KWANGMIN JEREMY KO

Assistant Professor of Finance
Pennsylvania State University
Smeal School of Business
http://www.personal.psu.edu/kjk14/

365 Smeal Business Building
Pennsylvania State University
University Park, PA 16802

kjk14@psu.edu
(814) 769-1058 (mobile)
(814) 865-3362 (fax)

EMPLOYMENT

Assistant Professor of Finance, Smeal School of Business, Penn State University, August 2002-present

Visiting Professor of Finance, McCombs School of Business, University of Texas, July 2006-May 2007

EDUCATION

Massachusetts Institute of Technology, Sloan School of Management
Ph.D., Financial Economics, June 2003
Thesis: On Disclosures of Leveraged Financial Institutions
Advisor: Professor Stephen A. Ross

Harvard University
A.B., Physics, February 1996

FIELDS

Behavioral Finance, Market Efficiency, Financial Institutions

RESEARCH PAPERS

Arrogance can be a Virtue: Overconfidence, Information Acquisition, and Market Efficiency
Joint with Zhijian (James) Huang
Journal of Financial Economics, Volume 84, Number 2, 2007

In behavioral finance, overconfidence has been established as a prevalent psychological bias, which can make markets less efficient by creating mispricing in the form of excess volatility and return predictability. In this paper, we develop a model in which overconfidence causes investors to overinvest in information acquisition when this information could improve market efficiency by driving prices closer to true values. We study the impact of overconfidence on mispricing and information acquisition, comparing their net effect on prices. We derive several novel implications. First, overconfidence generally improves market pricing provided the level of overconfidence is not too high. Pricing can also improve even when overconfidence is arbitrarily high, depending on the amount of private information acquired relative to publicly available information.

Leveraged Investor Disclosures and Concentrations of Risk
Forthcoming in the Journal of Financial Markets

We analyze a model where investors (e.g. hedge funds) need to borrow from lenders with heterogeneous risk-exposures and risk-management motives. Investors may obtain advantageous terms of borrowing by disclosing their investment strategy, thereby revealing its correlation to the lender's existing risk-exposure. Investors risk being “front-run” by their lender if they disclose, however. We show that in the presence of front-running, the

"unraveling" result of full disclosure may not hold. In addition, disclosure regulation results in a loss of welfare since investors compelled to disclose will mitigate front-running by choosing a lender with sufficiently high correlation, thus exacerbating *concentrations of risk*.

Time-Inconsistent Risk Preferences in a Laboratory Experiment
Joint with Zhijian (James) Huang

We conducted an experiment to explore the time-consistency of risk preferences in a multi-period betting game. Specifically, subjects planned their contingent betting decisions in advance then played the game dynamically later to determine whether their respective decisions matched. We found that subjects took more risk than planned in their initial bet and after losses where this increased risk was associated with an increase in breakeven mental accounting. Our findings indicate that immediacy of outcomes can lead to impulsive risk-taking behavior and highlight the importance of precommitment to long-term financial planning.

Persistence of Beliefs in an Investment Experiment
Joint with Oliver Hansch

A number of behavioral finance theories posit that investors adhere to prior beliefs in spite of new information. This paper reports the results of an investment experiment which shows that subjects' inferences are biased by their prior beliefs in a manner that depends on investment outcomes. Specifically, their perception of new information was more positively biased for their prior favored assets when incurring losses than gains. This asymmetric bias may help explain empirical patterns such as loser momentum and suggests modifications to models of belief persistence in markets.

Breakup of Relative-Value Trade

We present a model where an arbitrageur has private information about the relative value of two or more securities. We conjecture that in a segmented dealer market, the arbitrageur trades each security with a different dealer so that each dealer sees only one piece of the total position. We show that this "break-up" strategy can be optimal and unique even if given an array of redundant strategies and securities, including "swaps" of the various securities. The analysis of this equilibrium has implications for the kinds of claims held by an arbitrageur's counterparties in a leveraged scenario and their resulting stability.

