



MANAGING EDITORS

Hendrik Bessembinder
Jennifer Conrad
Jarrad Harford
Paul Malatesta

ADVISORY EDITORS

Stephen Brown
Mark Grinblatt

ASSOCIATE EDITORS

Warren Bailey
Gurdip Bakshi
Turan Bali
Murillo Campello
Mikhail Chernov
Jeffrey Coles
Ran Duchin
Alex Edmans
Wayne Ferson
Jonathan Karpoff
Francis Longstaff
Ronald Masulis
John McConnell
Robert McDonald
Darius Palia
Neil Pearson
George Pennacchi
Jeffrey Pontiff
Jay Ritter
Bryan Routledge
Sergei Sarkissian
Paul Schultz
Chester Spatt
Kumar Venkataraman
Ralph Walkling
Yuhai Xuan
David Yermack
Lu Zhang
Guofu Zhou

VOL. 50 | NO. 5 | OCTOBER 2015

2014 Sharpe Award Winners

Industry Expertise of Independent Directors and Board Monitoring

Cong Wang, Fei Xie, and Min Zhu

The Dynamics of Sovereign Credit Risk

Alexandre Jeanneret

Local Business Cycles and Local Liquidity

Gennaro Bernile, George Korniotis, Alok Kumar, and Qin Wang

Does Increased Competition Affect Credit Ratings?

A Reexamination of the Effect of Fitch's Market Share on Credit Ratings in the Corporate Bond Market

Kee-Hong Bae, Jun-Koo Kang, and Jin Wang

Beyond the Carry Trade: Optimal Currency Portfolios

Pedro Barroso and Pedro Santa-Clara

Informational Content of Options Trading on Acquirer Announcement Return

Konan Chan, Li Ge, and Tse-Chun Lin

Managerial Entrenchment and Firm Value: A Dynamic Perspective

Xin Chang and Hong Feng Zhang

Dynamic Capital Structure Adjustment and the Impact of Fractional Dependent Variables

Ralf Elsas and David Florysiak

The Impact of Investability on Asset Valuation

Vihang Errunza and Hai Ta

PUBLISHED BY CAMBRIDGE UNIVERSITY PRESS
FOR THE UNIVERSITY OF WASHINGTON
MICHAEL G. FOSTER SCHOOL OF BUSINESS
IN COOPERATION WITH THE ARIZONA STATE UNIVERSITY
W. P. CAREY SCHOOL OF BUSINESS
AND THE UNIVERSITY OF NORTH CAROLINA
KENAN-FLAGLER BUSINESS SCHOOL

2014 Sharpe Award Winners

Industry Expertise of Independent Directors and Board Monitoring	929
Cong Wang, Fei Xie, and Min Zhu	
The Dynamics of Sovereign Credit Risk	963
Alexandre Jeanneret	
Local Business Cycles and Local Liquidity	987
Gennaro Bernile, George Korniotis, Alok Kumar, and Qin Wang	
Does Increased Competition Affect Credit Ratings? A Reexamination of the Effect of Fitch's Market Share on Credit Ratings in the Corporate Bond Market	1011
Kee-Hong Bae, Jun-Koo Kang, and Jin Wang	
Beyond the Carry Trade: Optimal Currency Portfolios	1037
Pedro Barroso and Pedro Santa-Clara	
Informational Content of Options Trading on Acquirer Announcement Return	1057
Konan Chan, Li Ge, and Tse-Chun Lin	
Managerial Entrenchment and Firm Value: A Dynamic Perspective	1083
Xin Chang and Hong Feng Zhang	
Dynamic Capital Structure Adjustment and the Impact of Fractional Dependent Variables	1105
Ralf Elsas and David Florysiak	
The Impact of Investability on Asset Valuation	1135
Vihang Errunza and Hai Ta	

