Internet Appendix

March 10, 2023

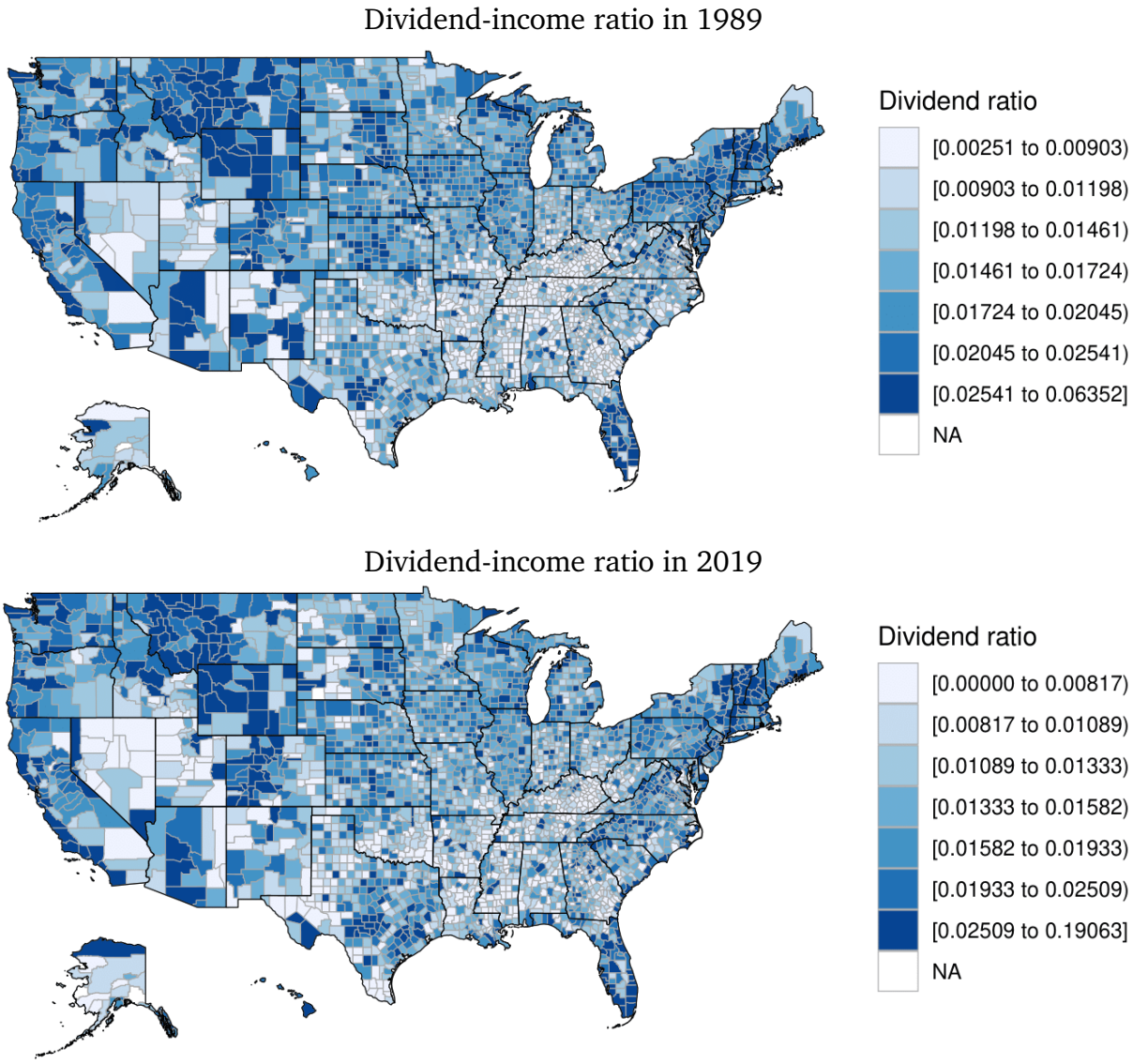

Figure A.1. Stock market participation using IRS data

This figure shows the ratio of aggregate dividend income over aggregate taxable income for U.S. counties in 1989 and 2019 using the data of IRS Statistics of Income.

