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Leibniz Institute for Financial Research SAFE

Dear Marius Luta,

In this edition of the digital newsletter of the Leibniz Institute SAFE, we present the findings of a new multinational survey on attitudes toward climate policy. We also consider award-winning research on the importance of competition for market liquidity in electronic exchanges.

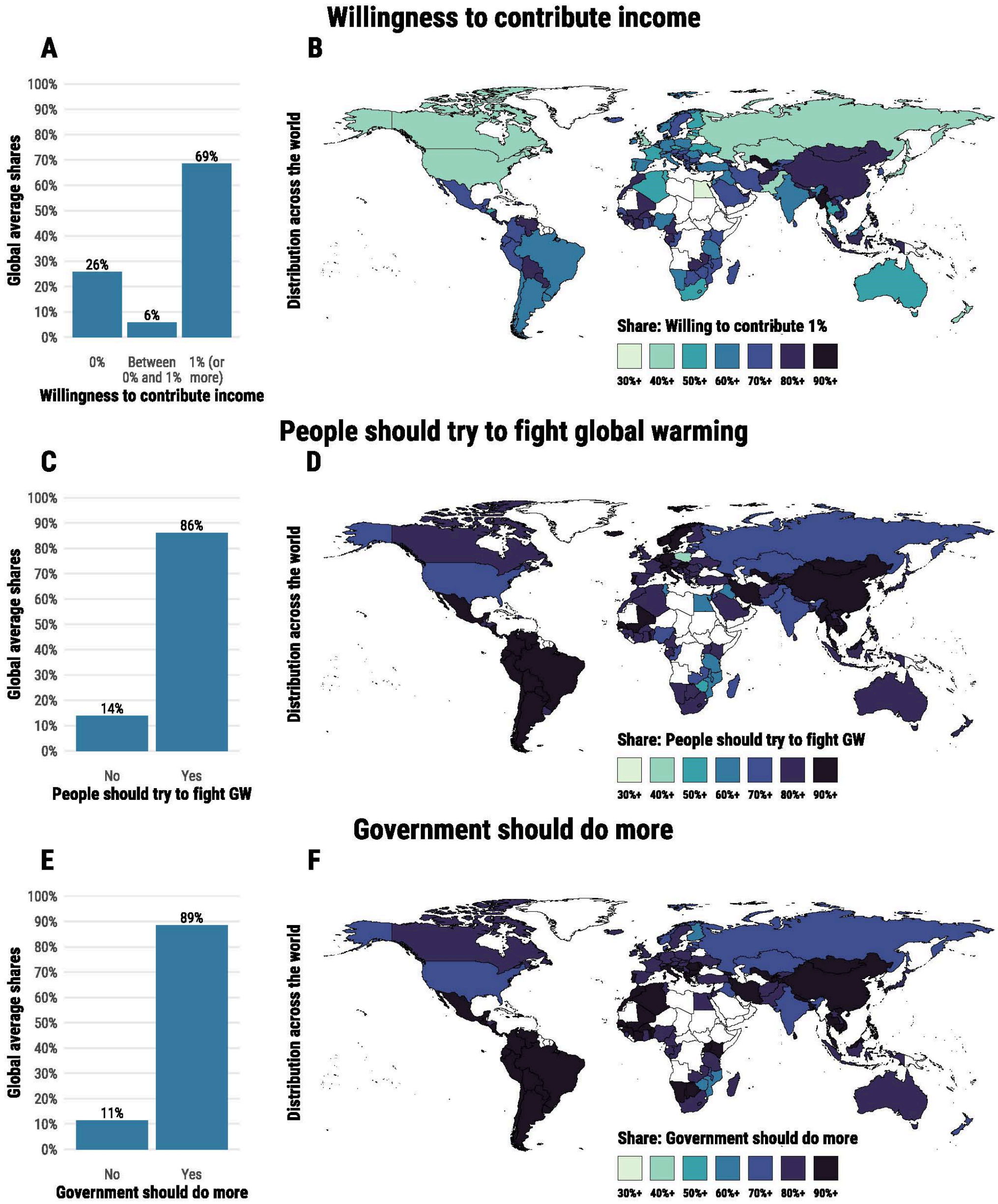
We hope you enjoy reading about our research and welcome your feedback at newsletter@safe-frankfurt.de.