MANAGING EDITORS

Hendrik Bessembinder
Arizona State University

Jennifer Conrad
University of North Carolina

Jarrad Harford
Paul Malatesta
University of Washington

ADVISORY EDITORS

Stephen Brown
New York University

Mark Grinblatt
University of California, Los Angeles

ASSOCIATE EDITORS

Warren Bailey
Cornell University

George Pennacchi
University of Illinois, Urbana-Champaign

Gurdip Bakshi
University of Maryland

Jeffrey Pontiff
Boston College

Turan Bali
Georgetown University

Jay Ritter
University of Florida

Murillo Campello
Cornell University

Bryan Routledge
Carnegie Mellon University

Mikhail Chernov
University of California, Los Angeles

Sergei Sarkissian
McGill University

Jeffrey Coles
University of Utah

Paul Schultz
University of Notre Dame

Ran Duchin
University of Washington

Chester Spatt
Carnegie-Mellon University

Alex Edmans
London Business School

Kumar Venkataraman
Southern Methodist University

Wayne Ferson
University of Southern California

Ralph Walking
Drexel University

Jonathan Karpoff
University of Washington

Yuhai Xuan
University of Illinois, Urbana-Champaign

Francis Longstaff
University of California, Los Angeles

David Yermack
New York University

Ronald Masulis
University of New South Wales

Lu Zhang
Ohio State University

John McConnell
Purdue University

Guofu Zhou
Washington University in St. Louis

Robert McDonald
Northwestern University

Darius Palia
Rutgers University

BUSINESS MANAGER

Neil Pearson
University of Illinois, Urbana-Champaign

Susan Huot
University of Washington

The Journal of Financial and Quantitative Analysis (ISSN 0022-1090), Michael G. Foster School of Business, University of Washington, 370 Mackenzie Hall, UW Box 353200, Seattle, WA 98195-3200, is published bimonthly in February, April, June, August, October, and December by Cambridge University Press, 32 Avenue of the Americas, New York, NY 10013-2473/Cambridge University Press, the Edinburgh Building, Shaftesbury Road, Cambridge CB2 8RU, UK for the University of Washington Michael G. Foster School of Business in cooperation with the W. P. Carey School of Business at Arizona State University and the Kenan-Flagler Business School at University of North Carolina. Periodicals Postage Paid at New York, NY and additional mailing offices. POSTMASTER: Send address changes to Journal of Financial and Quantitative Analysis, Cambridge University Press, 32 Avenue of the Americas, New York, NY 10013, USA.



JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

PHONE: (206) 543-4598
 FAX: (206) 616-1894
 E-MAIL: jfqa@uw.edu
 URL: <http://www.jfqa.org>

University of Washington
 Michael G. Foster School of Business
 370 Mackenzie Hall UW Box 353200
 Seattle, WA 98195-3200 USA

VOL. 50, NO. 5, OCTOBER 2015

PURPOSE AND FOCUS

The Journal of Financial and Quantitative Analysis (JFQA) publishes theoretical and empirical research in financial economics. Topics include corporate finance, investments, capital and security markets, and quantitative methods of particular relevance to financial researchers. Opinions expressed in the JFQA are those of the authors and do not necessarily reflect those of the University of Washington Foster School of Business. For submissions queries, please write, call, fax, or e-mail the JFQA office. For all other information related to the journal, please contact Cambridge Journals Customer Services: Cambridge University Press, 32 Avenue of the Americas, New York, NY 10013, USA. <http://journals.cambridge.org/jfqa>

SUBMISSIONS

www.editorialmanager.com/jfqa

It is JFQA policy to give prompt attention to all submitted manuscripts. Consistent with this policy, honoraria are paid to referees who provide timely reviews. Submit manuscripts online (www.editorialmanager.com/jfqa). Payment is required at the time of submission. VISA, MasterCard, and American Express are accepted. Please consult the journal Web site for current submission details. Manuscripts are considered for publication on the understanding that they have not been previously published in whole or in part, and are not being simultaneously considered for publication elsewhere.

SUBSCRIPTIONS

<http://journals.cambridge.org/jfqa>

For individuals or institutions interested in a single journal subscription in 2016, please contact Cambridge Journals Customer Services. In the U.S., Canada, or Mexico, subscription fees are payable in U.S. dollars: journals_subscriptions@cambridge.org. Elsewhere in the world, subscription fees are payable in U.K. pounds sterling: journals@cambridge.org

2016 Annual Subscription Fees

Volume 51: February, April, June, August, October, and December

Category	Access Type	Price
Organizational	Online & Print	\$628/£339
Organizational	Print only	\$628/£339
Organizational	Online only	\$467/£271
Individual	Online & Print	\$110/£60
Individual	Print only	\$93/£49
Individual	Online only	\$77/£44
Student	Print only	\$26/£18

RIGHTS AND PERMISSIONS

All rights reserved. No part of this publication may be reproduced, in any form or by any means, electronic, photocopying, or otherwise, without permission in writing from Cambridge University Press. General enquiries from the USA, Mexico, and Canada should be addressed to the New York office of Cambridge University Press <http://www.cambridge.org/us/information/rights/contacts/newyork.htm>; general enquiries from elsewhere should be addressed to the Cambridge office <http://www.cambridge.org/uk/information/rights/contacts/cambridge.htm>; permission enquiries from Australia and New Zealand should be addressed to the Melbourne office <http://www.cambridge.org/aus/information/contacts/melbourne.htm>; enquiries regarding Spanish-language translation rights (only) should be addressed to the Madrid office <http://www.cambridge.org/uk/information/rights/contacts/madrid.htm>. Photocopying Information (for users in the USA): Copying for internal or personal use beyond that permitted by Sec. 107 or 108 of the U.S. Copyright Law is authorized for users duly registered with the Copyright Clearance Center (CCC), provided that the appropriate remittance is paid directly to: CCC, 222 Rosewood Drive, Danvers, MA 01923 USA. Specific written permission must be obtained for all other copying; contact the nearest Cambridge University Press office.

Announcing the Winners of the JFQA 2014 William F. Sharpe Best Paper Award

The William F. Sharpe Award for Scholarship in Financial Research recognizes researchers who, through their articles published in the JFQA, have most contributed to our understanding of important areas of financial economics. Nominees for the Sharpe Award are chosen by a vote of JFQA readers and Associate Editors; the winners, who receive a \$5,000 cash prize, are selected by the Associate Editors.

The winners of the Sharpe Award for JFQA papers published in 2014 are

Francis A. Longstaff, *University of California at Los Angeles*
Brett W. Myers, *Texas Tech University*

“How Does the Market Value Toxic Assets?”

April 2014, Vol. 49, No. 2, pp. 297–319

Please join us in congratulating Professors Longstaff and Myers for their accomplishments.

Hendrik Bessembinder
Jennifer Conrad
Jarrad Harford
Paul Malatesta
JFQA Managing Editors