

PROPOSAL: ARE PRICING DIFFERENCES IN RUSSIAN COMMON AND PREFERRED STOCKS A MEASURE OF THE VALUE OF A VOTE?

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Russian stocks are unusual in that many firms issued dual class shares when the country privatized its industries. One set of shares are called “common.” These are similar to U.S. shares of common stock. They have the right to receive a proportionate share of the dividends issued by the firm, and to vote during shareholder meetings. Unlike most other countries there is a second class of shares called “preferred” that are somewhat unique to Russia. These shares are guaranteed to receive dividends that are at least as large as those paid to the common shareholders. However, that is just one floor. They are also entitled to receive as a dividend a minimum fraction of the firm’s earnings as well. What they do not have is a vote except under some circumstances.

Data from the Russian stock market indicates that in the 1990’s the preferred stock sold at a considerable discount to the common. Many have interpreted this differential as a measure of the value of a vote. However, even during that short period of time the discount varied enormously over time. Did the value of a vote vary by that much as well? What has happened since the end of the 1990’s? We seek to answer these questions by testing the patterns in the data against an asset pricing model that includes the time value of a vote.

Over the summer we want to convert the existing database into a more useful format and to bring it up to date. After that we will begin comparing the price moves in the two sets of securities to what our asset pricing model implies if the discount is actually due to the value of a vote. A student working on this project will need to use Microsoft Access and a statistical package like Stata. The needed skills can likely be picked up over the summer providing the student has completed a statistics course that included a discussion of regression analysis.