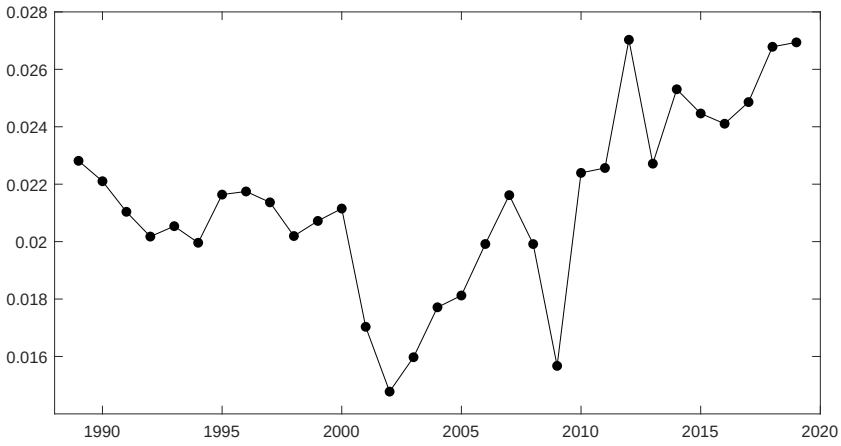

Figure A.2. Dividend-income ratio, 1989-2019

This figure shows the ratio of aggregate dividend income over aggregate taxable income from 1989 to 2019 using the data of IRS Statistics of Income.

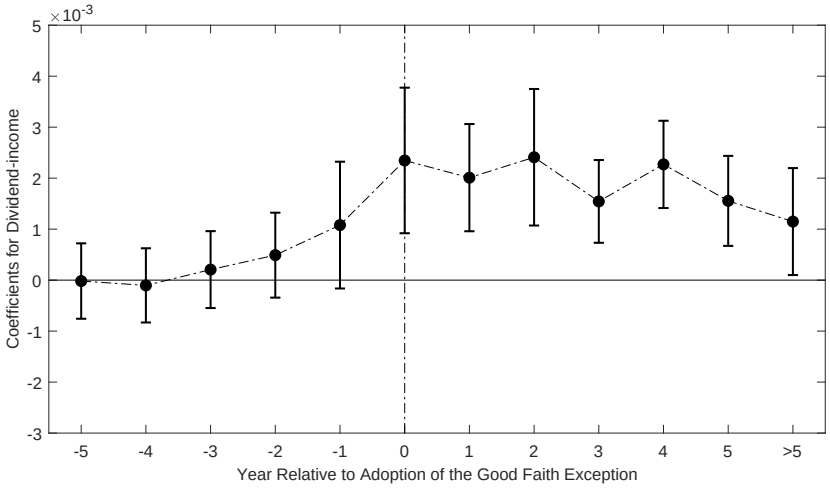

Figure A.3. **Dynamic effects of the Good faith exception on County-level Dividend-Income ratio.** This figure plots the dynamic effects of the adoption of the good faith exception on county-level dividend-income ratio, based on the IRS data, with point estimates and 90% error bands. On the y-axis, the graph plots the coefficient estimates from equation (2) where we replace the good faith dummy variable with the following dynamic variables: Good faith$_{(-5),s,t}$, Good faith$_{(-4),s,t}$, Good faith$_{(-3),s,t}$, Good faith$_{(-2),s,t}$, Good faith$_{(-1),s,t}$, Good faith$_{(0),s,t}$, Good faith$_{(+1),s,t}$ Good faith$_{(+2),s,t}$, ... and Good faith$_{(>5),s,t}$. Good faith$_{(-5),s,t}$, Good faith$_{(-4),s,t}$, ... is a dummy variable set to one for a state which will adopt the good faith in five years, four years, etc. Good faith$_{(+1),s,t}$, Good faith$_{(+2),s,t}$, ... is a dummy variable set to one for a state that adopted the good faith exception one year ago, two years ago, etc. Good faith$_{(>5),s,t}$ is a dummy variable set to one for a state which adopted the good faith exception more than five years ago.

Table A.1. Variable Definition

This table describes variables used in the current study.

