

RESEARCH SEMINAR



February 9, 12 - 1pm

ESB 243 & Zoom

Firm-level climate sentiments and implied cost of equity capital



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Abstract: In a sample of U.S. firms, we find strong evidence that firms' ex-ante expected returns are decreasing in a novel proxy of climate change sentiments of earnings conference call participants, suggesting that investors demand higher returns from their investments in firms carrying brown perceptions and lower returns from those with green perceptions. We utilize the variation in regionwide public opinion about scientists' beliefs regarding the occurrence of global warming as an instrument, as well as a two-step GMM to address potential endogeneity issues. Our findings support the theoretical insights in recent work of L. Pástor, R. Stambaugh, and L. Taylor. Sustainable investing in equilibrium. *Journal of Financial Economics* 2021 and early work of R. Heinkel, A. Kraus, and J. Zechner. The effect of green investment on corporate behavior. *Journal of Financial Quantitative Analysis*, 2001.

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