consensus and Journal Rejection Rates. 1988; 53, (1): 139-151.

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Survey on Ten Most Important Finance Research Questions
Page 1 of 2

1. In your opinion what are the TEN most important research questions in finance? Use the following classification letters to indicate area.

- A.** Asset Pricing **B.** Corporate Finance **C.** Investments **D.** Derivatives
E. Financial Institutions **F.** Personal Finance **G.** International Finance
H. Theoretical Finance **I.** Empirical Finance **J.** Behavioral Finance **K.** Other

No.	Research Question	Area (Tick all that apply)
1		<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E <input type="checkbox"/> F <input type="checkbox"/> G <input type="checkbox"/> H <input type="checkbox"/> I <input type="checkbox"/> J <input type="checkbox"/> K
2		<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E <input type="checkbox"/> F <input type="checkbox"/> G <input type="checkbox"/> H <input type="checkbox"/> I <input type="checkbox"/> J <input type="checkbox"/> K
3		<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E <input type="checkbox"/> F <input type="checkbox"/> G <input type="checkbox"/> H <input type="checkbox"/> I <input type="checkbox"/> J <input type="checkbox"/> K
4		<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E <input type="checkbox"/> F <input type="checkbox"/> G <input type="checkbox"/> H <input type="checkbox"/> I <input type="checkbox"/> J <input type="checkbox"/> K
5		<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E <input type="checkbox"/> F <input type="checkbox"/> G <input type="checkbox"/> H <input type="checkbox"/> I <input type="checkbox"/> J <input type="checkbox"/> K
6		<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E <input type="checkbox"/> F <input type="checkbox"/> G <input type="checkbox"/> H <input type="checkbox"/> I <input type="checkbox"/> J <input type="checkbox"/> K
7		<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E <input type="checkbox"/> F <input type="checkbox"/> G <input type="checkbox"/> H <input type="checkbox"/> I <input type="checkbox"/> J <input type="checkbox"/> K
8		<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E <input type="checkbox"/> F <input type="checkbox"/> G <input type="checkbox"/> H <input type="checkbox"/> I <input type="checkbox"/> J <input type="checkbox"/> K
9		<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E <input type="checkbox"/> F <input type="checkbox"/> G <input type="checkbox"/> H <input type="checkbox"/> I <input type="checkbox"/> J <input type="checkbox"/> K
10		<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E <input type="checkbox"/> F <input type="checkbox"/> G <input type="checkbox"/> H <input type="checkbox"/> I <input type="checkbox"/> J <input type="checkbox"/> K

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Survey on Ten Most Important Finance Research Questions
Page 2 of 2

2. Name: _____

3. University Affiliation: _____

4. Terminal Degree: Ph.D. DBA M.Sc. MBA Bachelor's. Other
If Other please give details _____

5. Year Terminal Degree Obtained _____

6. Institution Awarding Terminal Degree _____

7. Are you currently active in research? Yes No

8. If you are currently active in research, then what are your area(s) of research interest? (Tick all that are applicable)

- Asset Pricing Corporate Finance Investments Derivatives
 Financial Institutions Personal Finance International Finance Theoretical Finance
 Empirical Finance Behavioral Finance Other Please Specify _____.

9. Any other comments

Thank you very much for your co-operation. Please mail/fax/e-mail the filled form to

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If you want a copy of our paper at the completion of our study please write your e-mail here:
