

# Ilona Babenko

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## Education

- Ph.D. Finance**                      **University of California at Berkeley, 2006**
- Dissertation: “Agency costs, executive compensation, and firm's choice of payout and financing policies”
- M.S. in Physics**                      **University of Minnesota, 2001**

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## Appointments

- Associate Professor, Finance Department, Arizona State University, 2013 – present.  
Visiting Professor, Finance Department, Bocconi University, 2015-2016  
Assistant Professor, Finance Department, Arizona State University, 2009 –2013.  
Assistant Professor, Finance Department, HKUST, 2006 – 2009

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## Peer-Refereed Publications

- “Risk Hedging and Loan Covenants,” with Hendrik Bessembinder and Yuri Tserlukevich, 2024, *Management Science*, forthcoming.
- “Clawback Provisions,” with Benjamin Bennett, John Bizjak, Jeffrey Coles, and Jason Sandvik, 2023, *Review of Corporate Finance Studies* 12, 191–239. (Lead Article, Editor’s Choice)
- “Executives in Politics,” with Viktor Fedaseyeu and Song Zhang, 2023, *Management Science* 69, 6251–6270.
- “Will I Get Paid? Employee Stock Options and Mergers and Acquisitions,” with Fangfang Du, and Yuri Tserlukevich, 2021, *Journal of Financial and Quantitative Analysis* 56, 29–64.
- “Do CEOs Affect Employees’ Political Choices?” with Viktor Fedaseyeu and Song Zhang, 2020, *Review of Financial Studies* 33, 1781–1817.
- “Is Market Timing Good for Shareholders?” with Yuri Tserlukevich and Pengcheng Wan, 2020, *Management Science* 66, 3542–3560.
- “Idiosyncratic Cash Flows and Systematic Risk,” with Oliver Boguth and Yuri Tserlukevich, 2016, *Journal of Finance* 71, 425–456.
- “Do Non-Executives Employees Have Information? Evidence from Employee Stock Purchase Plans” with Rik Sen, 2016, *Management Science* 62, 1878–1898.
- “Money Left on the Table: An Analysis of Participation in Employee Stock Purchase Plans,” with Rik Sen, 2014, *Review of Financial Studies* 27, 3658–3698.

“The Credibility of Open Market Share Repurchase Signaling” with Yuri Tserlukevich and Alexander Vedrashko, 2012, *Journal of Financial and Quantitative Analysis* 47, 1059–1088.

“Employee Stock Options and Investment,” with Michael Lemmon and Yuri Tserlukevich, 2011, *Journal of Finance* 66, 981–1010.

“Share Repurchases and Pay-Performance Sensitivity of Employee Compensation Contracts,” 2009, *Journal of Finance* 64, 117–151.

“Analyzing the Tax Benefits from Employee Stock Options” with Yuri Tserlukevich,” 2009, *Journal of Finance* 64, 1797–1825.

“Market Timing with CAY” with Sandro Andrade and Yuri Tserlukevich,” 2006, *Journal of Portfolio Management* 32, 70–80.

### **Invited Publications**

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“Employees Donate More to Their CEOs’ Preferred Political Candidates” with Viktor Fedaseyev and Song Zhang, 2016, *Harvard Business Review*, Oct 17.

### **Working Papers and Work-in-Progress**

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**1. “Regulating CEO Pay: Evidence from Nonprofit Revitalization Act,”** 2021, with Benjamin Bennett and Rik Sen, *revise and resubmit at Review of Financial Studies*

- WFA 2022, EFA 2022, CICF 2021, FIRN 2021 (*Best Paper Prize*)

Using compensation data for 14,765 nonprofit organizations during 2009-2017, we find that CEO pay dropped by 2-3% when new legislation adopted in New York reduced the ability of CEOs to influence their own pay. Despite cuts in pay, CEOs did not exert lower effort, measured by the number of hours they work per week. Further, nonprofit performance improved, as reflected in larger donor contributions, more volunteers, and greater revenues. We show that these results are consistent with the predictions of a simple principal-agent model with compensation rigging. Overall, regulation that targets the pay-setting process can be effective at improving organizational outcomes.