Global support for climate action is strong

A global survey of attitudes toward climate policy reveals a broad willingness to contribute to mitigation efforts. The survey underscores the importance of dispelling the misperception that the general public is unwilling to act.

Concerted global action is essential to prevent runaway climate change. However, how much support is there in various countries for mitigation efforts? In a new study, behavioral economists at SAFE, the University of Bonn, and the University of Copenhagen shed light on this issue. Nearly 130,000 people in 125 countries were surveyed for the study, which has been published in the prestigious journal *Nature Climate Change*. A key finding of the survey is that there is widespread support for climate action. The study also shows that public perceptions of others' willingness to act are a crucial determinant of collective mitigation efforts.

The authors – Peter Andre, Teodora Boneva, Felix Chopra, and Armin Falk – reveal remarkable global support for climate action: 69 percent of respondents expressed a willingness to contribute one percent of their income to the fight against global warming. In addition, 86 percent expressed support for climate-friendly social norms, and 89 percent called for increased political action. Notably, individuals in countries that are particularly vulnerable to climate change showed an exceptionally high willingness to contribute to mitigation efforts.



The figure shows the willingness to contribute one percent of one's income to climate protection (A, B), support for social climate protection standards (C, D), and the demand for political measures (E, F). Source: Andre, P., Boneva, T., Chopra, F, and Falk, A. (2024), Globally Representative Evidence on the Actual and Perceived Support for Climate Action. Nature Climate Change.

Past research has shown that individuals are more likely to contribute to the common good when they believe that others will contribute as well. Despite widespread support for climate action, however, individuals around the globe systematically underestimated the willingness of their fellow citizens to act, a phenomenon behavioral researchers call pluralistic ignorance. This perception gap poses a significant challenge to robust climate action.

The study shows that individuals' willingness to contribute to climate action is influenced by a complex interplay of economic, environmental, and social factors. In particular, there is a negative relationship between country-level willingness to contribute and per-capita GDP: individuals in more affluent countries are less willing to bear personal costs for climate action. Conversely, a positive relationship was observed between country-level willingness to contribute and average annual temperature: individuals in regions with more significant climate-related risks are more likely to support mitigation efforts.

The findings of the study underscore the importance of effective communicational outreach and policy interventions to correct misperceptions and mobilize the existing strong public preferences for effective climate policy. Indeed, dispelling the prevailing pessimism regarding public support for climate action has the potential to unleash virtuous feedback cycles that pave the way to a sustainable future.

Read the full paper here

Notable Research: Influencing factors in financial markets

Market Liquidity and Competition among Designated Market Makers

By Loriana Pelizzon, (SAFE Deputy Scientific Director and Director of the Financial Markets Research Department), Mario Bellia (European Commission's Joint Research Center), Marti Subrahmanyam (NYU Stern School of Business), and Darya Yuferova (Norwegian School of Economics)

A forthcoming study in *Management Science* examines how the degree of competition among a category of high-frequency traders (HFTs) known as Designated Market Makers (DMMs) affects the function of financial markets. The paper "Market Liquidity and Competition among Designated Market Makers" shows how competition between DMMs influences activity on commodities exchanges that use central limit order books (CLOB) to match bids and offers. The authors harness the quasi-natural experiment furnished by the 2013 adoption of new rules for the Supplementary Liquidity Provider (SLP) program of the NYSE Euronext Paris exchange. This allows them to examine the effects of an exogenous change to the degree of competition between DMMs. The study focuses specifically on the French benchmark index Cotation Assistée en Continu (CAC 40).

