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Monetary Policy and Corporate Bond Returns

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Abstract

We investigate the impact of monetary policy shocks, measured as the surprise change in the Fed Funds rate (FFR), on the excess returns of U.S. corporate bonds. We obtain asignificant negative response of excess bond returns to shocks in FFR, and this effect is especially strong in the period before the 2007-09 financial crisis and for bonds with longer mturity and lower rating. By using a VAR-based decomposition for excess bond returns, our results show that the largest part of the ontemporaneous negative response of corporate bond returns to monetary policy tightening can be attributed to higher expected excess bond returns (higher bond risk premia). Therefore, the discount rate channel represents an important mechanism through which monetary policy affect corporate bonds. Our results also show that the importance of this effect has declined after the financial crisis.

Assessing Time-Varying Integration In Emu For Retail Banking To Households

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Abstract

The paper investigates the integration process in the retail banking sector of European Economic and Monetary Union (EMU) during the period 2003-2014, by analysing deposit and lending rates to the household sector. The paper assesses degree of integration during three sub-periods: normal period before the crisis, the Global Financial Crisis (GFC) and the European Debt Crisis (EDC). In addition, it compares integration across three groups of sample economies, classified on the basis of their GDP size to understand the relationship between economic growth and the degree of integration. Instead of relying on one measure of integration, the paper uses five indicators to assess multiple dimensions of integration process, namely beta convergence, sigma convergence, variance ratio, asymmetric DCC and dynamic cointegration. The empirical results show the presence of convergence, although of weak degree, in all interest rates to households during the normal period. It is observed that the onset of crisis, especially EDC, has adversely impacted the integration process. Although some convergence is still observed, however, it is of still weaker degree than that during the normal period. Moreover, the interest rates on the credit side show lesser degree of convergence than those on the savings side.

The Timing of the Popping. Using the Log-Periodic Power Law Model to Predict the Bursting of Bubbles on Financial Markets.

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Abstract

The occurrence and unpredictability of speculative bubbles on financial markets, and their accompanying crashes, have confounded economists and economic historians worldwide. We examine the ability of the log-periodic power law model (LPPL-model) to accurately predict the end dates of speculative bubbles on financial markets through modeling of asset price dynamics on a selection of historical bubbles. The method is based on a nonlinear least squares estimation which yields predictions of when the bubble will change regime. Previous studies have only presented results where the predictions turn out to be successful. This study is the first to highlight both the potential and the limitations of the LPPL-model. We find evidence which support the characteristic patterns as proposed by the LPPL-framework leading up to the change in regime; asset prices during bubble periods seem to oscillate around a faster-than-exponential growth. In most cases the estimation yields accurate predictions, although we conclude that the predictions are quite dependent on the point in time at which the prediction is conducted. We also find that the end of a speculative bubble seems to be influenced by both endogenous speculative growth and exogenous factors. For this reason we propose a new way of interpreting the predictions of the model, where the end dates should be interpreted as the start of a time period where the asset prices are especially sensitive to exogenous events. We propose that negative news during this time of period results in a regime shift of the bubble.

Real-Time Dynamics of Breaks in Financial Data Series

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Abstract

We study the real-time dynamics of learning about structural breaks in the aggregate- level of U.S. financial series. We are interested in real time identification because of its relevance for forecasting. We compare the effectiveness of different models and techniques for optimal break identification. We also examine the extent to which breaks are mistakenly identified and the time that it takes to correct these mistakes.

Impact of January Effect for return rates on the markets of European Union enlargement in 2004

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Abstract

The article presents the results of a study conducted for the January effect. This anomaly is best recognized in the capital markets and in the literature. In this case, we can find an explanation of existence based on both fundamental analysis, and due to the heuristics used by investors. The study was given the markets of countries belonging to the European Union in 2004, which can also show is the accession to UE have impact on anomaly. The are three hypothesis in article: Hypothesis 1: The January Effect occurs in analyzed markets. Hypothesis 2: The January Effect weakens over time. Hypothesis 3: The January Effect weakens with development of market. Verification of hypotheses was carried out by three methods: tests of differences, average and median rate of return and dynamic models paneled with estimation parameters generalized method of moments.

Earnings Management, Annual Report Patch and Accounting Comparability

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Abstract

Using the Chinese A-share listed firms over the period from 2005 to 2012, this paper examines the relationships between earnings management, annual report patch and accounting comparability. The empirical results indicate that Chinese listed companies tend to release their annual report patch after implementing accrual earnings management, but the Chinese listed companies are not likely to release their annual report patch after implementing real earnings management. Disclosing an annual report patch after implementing earnings management may have a positive impact on accounting comparability. This result indicates that an annual report patch published by sample firms may rectify disclosed errors or earnings management of a previous annual report, as a result accounting information quality will be improved.