**2. “Does Better Access to Disclosure Curb CEO Pay? Evidence from a Modern Information Technology Improvement,”** with Benjamin Bennett and Zexi Wang, *revise and resubmit at the Journal of Finance*

-2025 AFA (scheduled), 2024 Drexel Corporate Governance Conference, 2023 Annual Corporate Finance Conference at Exeter University, 2024 HKU-Tel Aviv Finance Conference, covered by Columbia Law School’s Blog on Corporations and the Capital Markets (<https://clsbluesky.law.columbia.edu/2023/08/10/does-enhanced-disclosure-curb-ceo-pay/>)

We provide evidence that enhanced disclosure curbs CEO pay. Using a difference-in-differences design around the staggered implementation of the SEC EDGAR system from 1993 to 1996, we find that media coverage of executive pay increases following EDGAR implementation and that total CEO pay drops by 7-10%. The effect on pay is stronger for CEOs in the upper tail of the compensation distribution and concentrates in equity-based pay, resulting in weaker CEO compensation incentives (delta and vega). Our results suggest that disclosure-related changes in CEO incentives have negative implications for firm value. Finally, we find higher CEO turnover following EDGAR implementation.

### 3. “Corporate Hedging, Contract Rights, and Basis Risk” with Yuri Tserlukevich,” 2023

*Invited under the dual submission to Review of Financial Studies*

-EFA 2024, UT Dallas Finance Conference 2023

Under the standard ISDA Master Agreement, the derivative contract may be terminated by the issuing counterparty when a firm experiences an “event of default,” such as non-payment, credit downgrade, or bankruptcy filing. Counterparties often exercise such termination right, especially if they are owed money by the firm, leaving the firm exposed to risk at the worst possible time. We show theoretically that the value of the termination right increases in basis risk and bankruptcy costs, but decreases in recontracting costs and the ability to negotiate payments to the defaulted firm. Using hand-collected data and textual analysis, we find that the termination rights are exercised in 62% of default cases and that firms' hedge ratios drop almost to zero following such exercises. Our results explain why firms in distress appear to reduce hedging with derivatives and shift instead to physical delivery contracts.

### 4. Mega-Donors and Representation of the Wealthy in the Wake of Citizens United, 2024, with Viktor Fedaseyev and Guosong Xu

*EFA 2024, NBER 2024, 2025 Inaugural ASU-HKU Interdisciplinary Conference*

We document that in the wake of the Supreme Court's *Citizens United* decision, which increased in the ability of the wealthy to finance political campaigns, the share of total electoral giving attributable to top 1% donors increased by 2.7 times. Further, we find that the voting by U.S. legislators became more responsive to the preferences of the wealthy post-*Citizens United* and less responsive to the preferences of the less affluent. The increase in legislators' alignment with the wealthy is most pronounced for the bills that deal with fiscal matters and for those bills on which the preferences of higher- and lower-income individuals diverge. Finally, it is the politicians who receive a larger share of their campaign funding from the top 1% donors that are more likely to shift their voting toward the preferences of the wealthy. Overall, our results highlight the importance of campaign finance in changing the nature of political representation in the United States.

### 5. CECL and Bank CEO Compensation, 2024, with Benjamin Bennett, Gauri Bhat, and Todd Milbourn

The adoption of the Current Expected Credit Losses (CECL) model, a new methodology for accounting for expected credit losses, has significantly increased bank earnings volatility. Using a difference-in-differences around the adoption, we examine how more volatile earnings impact CEO compensation design. We find that post-CECL, bank CEO pay becomes less sensitive to earnings, but more sensitive to other performance measures, such as stock returns and revenues. Additionally, total executive compensation increases, consistent with the higher risk premia demanded by bank executives. Overall, our results suggest that compensation committees view accounting earnings as having lower contractual usefulness for incentives after CECL.

### 6. “Management (of) Proposals,” 2023, with Rik Sen and Goeun Choi

*-AFA, FIRS, Adam Smith, Minnesota Corporate Finance Conference, Indian School of Business Conference, University of Alberta Corporate Finance Conference, Drexel Corporate Governance Conference*

Using shareholder voting records on management proposals, we find evidence of vote manipulation by management as there are significantly more proposals that narrowly pass

than narrowly fail. The strategic behavior by management is more pronounced for firms with low institutional ownership and for proposals receiving a negative ISS recommendation. We identify new mechanisms by which executives influence the outcome, such as meeting adjournment and selective campaigning. Finally, the market reacts more positively to the narrow failure of management proposals than to their passage. Combined with our theoretical model, these results imply that managerial influence on the voting process is value-destroying.