Variable	Description
Panel A: Demographic variables	
Number of children	Number of own children in family
Married	A dummy variable set to one if the household head is married and zero otherwise
High school	A dummy variable set to one if high school is the highest degree
College	A dummy variable set to one if college is the highest degree
Age	Age of the household head
Panel B: Assets and liabilities	
Stock	The value of stocks and mutual funds
Checking	The value of checking accounts that do not earn interest
Saving	The value of savings accounts, money market deposit accounts, certificates of deposit
Bond	The value of money market funds, U.S. Government securities, municipal or corporate bonds, other interest-earning assets
Total financial wealth	Stock + Checking + Saving + Bond
% Stock share	Percentage of total financial wealth invested in stocks and mutual funds (Stock / Total financial wealth)
Participation	A dummy variable set to one if a household holds either stocks or mutual funds (stock > 0)
Participation (with IRA/401K/Keogh)	A dummy variable set to one if a household holds stocks or mutual funds either directly or directly through IRA/401K/Keogh accounts.
Vehicle equity	The value of vehicles - the value of debts against vehicles
Home equity	The value of Properties - mortgage for the Properties + other real estate
Other assets	Business equity + equity in other investments
Total wealth	Total financial wealth + vehicle equity + home equity + other assets
Panel C: Labor-related variables	
Labor income	The value of earnings from jobs
Layoff	A dummy variable set to one if the household head is on layoff. We classify households as laid off if they report separating from their employer because of layoff. We also utilize the question of "were you on layoff?".
Panel D: State-level variables	
State income growth	Logarithm of the difference between the state income in a given year and that in the previous year
State GDP growth	Logarithm of the difference between the state GDP in a given year and that in the previous year
Unemployment rate	Unemployment rate for each state and each year
Unemployment insurance generosity	Product of the maximum number of weeks and the maximum weekly benefit amount for each state and each year.
house price change	Annual percentage change of state house price index provided by the Federal Housing Finance Agency
Panel E: Brokerage data	
% Change in stock holding	The value of the monthly changes in the number of shares of a stock j held by a household i, divided by the value of the equity holdings of the stock j of a household at the beginning of the month $(p_{j,t-1}(q_{i,j,t} - q_{i,j,t-1})/p_{j,t-1}q_{i,j,t-1})$.
Affected stocks	A dummy variable set to one for stocks headquartered in a state where the good faith exception is adopted.

Table A.2. **Adoption of state-level Wrongful Discharge Laws.** This table reports the month and year when each state adopted the good faith, implied contract, and public policy exceptions to the employment-at-will rule. '✓' denotes an adoption of the good faith exception that this study covers. 'rev' denotes the reversal. This identification of the recognition of WDLs is sourced from Serfling (2016) and Bai, Fairhurst, and Serfling (2019). The current study does not cover all adoptions of WDLs because the SIPP data is available from 1984, and also SIPP categorizes small states into one group to protect the confidentiality of respondents.

State	Good faith	Implied contract	Public policy
Alabama		7/1987	
Alaska	5/1983	5/1983	2/1986
Arizona	6/1985 ✓	6/1983 (rev. 4/1984)	6/1985
Arkansas		6/1984	3/1980
California	10/1980	3/1972	9/1959
Colorado		10/1983	9/1985
Connecticut	6/1980	10/1985	1/1980
Delaware	4/1992 ✓		3/1992
Florida			
Georgia			
Hawaii		8/1986	10/1982
Idaho	8/1989	4/1977	4/1977
Illinois		12/1974	12/1978
Indiana		8/1987	5/1973
Iowa		11/1987	7/1985
Kansas		8/1984	6/1981
Kentucky		8/1983	11/1983
Louisiana	1/1998 ✓		
Maine		11/1977	
Maryland		1/1985	7/1981
Massachusetts	7/1977	5/1988	5/1980
Michigan		6/1980	6/1976
Minnesota		4/1983	11/1986
Mississippi		6/1992	7/1987
Missouri		1/1983 (rev. 2/1988)	11/1985
Montana	1/1982	6/1987	1/1980
Nebraska		11/1983	11/1987
Nevada	2/1987 ✓	8/1983	1/1984
New Hampshire	2/1974 (rev. 5/1980)	8/1988	2/1974
New Jersey		5/1985	7/1980
New Mexico		2/1980	7/1983
New York		11/1982	
North Carolina			5/1985
North Dakota		2/1984	11/1987
Ohio		4/1982	3/1990
Oklahoma	5/1985 (rev. 2/1989 ✓) ✓	12/1976	2/1989
Oregon		3/1978	6/1975
Pennsylvania			3/1974
Rhode Island			
South Carolina		6/1987	11/1985
South Dakota		4/1983	12/1988
Tennessee		11/1981	8/1984
Texas		4/1985	6/1984
Utah	3/1989 ✓	5/1986	3/1989
Vermont		8/1985	9/1986
Virginia		9/1983	6/1985
Washington		8/1977	7/1984
West Virginia		4/1986	7/1978
Wisconsin		6/1985	1/1980
Wyoming	1/1994 ✓	8/1985	7/1989