Cracks in the crystal ball : Foreign exchange rate exposure when forecasters dissagree

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Abstract

The central issue of this paper is whether stock prices are exposed to total exchange rate movements – as traditionally measured – or to revisions in expected future exchange rate movements and unanticipated currency shocks, and by how much of each. Based on a sample of 1675 U.S. firms operating in Europe and in Japan our results reveal that disaggregating total exchange rate changes in expected and unexpected exchange rate movements leads to a more accurate and more intuitive measurement of firms' exchange rate exposure. In addition, theory expects that investors lend more credibility to forecasts communicated by expert panels when they display a low dispersion, hinting to agreement among experts, than when they display a higher dispersion. When uncertainty is higher, and when the informational content of these forecasts may be considered as less meaningful, investors should be reluctant to incorporate experts' anticipations in stock market values. Based on our time-varying estimates of the probability of agreement among experts, we find concluding empirical evidence in favour of this hypothesis.

Cross-Border Asset Holdings and Comovements in Sovereign Bond Markets

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Abstract

We analyze the importance of different asset holdings for the interdependence of the yield curves in the EMU using a spatial VAR model. We find that the cross-border holdings of long-term debt and bank lending are important for the interdependence. Our analysis of dispersion in sovereign-CDS-spread term structure shows that the differential in sovereign creditworthiness in the EMU is a main driver of the yield-curve divergence after 2008. The degree to which EMU countries' yield-curve slopes depend on the US slope decreases in the recent US recession, reflecting expectations during this period about divergence of the US and EMU economies.

Market Response to Dividend Change Announcements: Unregulated versus Regulated Firms

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Abstract

This paper examines the market response to corporate dividend change announcements, using large samples of dividend changes over the period 1960 – 2010. We document three empirical regularities. One, dividend decrease announcements elicit larger market response than dividend increase announcements. Two, for dividend increase announcements, the market response is significantly stronger for unregulated firms than for regulated firms; this is not true for dividend decrease announcements. Three, cross-sectional analysis suggests that the difference in market response for regulated and unregulated firms is significantly associated with asymmetric information.

Is Brand Bank on its way to the grave due to the Emergency and growth in Non-Banking Financial Institutions: A view from the South African Banking Market

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Abstract

Yesteryear, banks as a brand were easily recognizable and as such it was easy for banks to enjoy high profit margins. Today brand bank is on the decline and profit margins are being squeezed, Banks are now resorting to unorthodox methods of raising profitability. Bank charges are on the increase, the level of service fees is also on the increase and banks are doing all they can to keep clients away from traditional banking which was characterised by a vast branch network. To the ordinary eye, it would appear as if the main culprit is the emergency of Non-Banking Financial Institutions. In the contest of South African Banking market this paper seeks to investigate whether the emergency of Non-Banking Financial Institutions has had an impact on the practises of Commercial Banks in South Africa as regards their methods of increasing profitability. Using a combination of a guided questioner and a review of sources of profitability for 10 randomly selected commercial banks in South Africa over the last 10 years, this paper will argue that the emergency of Non-banking institutions has eroded the banks' ability to increase profits from the traditional methods which include net interest margins. Key words

Business Training Programs and their (Limited) Impact on Entrepreneurs' Profit

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Abstract

Business training is an essential part of business development programs (BDPs). Yet, its impact on microentrepreneurs' profits tends to be limited, or even negative. We develop a theoretical framework where limited effect of business training is due to mismatch between a BDPs' narrow focus on business-promoting strategies and a wider context in which microfinance clients operate. We take into account that microentrepreneurs have multiple sources of income, e.g. business income and wage income, that are correlated with each other; and that their objectives are not limited to profit maximization. We show that the training impact varies and even an efficient training can result in profit decline. If we narrow the context to either one source of income (business) or one objective (profit-maximization), the post-training profit always go up. Finally, we use our framework to demonstrate how simplistic training can be more favorable impact on profit than a more complex one (Drexler et al., 2014).

