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To Jinhee

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List of Abbreviations

AR	Abnormal Return
BHC	Bank Holding Company
CAR	Cumulative Abnormal Return
FDI	Foreign Direct Investment
MNC	Multi-national Company
NYSE	New York Stock Exchange
PPE	Property, Plant, and Equipment
SEC	Securities and Exchange Commission
SIC	Standard Industry Code

Abstract

Although USA is the largest economic powerhouse in the world, the future of US economy may depend on international competitiveness of US firms. Competitiveness of American firms will be influenced by many different factors, and my dissertation is focused on the tax policy and employee compensation structure among those factors.

The first chapter of the dissertation relies on event-study methodology to examine the effect of “Subpart F exemption on active financing income” on the expected profitability of banks. Empirical tests are conducted over the data collected from two different sources. Calculation of abnormal returns is based on daily returns of 30 publicly traded banks and their foreign income tax status. I find strong positive response to the tax policy change. Banks with sizable foreign operation show significantly higher abnormal returns than banks without foreign operation as the exemption rule allows tax deferral on foreign source incomes.

The second chapter of the dissertation examines different responses on corporate taxation between manufacturing and banking FDI. Empirical tests are conducted with a difference equation on the FDI decision using the data on outgoing FDI and foreign income tax rates across countries. The result of empirical test indicates that tax rates negatively affect FDI decision for both banking and manufacturing sector as previously reported. However, banking FDI is found to be more sensitive to variations in corporate tax rates than manufacturing FDI.

The final chapter of the dissertation empirically tests different theoretical implications to identify driving factors of the cohort effect. Personnel records from a large US insurance company are analyzed to identify the firm’s wage cohort effect. The fact that employees’ productivity measures and job-level status are available is the main strength of the data. From a long-term contract model and a human-capital accumulation model, I derive implications on the driving factors of the wage cohort effect. I find that the cohort effect is mainly driven through promotion and the entry-year unemployment rates partially explain the cohort effect. Contrary to the human-capital accumulation model’s expectation, productivity is not observed to explain the cohort effect.