April 26 und 27. 2013 in Bendorf (Rhein)

The following presentations were held and discussed in Bendorf (Rhine) on April 26 and 27, 2013:

1. A theoretical analysis of the information content of segment reporting

Prof. Dr. Dirk Simons, University of Mannheim

In recent years, both the Financial Accounting Standards Board and the International Accounting Standards boards adopted a management approach to segment reporting. Firms now base their reporting segments on their internal operating segments, rather than on geography or industry. Our purpose in this article is to persuade you that the implicit discretion in the new approach informs capital markets about the riskiest firms in risky populations. This is accomplished with a fairly small number of segments. For all other firms, the benefits of segmentation are negligible, and segment reporting may even be harmful if it falls short of full disaggregation. These results explain the empirical findings that segment reports have become more informative without appreciably increasing in their number or granularity.

2. The ball is round, a game lasts 90 minutes, everything else is pure theory

Prof. Dr. Peter-J. Jost, WHU - Otto Beisheim School of Management

In a game-theoretical model we formulate a soccer match between two teams as a two-stage contest with two activities. Each team can choose its tactic in attacking and defending for each half of the match. Both activities are costly. Furthermore, we allow teams to be heterogeneous with respect to the abilities of its forwards and defenders. Teams' activities together with their abilities then determine the winner of the match. We completely analyze the optimal incentives of teams to exert effort as well as the optimal allocation of this effort level between offense and defense. In particular, we compare the strategic behavior of teams under the two- and three-point victory rule. Most of our results differ from those in the previous literature on soccer. For example, the common belief that a losing team at half-time will play offensive whereas the leading team defensive can be supported in our model. Instead we show that the leading may preempt its competitor in the sense that the other teams gives up with positive probability in the second half.

3. Robust dynamic lot size planning under uncertainty of yield and capacity restrictions

Prof. Dr. Stefan Helber, Florian Sahling u. Katja Schimmelpfeng, Leibniz University Hannover

A deterministic data constellation is often assumed in models and processes for planning production processes. In reality, however, random influences often play an important role. These can occur, for example, in the form of a random production yield. Then one way

to deal with this uncertainty is to make robust plans that anticipate that uncertainty. The lecture shows how it can take place in the case of multi-product lot size planning over several periods in the case of a capacity-limited production facility.

4. Capital requirements for banks

Prof. Dr. hc Martin Hellwig, Max Planck Institute for Research on Collective Goods

We examine the pervasive view that "equity is expensive", which leads to claims that high capital requirements are costly and would affect credit markets adversely. We find that arguments made to support this view are either fallacious, irrelevant, or very weak. For example, the return on equity contains a risk premium that must go down if banks have more equity. It is thus incorrect to assume that the required return on equity remains fixed as capital requirements increase. It is also incorrect to translate higher taxes paid by banks to a social cost. Policies that subsidize debt and indirectly penalize equity through taxes and implicit guarantees are distortive. Any desirable public subsidies to banks' activities should be given directly and not in ways that encourage leverage. finally,

We conclude that bank equity is not socially expensive, and that high leverage is not necessary for banks to perform all their socially valuable functions, including lending, taking deposits and issuing money-like securities. To the contrary, better capitalized banks suffer fewer distortions in lending decisions and would perform better. The fact that banks choose high leverage does not imply that this is socially optimal, and, viewed from an ex ante perspective, high leverage may not even be privately optimal for banks.

Setting equity requirements significantly higher than the levels currently proposed would entail large social benefits and minimal, if any, social costs. Approaches based on equity dominate alternatives, including contingent capital. To achieve better capitalization quickly and efficiently and prevent disruption to lending, regulators must actively control equity payouts and issuance. If remaining challenges are addressed, capital regulation can be a powerful tool for enhancing the role of banks in the economy.