7. **“Dynamic Competition and Expected Stock Returns,”** 2019, with Oliver Boguth and Yuri Tserlukevich

-*AFA 2023, AEA, University of Washington Finance Conference, Gerzensee Summer Finance Symposium, 2023 Workshop on Investment- and Production-Based Asset Pricing at BI Norwegian Business School*

Using a dynamic model, we show why asset pricing tests that use one-dimensional measures of competition, such as industry concentration or mark-ups, can produce conflicting results. Within an industry, firms invest when the underlying product demand is high and divest when it is low, resulting in an inverse *U*-shaped relation between industry profitability and systematic risk. Conditional on profitability, industries with more irreversible investment are less competitive and more risky. Finally, the systematic risk within each industry is path-dependent because a history of past profitability affects the value of investment options. Our empirical approach exploits changes in oil prices to show the dynamic effect within industry and uses a measure of trade flows between economic sectors to show the cross-industry effect.

8. **“Pay for Complexity,”** 2022, with Benjamin Bennett and Zexi Wang

We show that firm complexity has increased over the last two decades and examine whether this trend is contributing to the rising CEO pay in the United States. To proxy for complexity, we use a text-based measure extracted from 10-K reports and a firm-level geographic dispersion constructed from detailed location data of firm establishments. We find that CEOs of more complex firms earn more, with a 12% pay premium for a one standard deviation increase in complexity. Firm complexity does not appear to foster managerial entrenchment. Instead, the evidence points to greater managerial talent and effort explaining the pay premium.

9. **“Embracing Risk: Hedging Policy for Firms with Real Options,”** with Yuri Tserlukevich, 2019, working paper

- *AFA, FIRS, EFA*

We analyze the dynamic risk management strategy of firms that face a tradeoff between minimizing the costs of financial distress and maximizing financing for future investment. Costly external financing of lumpy investment discourages full hedging because hedging can increase the financing costs and decrease the probability of investment. First, we show that firms with safe assets can choose to hedge more aggressively than firms with risky assets. Second, firms prefer to hedge systematic rather than firm-specific risk, even when hedging technologies for both types of risk are available and equally costly. Third, it is optimal not to hedge when cash savings are low and do not cover investment needs. Therefore, more constrained firms may appear to hedge less aggressively. Our theory generates comprehensive results consistent with actual hedging policies, and without relying on the costs of risk management.

**10. “Information Acquisition and Corporate Debt Illiquidity,”** with Lei Mao, 2018, working paper

*-SFS Cavalcade, AEA, EFA, Cambridge Corporate Theory Symposium*

Models based on asymmetric information predict that debt is least sensitive to private information and cannot explain the illiquidity of corporate debt in secondary markets. We analyze security design with moral hazard and offer a new explanation. First, the optimal compensation contract creates incentives for the manager to engage in risk-shifting, making her interests congruent with those of shareholders. Second, because debtholders are negatively affected by risky investments, they have an incentive to acquire information and discipline the manager. Debtholders' information acquisition solves the moral hazard problem, but makes debt less liquid than equity. Debt illiquidity covaries with credit risk.