Greece Financial Crisis: The Genesis, Implications, and Policy Options

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Abstract

The birth of the Eurozone (euro) was by the Maastricht and Amsterdam treaties of February 7, 1992 and October 2, 1997, respectively. The former transformed Europe into a European Union, (EU), while the latter turned the Union into a real integrated economic system. However, at the start of the second decade of the birth of the Euro, peripheral Eurozone countries ran into some serious financial mess. Of all the peripheral Eurozone countries in the financial mess, Greece's mess was the most severe; and this led it to receive three financial bailouts in five years. It financial crisis has its roots in more than its fiscal and international trade imbalances. Its other problems are poor gross domestic product (GDP) growth rates, high unemployment rates, high inflation rates prior to joining the Euro, high cost of borrowing, negative exchange rates before joining the Euro, poor domestic productivity, misguided policies, and its credit worthiness. Upon joining the Euro, Greece lost its monetary authorities to the European Central Bank (ECB); but the ECB was not set up to handle the type of financial crisis that occurred. A critical analysis of Greece's economic data for the pre- and post-entry euro periods revealed that Greece's budget deficits, public debts, and rate of inflation data actually disqualified Greece from being a member of the Eurozone because it did not meet the Eurozone economic criteria. The best solutions for Greece are to increase its international trade competitiveness as well as to have some budgetary discipline. Greece needs a survey of its resources, an input-output model, and dynamic economic growth and development strategies. A cost-benefit-analysis of Greece being in the Eurozone revealed that it is better for Greece to be within the Eurozone and European Union (EU) because these institutions are more beneficial to Greece than for it to be outside of these two institutions.

Expropriation risk by block holders, institutions and expected stock returns

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Abstract

We study the asset pricing implications arising from imperfect investor protection using a new governance measure, defined as the product of institutional quality in a given country and the proportion of free float shares, where the latter captures the impact of controlling block holders. Using monthly returns of 4,756 blue chip firms from 50 international equity markets for 13 years, we show through extensive tests of variants of the augmented-CAPM, that a two factor CAPM augmented with a factor mimicking portfolio based on our new investor protection metric yields the highest explanatory power, especially for markets that exhibit true variation in ownership types

Who Are the First Users of a Newly-emerging International Currency? A Demand-side Study of Currency Internationalization

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Abstract

Who are the first users of a newly-internationalizing currency? This issue, crucial to understanding the dynamics of emergence of a new international monetary order, remains long underexplored in the existing literature, which tends to adopt a supply-side approach analyzing mainly the international currency issuers. Our study addresses this important question, with a focus on the case of the Chinese renminbi, by employing a demand-side analysis that examines the international currency users. Our primary argument is that a state's hosting of a major global financial center—a domestic condition largely independent of influence from countries issuing international currencies—leads to a greater likelihood of its supporting the use of a newly-emerging international currency. This argument ultimately highlights the roles of global financial institutions, and the related inter-state rivalries among international currency users, in shaping a new international monetary order. We in addition find significant impacts on a state's use of international currencies stemming from its institutional economic cooperation and its security ties with international currency-issuing states. We also show, in contrast to conventional expectations, that a country's mere trade and investment integration with international currency issuers generally does not affect its international currency use to a significant extent.

Top Investment Banks and M&A Returns: Evidence from China

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Abstract

This paper examines whether the reputational capital mechanism is effective for merger advisory services in the Chinese market. Consistent with the "superior deal" hypothesis, we find that the overall reputational effect of investment banks is reflected by an increase in stock prices on the bidding firms in the short term, with no long-term reversal.However, inconsistent with the "reputational exposure" hypothesis, we do not find that top-tier versus non-top-tier outperformance is significantly higher in public acquisitions than that in private and subsidiary acquisitions. Moreover, our results suggest that top-tier investment banks are not associated with a significantly lower completion rate or shorter resolution and completion durations. The effect of reputation on deal completion likelihood may result from the trade-off between the "preventing poor deals" and "better deal completion skills" hypotheses. Similarly, the effect of investment bank reputation on deal resolution or completion duration may be due to the trade-off between the "skilled-advisor" and "diligent advisor" hypotheses.

The Impact of Public Vs. Private Capital on Growth

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Abstract

This paper tries to address the issue of the interaction between public and private capital investment in a pool of 62 countries, divided into four different categories according to the level of income. The main focus of the paper is to examine whether public investment leads to an increase in output growth and productivity of private investment. The paper uses a neoclassical investment model within a fully modified least squares technique, which allows for a general degree of cross-sectional heterogeneity in short-run responses and intercepts. The results of the paper favors complementarity relationship which is consistent with the crowding in hypothesis.