One key finding of the paper is that market liquidity significantly improved following the introduction of the new SLP rules. Quoted and effective spreads declined by 6.6 percent and 5.02 percent, respectively. Approximately 90 percent of this improvement was attributable to increased DMM competition. The study draws attention to the crucial role played by the competitive environment as a liquidity factor, thus challenging the literature's traditional emphasis on DMM requirements and incentives.

The findings of the study suggest a need for regulatory approaches that look beyond setting requirements and fee structures for DMMs. The study suggests that measures to promote DMM competition may encourage greater market liquidity. This finding holds true even when controlling for various factors, including basket composition, fee rebates, and transaction size. The study is particularly relevant for securities regulators and exchange operators as they confront the challenges posed by rapidly changing trading technology and an ever greater role for electronic liquidity providers (ELPs).

The authors received the Best Paper Award for their use of HFT data from the European Financial Data Institute (EUROFIDAI), an institute of the French National Centre for Scientific Research (CNRS) and ESSEC Business School.

[Read the full paper here]

#SAFEHappenings

SAFE hosts joint UK–German seminar on sustainable finance
SAFE hosted a UK–German seminar on sustainable finance on 26 January 2024 in cooperation with the British Embassy in Berlin, the Green & Sustainable Finance Cluster Germany (GSFCG), and the German Sustainable Finance Advisory Council (SFB). The event brought together a diverse group of participants, including policymakers, financial

service providers, and academics. Read more about the joint UK–German seminar here.

Call for Papers – CEBRA 2024 Annual Meeting
SAFE is co-organizing the 2024 Annual Meeting of the Central Bank Research Association (CEBRA), which will be held on 28–30 August at the House of Finance, which is located at the Westend Campus of Goethe University Frankfurt. Now in its ninth year, the CEBRA Annual Meeting will welcome practitioners from various backgrounds to discuss a wide range of issues of interest to central banks, financial regulators, and international financial institutions. The organizers cordially invite researchers to submit papers by 10 March 2024. More information about the conference and paper submission can be found here.

Handpicked – A Landmark Court Decision

Katja Langenbucher, Professor of Civil Law, Commercial Law, and Banking Law at Goethe University Frankfurt and SAFE Bridge Professor, recommends reading the Delaware Court of Chancery's landmark decision on Elon Musk's $55.8 billion equity compensation package:

"After five days of proceedings in January, the Delaware Court of Chancery issued a voluminous 200-page decision, siding with Tesla shareholders in a derivative lawsuit that challenged the enhanced compensation package granted to CEO Elon Musk. The decision deserves a closer look because of the insights it offers at the intersection of law, psychology, and corporate governance. Stock options and other forms of equity-based compensation aim to align the interests of executives and shareholders. The court blocked the compensation package, ruling it a violation of Musk's fiduciary duty. Notably, the court derived this duty from Musk's 'general control' over the company – due in part to his 'outsized influence in the boardroom' and status as a 'superstar CEO' – even though he lacks mathematical voting control. The decision is particularly significant in light of the upcoming European Listing Act, which will reintroduce multiple-vote shares, potentially increasing the power of founders and controlling shareholders."

You can find the decision here

Further Content

- **News:** Leibniz Institute SAFE participates in new science network Frankfurt Alliance
- **Video:** SAFE Director Florian Heider at the Leibniz Economic Summit 2024 (in German only)
- **SAFE Finance Blog:** How households respond to the wealth effects of inflation (Philip Schnorpfeil, Andreas Hackethal, and Michael Weber)
- All upcoming events and SAFE publications

About SAFE
The Leibniz Institute for Financial Research SAFE (“Sustainable Architecture for Finance in Europe”) promotes interdisciplinary research and independent policy advice about the international financial system with a focus on Europe. The institute aims to contribute to a sustainable, crisis-proof financial architecture that stimulates innovation and serves economic and civil needs. Researchers from the fields of economics, law, and political science collaborate at SAFE on questions in the areas of Financial Intermediation, Financial Markets, Household Finance, Macro Finance, and Law & Finance.

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