**Selected Seminars and Presentations**

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- 2024+ EFA, AFA, NBER, Drexel Corporate Governance, Tulane University, HKU-Tel Aviv Finance Conference, Durham University, Manchester University, University of Delaware
- 2023 AFA, HKUST, CUHK (Hong Kong), CUHK (Shenzhen), Drexel Corporate Governance, Workshop on Investment- and Production-Based Asset Pricing (Norway), University of Edinburg, University of Glasgow, Annual Corporate Finance Conference at Exeter University, UT Dallas Finance Conference, NFA, MFA, University of Kansas, Erasmus University, EEIF
- 2022 WFA, EFA, University of Georgia, University of Sydney
- 2021 SFS Cavalcade, University of Georgia, CICF, FIRN, University of Connecticut Conference, Deakin University, UNSW/University of Sydney, Boston College, University of Texas at Austin, University of Texas at El Paso
- 2020 RAPS/RCFS Winter Conference, IDC Financial Economics Conference, University of Melbourne, Lancaster University, SEC, Arizona State University, University of Alberta\*, University of Groningen\*, University of New South Wales, Exeter University, University of Bristol, Manchester University
- 2019 AFA, Adam Smith, FIRS, Finance Down Under, ABFER Conference\*
- 2018 Santiago Finance Workshop, TAU Finance Conference in Israel, NFA, EFA\*, University of Washington Summer Finance Conference\*, Mitsui Finance Symposium, University of Minnesota Corporate Finance Conference, AEA, SFS Cavalcade\*, University of Amsterdam, Florida State University, University of Alabama, Imperial College of London, University of Alberta Corporate Finance Conference, BEROC keynote lecture, CICF\*, CAF Indian School of Business\*
- 2017 Cambridge University, Warwick Business School, UNSW, SFS Cavalcade, 25th NES Conference, University of Illinois at Urbana-Champaign, AFA, Finance Down Under, Florida State University SunTrust Beach Conference, Drexel Corporate Finance Conference, Beyster Compensation Symposium, McGill University\*, Helsinki School of Business\*
- 2016 Tel Aviv Finance Conference, Labor and Finance Conference at University of Colorado Boulder, Labor and Finance Conference in Capri, EFA, AEA, Utah Winter Finance Conference, Bocconi University\*, Vienna University, University of Rome III, BEROC
- 2015 Finance Down Under, EFA, FIRS, WFA, Cambridge Corporate Theory Symposium, Bocconi University, University of Manheim\*, Humboldt University\*, Warwick

- Business School\*, Rutgers University\*
- 2014 AFA, EFA\*, FIRS\*, Rochester University\*, University of Maryland\*, Georgia State Finance Symposium, BEROC conference, DePaul University, HKUST\* University
- 2013 WFA, EFA, AFA, FIRS\*, UBC Summer Finance Conference\*, Stanford University\*, UC Berkeley\*, Tilburg University, Erasmus University, University of Minnesota\*, IE Business School
- 2012 EFA\*, FIRS\*, UBC Winter Finance Conference, University of Southern California conference, Leland-Rubinstein UC Berkeley conference, Texas A&M University, CAF Indian School of Business Research Conference, Purdue University, Simon Fraser University, Copenhagen Business School, New Economic School 20<sup>th</sup> Anniversary Conference, BI Norwegian School of Management
- 2011 AFA, University of Michigan, Australian National University Summer Camp\*, Beyster Ownership Symposium, Caesarea Center 8<sup>th</sup> Annual Conference at IDC, University of Washington St. Louis\*, Finance Down Under, Nanyang Technological University, Singapore Management University, National University of Singapore, Oklahoma Risk Management Conference\*, University of Hong Kong\*, HKUST\*, UNSW\*, University of Sydney\*, UT Sydney\*
- 2006-2010 EFA, AFA in San Francisco, Carnegie Mellon University, CAF Indian School of Business Research Conference, New Economic School, Simon Fraser University, University of Arizona, University of Colorado at Boulder, University of Florida, HEC University of Lausanne, Arizona State University, University of Michigan\*, University of Southern California\*, University of Miami, UBC Winter Finance Conference\*, Cornell University\*, University of Utah\*, University of Lausanne\*, University of North Carolina Tax Symposium, University of South Carolina, University of Wisconsin, Madison, UC Berkeley, FMA Conference Orlando Top 10% Section\*, City University of Hong Kong\*, HKUST Symposium, Australian National University, Nanyang Technological University, Notre Dame University, HKUST, Hong Kong University, National University of Singapore, Melbourne Business School, York University, NHH Bergen, Stockholm School of Economics, Universitat Pompeu Fabra

\*presented by co-author

## **Grants and Awards**

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Distinguished Referee for Review of Finance Studies 2023

Best Paper Award at FIRN 2021 Annual Conference

Best Paper Award at Finance Down Under 2019 conference

Outstanding Doctoral Faculty Award 2018-2019

Referee of the year for Review of Corporate Finance Studies 2018

Arditti Center for Risk Management Award (\$12,500), 2014

Fidelity Fellowship in Equity Compensation Research for the study of broad-based equity compensation in America (\$25,000), awarded by Fidelity Investments and Rutgers School of Management and Labor Relations, 2012