The More Transparent, the Better

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Abstract

The Chinese stock markets, including the Shanghai Stock Exchange and the Shenzhen Stock Exchange, increased the real-time public dissemination of limit order book from the 3 best ask and bid quotes to 5 best on December 8, 2003. This change in transparency regime allows me to assess the effect of pre-trade transparency on the two markets. The most striking finding is that the effect of an increase in pre-trade transparency on the two different markets is quite similar. I find that the informational efficiency of price improves significantly, the market liquidity increases significantly, the volatility of price decreases and the component of asymmetric information in the bid-ask spread reduces after the two Exchanges adopt this action to improve transparency.

ANALYSIS OF BUSINESS DISTRESS IN SME OPERATING IN THE ARAB REGION

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Abstract

Purpose: This paper analyzes business distress in Small and Medium Enterprises (SME) engaged in petrochemical sub-sectors in the Arab region. A corollary objective of the study is to create awareness among SME owners and managers so that they look after their trade credit policies and maintain a regular financial position that can ease the credit terms extended from their suppliers and facilitate bank borrowing that can meet their business needs. Design/Methodology/Approach: The paper addresses the financial and operational measures for SME business distress in predicting SME credit worthiness by constructing a business distress prediction model. A panel data of 110 observations from 22 SME companies for a period of 5 years (2009 – 2013) is analyzed using panel logistic models. Findings: The result suggests that leverage ratio, cash cycle in days and SME size based on sales are key factors in making credit decisions by lenders. The model showed 69 percent accuracy in predicting business distress SME. This model can assist financial institutions in the Arab region in lending decisions, minimize the problem of adverse selection and build a safer lending portfolio. Research limitations: The sample size was a limitation of this study. With a larger sample size and with different sectors within the Arab region, the prediction power of the model could enhance beyond 69 percent. Originality/Value: In Arab region, cash generation cycle is highly related to the SME business nature and it is the first sign of their business distress. This feature has not been so far empirically researched. This paper is the first of its kind (although with small sample) to address the research gap.

Stock Prices are Not Open-Ended. Trading Volumes Seem to Be

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Abstract

Stock trading has increased substantially during the last decades. At the world level, since the late 1980s, stock trading has grown five times faster than GDP. This trend is even more pronounced for high-income countries. For instance, in 2013, the value of trading for US equities ($50 trillion) was three times larger than the US GDP ($17 trillion), compared to one third in the late 1980s. Most of the literature in financial economics considers positively such growth of stock trading without questions, however, about its appropriate level or its drivers. This paper aims to fill this gap by seeking to identify some empirical determinants of the stock market activity. Using World Bank's data for 44 developed countries over the period 1989-2012, I find very few significant factors explaining the total value of shares traded over GDP or market capitalization: it is positively correlated with the level of GDP per capita and with stock market volatility, but not related to any characteristics of the domestic financial system or the legal origin. I also compile data on securities transaction taxes (STT) across the world over the sample period. Contrary to common beliefs, there is no significant correlation between STT and trading activity on the long run.

Financial Incentives and Loan Officer Behavior: Multitasking and Allocation of Effort under an Incomplete Contract

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Abstract

We investigate the implications of providing loan officers with a compensation structure that rewards loan volume and penalizes poor performance. Using a unique data set provided by a large international commercial bank, we examine the three main activities that loan officers perform: monitoring, origination, and screening. We find that when loan officers are at risk of losing their bonus, they increase monitoring and origination, but not screening effort. On the other hand, having lost a bonus in the previous period does not entail higher effort. We document unintended consequences of the incentive contract showing the incompleteness of such contracts.

Public-Private Partnership - A historical debate Conceptual Framework for Determining the factors that affect the Willingness to Pay for Public Welfare and/or Private Social Security

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Abstract

As migration patterns change, families become smaller, mortality reduces, and as income levels grow to capture inflation; financial security is a concern for almost every individual and family. Key questions which may haunt many individual investors as responsibilities increase include: Will I have enough money to be able to retire? Will I have enough money to afford my children's education? Will I be able to financially support my family in the event I am unable to work? Will my family be secure in the event I am not around anymore? How will my medical bills be paid? These are some of the imminent questions many individual investors even avoid answering as they seem so difficult to comprehend in real life. This paper looks at the Willingness to Pay (WTP) for into a Social Security framework which would answer the above questions. The framework uses multiple financial theories to create an ideal case scenario for the contributors and its beneficiaries. It will also study the change in the preferences of individuals as they move closer to the commitments, and also the dependency of being already enrolled into a social welfare program. The demand for such a system would allow the suppliers of such a system to manufacture social security products based on this research. The research will also test the impact of demographic factors such as age, gender, income levels and marital status on the Willingness to Pay for Social Security. The feedback from the presentation and conference peers would be used to strengthen and validate the conceptual framework discussed and built in this paper.