Table A.3. Effect of Good Faith Exception on Portfolio choices

This table reports the effect of the WDLs on households' portfolio choices. In Columns (1) - (3), the dependent variable is *Stock share (>0)*, the percentage of stocks and mutual funds in total financial wealth, conditional on participation (intensive margin). In Columns (4) - (6), the dependent variable is *Participation*, a dummy variable set to one if a household owns stocks or mutual funds directly (extensive margin). Column (7) reports the result using the county-level IRS data where the dependent variable is dividend income to adjusted gross income, and counties bordering on a state are excluded. *Good faith*, *Implied contract*, and *Public policy* are indicator variables set to one for a state after the adoption of the respective WDLs. Household controls are the log of one plus total wealth, age, age squared, the number of children, marital status, a high school degree, and a college degree dummy variable. State controls are state GDP growth rate, state income growth rate, unemployment rate, house price change, a Democratic governor dummy variable, and the fraction of Democrats in a state's legislature (both House of Representatives and Senate). There are three additional county-level control variables in Column (7): county level income growth rate, employment growth rate, and house price growth rate. Standard errors clustered at the state (county) level are in parentheses for Columns (1) - (6) (Column (7)). ***, **, and * denote statistical significance at the 1, 5, and 10% levels, respectively. A detailed description of the variables used in this paper is in Appendix Table A.1.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Stock share (> 0)			Participation			Dividend/Income
Good faith	0.087***	0.098***	0.102***	0.037***	0.040***	0.044***	0.001**
	(0.019)	(0.019)	(0.014)	(0.012)	(0.011)	(0.013)	(0.001)
Implied contract	-0.068*	-0.065	-0.050	-0.020**	-0.022**	-0.020*	0.002*
	(0.040)	(0.039)	(0.035)	(0.010)	(0.011)	(0.010)	(0.001)
Public policy	-0.009	0.001	-0.005	-0.028	-0.028	-0.028	-0.000
	(0.030)	(0.032)	(0.035)	(0.021)	(0.023)	(0.024)	(0.000)
GDP growth rate		0.141	0.133		-0.008	-0.022	-0.000
		(0.144)	(0.134)		(0.065)	(0.064)	(0.001)
Income growth rate		-0.446*	-0.457*		-0.285***	-0.265**	-0.000
at state level		(0.235)	(0.247)		(0.102)	(0.113)	(0.002)
Unemployment rate		-0.366	-0.078		0.007	0.144	0.018***
		(0.691)	(0.554)		(0.373)	(0.369)	(0.005)
House price growth		0.309***	0.260***		0.158***	0.144***	-0.002***
at state level		(0.101)	(0.095)		(0.047)	(0.053)	(0.001)
Democratic governor		0.004	0.004		-0.003	-0.003	-0.000
		(0.006)	(0.006)		(0.003)	(0.003)	(0.000)
% of Democrats		-0.037	-0.016		-0.008	-0.006	0.002**
		(0.043)	(0.051)		(0.026)	(0.025)	(0.001)
Log of total wealth			0.109***			0.040***	
			(0.002)			(0.001)	
Age			0.006			0.010	
			(0.014)			(0.007)	
Age sqaured			0.000			-0.000	
			(0.000)			(0.000)	
Number of Children			0.012*			0.002	
			(0.006)			(0.002)	
Married			-0.048**			-0.000	
			(0.020)			(0.009)	
High school			0.065			0.008	
			(0.087)			(0.022)	
College degree			0.116**			0.012	
			(0.056)			(0.021)	
Income growth rate							0.004***
at county level							(0.001)
Employment growth							-0.004***
at county level							(0.001)
House price growth							-0.000
at county level							(0.001)
Household FEs	Y	Y	Y	Y	Y	Y	
County FEs							Y
State FEs	Y	Y	Y	Y	Y	Y	
Year FEs	Y	Y	Y	Y	Y	Y	Y
Income decile FEs	Y	Y	Y	Y	Y	Y	
N	46,722	45,116	43,839	131,329	126,378	119,981	43,945
Adjusted R^2	0.254	0.253	0.342	0.731	0.730	0.742	0.860