J. Robert Beyster Faculty Fellowship (\$25,000) and J. Robert Beyster Visiting Assistant Professor title (the highest honor awarded to one fellow each year) for the study of employee ownership, profit sharing, and broad-based options, 2011

CERG Competitive Research Grant (HK\$480,000), RPC Competitive Research Grant (HK\$150,000), DAG Research Grant (HK\$100,000), 2007-2009

Recognition for Teaching Excellence (HKUST MBA Program), 2009; Best Teaching Award, 2003, (Masters of Financial Engineering program), UC Berkeley

## **Media Coverage**

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***Columbia Law School's Blog on Corporations and the Capital Markets***, "Does Enhanced Disclosure Curb CEO Pay?" [link](#)

***Chicago Booth Stigler Center, ProMarket Blog***, "The Rise of Business Politicians" [link](#)

***The Conversation***, "Keeping nonprofit CEOs out of the room when boards decide what to pay them yields good results" [link](#)

***Podcast at the NonProfit Times, Fresh Research for*** "Regulating CEO Pay: Evidence from the Nonprofit Revitalization Act" [link](#).

***Harvard Law School Forum on Corporate Governance and Financial Regulation***  
Dec 12, 2017 "Executives in Politics" [Link](#)

***Harvard Law School Forum on Corporate Governance and Financial Regulation***  
Aug 12, 2016 "Will I Get Paid? Employee Stock Options and Mergers and Acquisitions" [Link](#)

***Harvard Law School Forum on Corporate Governance and Financial Regulation***  
Aug 28, 2016, "Do CEOs Affect Employee Political Choices?" [Link](#)

**Valueedgeadvisors.com** Aug 30, 2016 "Do CEOs Affect Employee Political Choices?" [Link](#)

***The New York Times*** Sep 6, 2016 "Whom to Vote For? Employees Tend to Follow Their Leader" [Link](#)

***Fortune.com*** Sep 6, 2016 "How CEOs Influence Their Employees' Political Views" [Link](#)

***Chiefexecutive.net*** Sep 7, 2016 "How CEOs Influence Employees' Political Views" [Link](#)

***Marketwatch.com*** Sep 15, 2016 "Employees' Political Contributions Mirror the CEO's, Study Finds" [Link](#)

***SiriusXM Satellite Business Radio*** Sep 15, 2016 live show "In the Workplace" powered by the Wharton School, aired on Channel 111

***USA Today*** Sep 29, 2016 "Wells Fargo May Not be the End: Clawbacks Expected to Become a Bigger Issue" [Link](#)

***Washington Post*** Oct 19, 2016 "CEOs' political leanings can influence how employees vote" [Link](#)

## **Teaching Experience**

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### **Bocconi University**

Finance 3: Empirical Corporate Finance (doctoral)

## **Arizona State University**

FIN 361: Advanced Managerial Finance

*Required corporate finance course for undergraduate finance majors*

FIN 782: Theory of Corporate Finance

*Core finance class on theory of corporate finance for doctoral students*

FIN 786: Empirical Methods in Corporate Finance (co-teaching)

*Core finance class for doctoral students*

## **Hong Kong University of Science and Technology**

MBA Corporate Finance

*Required core corporate finance course for MBA level students*

Advanced Topics in Financial Management

*Elective for MBA level students and required finance course for Master of Science students.*

## **Professional and Academic Activities and Service**

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**Ad Hoc Referee:** *Journal of Finance, Journal of Financial Economics, Review of Financial Studies, Journal of Financial and Quantitative Analysis, Management Science, Review of Finance, Review of Corporate Finance Studies, Critical Finance Review, Journal of Law and Economics, Journal of Empirical Finance, Journal of Banking and Finance, Journal of Corporate Finance, Journal of Business Finance and Accounting, Review of Financial Economics, International Review of Finance, British Journal of Industrial Relations, Multinational Finance Journal, International Review of Financial Analysis*

**Refereeing Awards:** *Distinguished Referee for Review of Finance Studies 2023, Referee of the Year 2018 for Review of Corporate Finance Studies*