RESEARCH IN PROGRESS

Taxation of Excessive Speculation
Regulation of Excessive Risk-taking and Leverage
Optimization and Performance of Portfolios with Trading Strategy Discovery
Framing Effects on Investment Decisions (With Sonya Lim)

TEACHING EXPERIENCE

Pennsylvania State University, Spring 2003-present
University of Texas at Austin, Spring 2007
Corporate Finance Theory (Undergraduate)
Average teaching ratings above 6 out of 7 every year

Harvard University Summer School, Summer 1998
Managerial Finance

MIT Sloan School of Management, Spring 2000-2002
Teaching Assistant, Finance Theory I (MBA), Professors Dimitri Vayanos and Leonid Kogan

MIT Sloan School of Management, Spring 1998-1999, Fall 1999-2000
Teaching Assistant, Mergers and Acquisitions (MBA), Professor Kevin Rock

MIT Sloan School of Management, Fall 1998

Teaching Assistant, Advanced Corporate Finance (MBA), Professor Jeremy Stein

WORK EXPERIENCE

JP Morgan, Inc., New York, NY, Summer 1999
Summer Associate
Testing of new risk-management models incorporating option implied volatility

Barra, Inc., Berkeley, CA, Summer 1996
Summer Intern
Cross-sectional estimation of equity market impact model

RESEARCH PRESENTATIONS

University of Wisconsin – Milwaukee, Milwaukee, WI, April 2009
Securities and Exchange Commission, Washington, DC, February 2009
European Finance Association Conference, Athens, Greece, August 2008
Washington Area Finance Association Conference, Washington, DC, April 2008
Steve Ross Conference, Dedham, MA, October 2007
European Financial Management Association Conference, Vienna, Austria, June 2007
The Growth of Gambling and Prediction Markets Conference, Palm Springs, CA, May 2007
Eastern Finance Association Conference, New Orleans, LA, April 2007
Frontiers of Finance Conference, Curacao, January 2007
University of Texas at Austin, November 2006 and February 2002
European Financial Management Behavioral Finance Symposium, Durham, United Kingdom, April 2006
13th SFM Conference, Kaohsiung, Taiwan, December 2005
KAIST, Seoul, Korea, July, 2005
Pennsylvania State University, University Park, PA, November 2004 and March 2002
University at Buffalo, Buffalo, NY, November 2004
Cornell University, Ithaca, NY, November 2004
University of Michigan, Ann Arbor, MI, February 2002
New York University, New York, NY, February 2002
Federal Reserve Bank of New York, New York, NY, February 2002
University of Wisconsin, Madison, WI, February 2002
Northwestern University, Evanston, IL, January 2002
Yale University, New Haven, CT, January 2002
Harvard Business School, Cambridge, MA, January 2002
Massachusetts Institute of Technology, Cambridge, MA, November 2001 and 2002

GRANTS/FELLOWSHIPS/ HONORS

Smeal Small Research Grant, Pennsylvania State University, Fall 2003/Spring 2004
Smeal Small Research Grant, Pennsylvania State University, Spring 2008

UNIVERSITY SERVICE

Doctoral Dissertation Co-chair for Zhijian (James) Huang, 2008
Ethical Conduct of Research Committee, April 2008
Faculty Recruiting Committee, 2003-2006.
Faculty representative at Beta Gamma Sigma Induction Ceremony, December 2004.
Undergraduate Thesis Advisor, 2004-present

PERSONAL

Status: US Citizen. Hobbies: Martial Arts, Running.

REFERENCES

Stephen A. Ross (Advisor)
Sloan School of Management, MIT
50 Memorial Drive, E52-450
Cambridge, MA 02142
Phone: (617) 258-8371, e-mail: sross@mit.edu

Dimitri Vayanos
Room A213, London School of Economics
Houghton Street
London WC2A 2AE
Phone: 020-7955-6382, e-mail: d.vayanos@lse.ac.uk

Jeremy Stein
Department of Economics, Harvard University
Littauer Center, Room 209
Cambridge, MA 02138
Phone: (617) 496-6455, e-mail: jeremy_stein@harvard.edu

William Kracaw
352 Smeal Business Building
Pennsylvania State University
University Park, PA 16802
Phone: (814) 863-0486, e-mail: wak4@psu.edu