Table A.4. **Effect of the Good faith exception on Household Risky Assets Investment Choices with Survey weights.** This table reports the effect of the good faith exception on households' risky assets investment choices with survey weights. In Columns (1) - (3), the dependent variable is *Stock share (>0)*, the percentage of stocks and mutual funds in total financial wealth, conditional on participation (intensive margin). In Columns (4) - (6), the dependent variable is *Participation*, a dummy variable set to one if a household owns stocks or mutual funds directly (extensive margin). *Good faith*, *Implied contract*, and *Public policy* are indicator variables set to one for a state after the adoption of the respective WDLs. Household controls are the log of one plus total wealth, age, age squared, the number of children, marital status, a high school degree, and a college degree dummy variable. State controls are state-level GDP growth rate, income growth rate, unemployment rate, house price change, a Democratic governor dummy variable, and the fraction of Democrats in a state's legislature (both House of Representatives and Senate). Standard errors clustered at the state level are in parentheses. ***, **, and * denote statistical significance at the 1, 5, and 10% levels, respectively. A detailed description of the variables used in this paper is in Internet Appendix Table A.1.

	(1)	(2)	(3)	(4)	(5)	(6)
	Stock share (> 0)			Participation		
Good faith	0.096***	0.106***	0.113***	0.041***	0.042***	0.045***
	(0.024)	(0.025)	(0.020)	(0.014)	(0.014)	(0.016)
Household controls			Y			Y
State controls		Y	Y		Y	Y
Household FEs	Y	Y	Y	Y	Y	Y
State FEs	Y	Y	Y	Y	Y	Y
Year FEs	Y	Y	Y	Y	Y	Y
Income decile FEs	Y	Y	Y	Y	Y	Y
N	46,720	45,114	43,837	131,321	126,370	119,973
Adjusted R^2	0.279	0.278	0.367	0.751	0.750	0.761

Table A.5. **Effect of the Good faith exception on Household Risky Assets Investment Choices with Double clustering.** This table reports the effect of the good faith exception on households' risky assets investment choices where standard errors are double-clustered by state and year. In Columns (1) - (3), the dependent variable is *Stock share (>0)*, the percentage of stocks and mutual funds in total financial wealth, conditional on participation (intensive margin). In Columns (4) - (6), the dependent variable is *Participation*, a dummy variable set to one if a household owns stocks or mutual funds directly (extensive margin). *Good faith*, *Implied contract*, and *Public policy* are indicator variables set to one for a state after the adoption of the respective WDLs. Household controls are the log of one plus total wealth, age, age squared, the number of children, marital status, a high school degree, and a college degree dummy variable. State controls are state-level GDP growth rate, income growth rate, unemployment rate, house price change, a Democratic governor dummy variable, and the fraction of Democrats in a state's legislature (both House of Representatives and Senate). Standard errors clustered at the state and year levels are in parentheses. ***, **, and * denote statistical significance at the 1, 5, and 10% levels, respectively. A detailed description of the variables used in this paper is in Internet Appendix Table A.1.