**Best Paper Awards:** *FIRN 2021, Finance Down Under 2020*

**Discussant:** *AFA 2024, AFA 2023, Sun Truist Florida State 2023, EFA 2022, Labor & Finance 2022, CFEA 2022, FDU 2022, FIRS 2021, SFS Cavalcade 2021, MFA 2021, AFA 2020, WFA 2020, Cambridge Corporate Theory Symposium 2020, FDU 2020, FIRS 2019, Finance Down Under 2019, SFS Cavalcade 2018, NFA 2018, UBC 2018, AFA 2017, Beyster Symposium 2021, 2017, EFA 2016, WFA 2015, SEC Conference on Financial Regulation 2014, HKUST Finance Symposium 2013, WFA 2012, Sonoran Desert Finance Conference 2012, HKUST Finance Symposium 2010, HKUST Finance Symposium 2009, HKUST Finance Symposium 2007, China International Conference 2010, FMA European 2007*

**Session Chair:** *WFA 2021, EFA 2021, WFA 2019, EFA 2015, 2012 International Association for the Economics of Participation and Beyster Symposium*

**Keynote Speaker:** *Annual retreat of the FREE network 2018, a joint initiative by SITE (Stockholm), BEROC (Minsk), BICEPS (Riga), CEFIR (Moscow), CenEA (Szczecin), ISET (Tbilisi) and KSE (Kiev).*

**Board member:** *Labor and Finance Group since 2017*

**Associate Editor:** *Journal of Corporate Finance 2018-current, Multinational Finance Journal 2011-2015*

**Track/Associate Chair:** *FMA 2017, WFA 2021-2023, EFA 2021, Midwest Finance Association 2020, NFA 2023*



**Member of Paper Selection Committees:** WFA 2017-2024, IDC Eagle Labs 2023, Napa/Sonoma 2023-2024, TAU 2020, FIRS 2016-2024, *Finance Down Under 2014-2023*, EFA 2011-2023, Cambridge Corporate Theory 2017-2018, 2022-2023, FIRCG Corporate Governance Conference 2016, *Sonoran Desert Finance Conference 2012-2023*, *China International Conference 2011*, *Northern Finance Association 2011-2016*, *SFS Cavalcade 2011*, *FMA Asia Pacific 2016*

**External Dissertation Reviewer:** *Nanyang Technological University, University of Vienna*

**Grant Reviewer:** *Hong Kong Government (HKSAR)*

### **Service for Arizona State University**

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On sabbatical leave during 2015-2016, Spring 2023

Department undergraduate committee (chair)	2017 to 2023
School undergraduate committee (member)	Fall 2018
Member, Finance Department Doctoral Committee	2009 to 2018
Member, Promotion and Tenure Committee	2014 to 2022
Member, Department Chair Search Committee	2010 to 2011
Member, Finance Department Recruiting Committee	2009-10, 2018-22
Departmental Seminar coordinator	2010 to 2011
Bettis Scholar Seminar coordinator	2010 to 2011
Brown-Bag Series seminar organizer	2009 to 2010
ASU Sonoran Conference Organizing Committee	2012-2022

### **Ph.D. Dissertation and Masters' Thesis Committees**

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Fan Zhang (placed at Bentley University)	2020 to 2022
Goeun Choi (placed at Tulane University)	2017 to 2021
Anthony Rice (placed at Chinese University of Hong Kong)	2019 to 2021
Fangfang Du (Co-chair, placed at California State University Fullerton)	2014 to 2018
Hong Zhao (placed at Neoma Business School, France)	2015 to 2016
Richard Walton (placed at Pepperdine University)	2014 to 2015
Kirak Kim (Co-chair, placed at University of Bristol)	2009 to 2012
Benjamin Bennett, (placed at Ohio State University, now at Tulane)	2012 to 2014
PengCheng Wan (placed at KeyBank)	2010 to 2015
Frank (Zhichuan) Li (placed at University of Western Ontario)	2010 to 2012
Brian Young (placed at Mississippi State University)	2009 to 2011
Mao Lei (placed at Warwick Business School)	2007 to 2011
Elizaveta Bradulina (chair of Master's thesis committee)	2007 to 2009

**Hobbies:** Badminton, dancing, Zumba/grind, hiking, cycling, ballet