

Press Release, Geneva, Switzerland, 3 June 2024

Research Paper "Passive Investing and the Rise of Mega-Firms" wins Swiss Finance Institute Outstanding Paper Award 2024

The Swiss Finance Institute has awarded its Outstanding Paper Award to the research paper "Passive Investing and the Rise of Mega-Firms." This study, co-authored by Hao Jiang, Michigan State University, Dimitri Vayanos, London School of Economics, and Lu Zheng, University of California, Irvine, explores the profound effects of passive investing on prices and the economy—a topic of significant relevance in today's financial landscape.

Geneva, 3 June 2024. The Swiss Finance Institute's College of Chairs has named Professor Hao Jiang, Michigan State University, Professor Dimitri Vayanos, London School of Economics, and Professor Lu Zheng, University of California, Irvine, as winners of the Swiss Finance Institute (SFI) Outstanding Paper Award 2024. This prize distinguishes an unpublished research paper expected to make an outstanding contribution to the field of finance.

In their paper, Hao Jiang, Dimitri Vayanos, and Lu Zheng focus on how passive investing affects stock prices and the economy. Over the past three decades, there has been a substantial influx of capital into passive investing. Calibrating a dynamic asset pricing model, the authors show that a surge in passive investing results in a disproportionate increase in the stock prices of the economy's largest firms, particularly those large firms that the market overvalues. This skews the size distribution of firms and intensifies industry concentration. The effects are sufficiently strong to cause the aggregate stock market to rise even when flows are solely due to investors switching from active to passive investment strategies. Intuitively, passive flows generate an increase in demand for large firms, causing the firms' idiosyncratic volatility to rise and discouraging investors from correcting the effects of the increased demand on prices. In empirical tests, the authors find that the largest firms in the S&P 500 index experience the highest returns following flows into that index, and that passive flows raise the idiosyncratic volatility of large but not of smaller firms.

The key learnings of the SFI Outstanding Paper 2024 will be presented at the SFI Research Days in June 2025. The research paper can be accessed at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3749534.

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Swiss Finance Institute

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