	(1)	(2)	(3)	(4)	(5)	(6)
	Stock share (> 0)			Participation		
Good faith	0.087***	0.098***	0.102***	0.037***	0.040***	0.044***
	(0.019)	(0.018)	(0.018)	(0.012)	(0.011)	(0.014)
Household controls			Y			Y
State controls		Y	Y		Y	Y
Household FEs	Y	Y	Y	Y	Y	Y
State FEs	Y	Y	Y	Y	Y	Y
Year FEs	Y	Y	Y	Y	Y	Y
Income decile FEs	Y	Y	Y	Y	Y	Y
N	46,722	45,116	43,839	131,329	126,378	119,981
Adjusted R^2	0.254	0.253	0.342	0.731	0.730	0.742

Table A.6. **Effect of the Good faith exception on Asset Re-allocation.** This table reports the effect of the good faith exception on portfolio re-allocation of households. In Column (1), the dependent variable is *Bond share*, the percentage of bond in total financial wealth. In Column (2), the dependent variable is *Checking & Savings share*, the percentage of checking and savings in total financial wealth. Samples are based on households who participate in the stock market. *Good faith* is an indicator variable set to one for a state after the adoption of the good faith exception. Household controls are the log of total wealth, age, age squared, the number of children, marital status, a high school degree, and a college degree dummy variable. State controls are state GDP growth rate, state income growth rate, unemployment rate, house price change, a Democratic governor dummy variable, and the fraction of Democrats in a state's legislature (both House of Representatives and Senate). Standard errors clustered at the state level are in parentheses. ***, **, and * denote statistical significance at the 1, 5, and 10% levels, respectively. A detailed description of the variables used in this paper is in Table A.1.

	(1)	(2)
	Bond share	Checking & Savings share
Good faith	-0.011	-0.091***
	(0.008)	(0.008)
Household controls	Y	Y
State controls	Y	Y
Household FEs	Y	Y
State FEs	Y	Y
Year FEs	Y	Y
Income decile FEs	Y	Y
N	43,839	43,839
Adjusted R^2	0.509	0.362

Table A.7. **Risk tolerance and Household characteristics: Using SCF.** This table reports the regression of SCF households' willingness to take a financial risk on a scale from zero to ten, where zero is not at all willing to take risks and ten is very willing to take risks using the SCF (Survey of Consumer Finances) from 2016 and 2019. Labor income is the log of one plus annual labor income before taxes. Financial wealth is the log of one plus the sum of checking, savings, bond, mutual funds, and stocks. *High* is an indicator for households whose highest education is high school (educ>=4 and educ=<8). *College* is an indicator for households whose education level is higher than high school (educ>=9). *Nonwhite* is an indicator for race not being white/Caucasian (race=1). Heteroskedasticity-consistent (HC3) standard errors are reported. ***, **, and * denote statistical significance at the 1, 5, and 10% levels, respectively.

	Coefficient	Standard errors
Labor income	0.163***	0.022
Financial wealth	0.174***	0.009
Age	0.020**	0.009
Age squared	-3.779×10^{-4}***	8.29×10^{-5}
High	0.157	0.181
College	0.737***	0.180
Nonwhite	0.346***	0.058
Number of children	0.021	0.024
Married	-0.239***	0.071
Male	1.002***	0.078
N	12,025	
Adjusted R^2	0.1771	

Table A.8. **Exogeneity of Adoptions: Contemporaneous regression.** This table reports the regression of the adoption of the good faith exception in year t on state-level economic and political variables in year t (contemporaneous regression) at the state level. The dependent variable is the adoption of the good faith exception, an indicator variable set to one for a state in the year of the adoption. Standard errors clustered at the state level are in parentheses. ***, **, and * denote statistical significance at the 1, 5, and 10% levels, respectively. A detailed description of the variables used in this paper is in Table A.1.

	(1)	(2)	(3)	(4)	(5)	(6)
	Good faith					
Unemployment rate	-0.204					
	(0.214)					
Income growth		-0.327				
		(0.317)				
GDP growth			-0.162			
			(0.142)			
House price growth				-0.103		
				(0.067)		
Democratic governor					0.001	
					(0.008)	
% of Democrats						-0.096*
						(0.055)
State FEs	Y	Y	Y	Y	Y	Y
Year FEs	Y	Y	Y	Y	Y	Y
N	830	830	830	830	792	792
Adjusted R^2	-0.010	-0.008	-0.009	-0.008	-0.011	-0.006