Relation between Credit Default Swap Spreads and Stock Prices: A Non-linear Perspective

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Abstract

This paper investigates whether the linear cointergation test properly describes the relation between Credit Default Swaps (CDS) spreads and stock prices of iTraxx Europe index that comprises the most liquid and investment-grade European companies. We apply both linear and non-linear methods that take into consideration structural breaks. Using Johansen trace test of cointegration for a set of 109 pairs of CDS and stock prices of the companies in the index over the period of January 2012 to January 2016, we find evidence that at 10% level of significance, the null hypothesis of no cointegration is rejected for 26 pairs. We extend the analysis by allowing for one-time structural break with unknown timing and apply different cointegration tests to find that all models produce similar results. The observed long-term relation between CDS and stock prices of the European investment-grade companies included in our sample evidence that there exists transmission of shocks between the two segments of the financial market – credit (CDS) and stock exchange.

The Financial Crisis and Comparative Total Factor Productivity Growth and Innovation Between Conventional and Islamic Banking

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Abstract

This paper estimates and compares pre- and post-financial crisis innovation impact on performance through measurement of total factor productivity growth (TFPG) of GCC conventional and Islamic banks by size, using parameter estimates from the banks' respective translog cost functions. Results show that: a) Islamic banks consistently outperformed conventional banks overall and across different asset quintiles before and after financial crisis; b) TFPG is inversely related to bank size in Islamic banking, and c) the gap between TFPG of Islamic banks and conventional banks increases with bank size.

Regulatory Competition in Capital Standards With Selection Effects Among Banks

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Abstract

Several countries have recently introduced national capital standards exceeding the internationally coordinated Basel III rules, thus suggesting a `race to the top' in capital standards. We study regulatory competition when banks are heterogeneous and give loans to firms that produce output in an integrated market. In this setting capital requirements change the pool quality of banks in each country and inflict negative externalities on neighboring jurisdictions by shifting risks to foreign taxpayers and by reducing total credit supply and output. Non-cooperatively set capital standards are higher than coordinated ones when governments care equally about bank profits, taxpayers, and consumers.

Reversal in Market Integration: a Funding Liquidity Explanation

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Abstract

This paper provides an explanation for reversals in global equity market integration through the funding liquidity channel. I show that financial market integration decreases as funding constraints bind more strongly, consistent with limits to arbitrage and increased home bias during funding distress periods. An International Margin-CAPM, which incorporates borrowing frictions of international investors in the form of investor-specific and country-specific margin constraints, explains how reversals occur as funding liquidity becomes scarce. Empirically, the betting against beta portfolios of the model that load on funding liquidity comove less across markets during global funding distress periods. This suggests that at these times funding liquidity risk is local in nature. A funding-liquidity segmentation indicator, constructed from the betting against beta portfolios, not only fits the previously documented evidence on market segmentation, but also explains reversals in integration in the absence of foreign investment barriers.

Policy Related Information Uncertainty and Foreign Portfolio Trading

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Abstract

This paper examines whether policy related information uncertainty (PIU) affects the trading behavior of foreign institutional investors (FII) in emerging equity markets. We answer this question using transaction level data and exploit a "quasi-natural experiment" provided by an unexpected tax related policy announcement in the Indian equity market that generated a period of uncertainty. Our results show FII reacts quickly and withdraw their investments, on average, by at least 0.4% of the market capitalization per day during the PIU period. The results, particularly relevant for emerging market policymakers, suggest that one of the important factors in attracting overseas investors is to reduce PIU.

Dodd-Frank Act and Risk-Taking Incentives: An Empirical Investigation of Global Systemically Important Banks (G-SIBs)

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Abstract

We examine changes in market assessments of risk by global banks related to the Dodd-Frank Act (DFA). We provide empirical evidence that discretionary risk taking by global banks has declined following passage of the DFA. Our results show that global systemically important banks experience significantly greater reduction in risk than do non-global systemically important banks. This evidence is consistent with the DFA's objective of reducing the risk of bank failure, which is the ultimate goal of ending the too-big-to-fail doctrine for large interconnected financial institutions. Global systemically important banks that alter their business practices by increasing capital ratios and reducing their non-performing loan ratio following passage of the DFA are likely to experience significant reduction in their idiosyncratic risk and total risk. Overall, our results support the efficacy of the DFA in reducing the risk in the global financial system.

Capital-Market Competitiveness and Managerial Investment Decisions: Evidence from Commercial Real Estate

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Abstract

We investigate the association between capital-market competitiveness and the quality of investment decisions that delegated money managers make. We use commercial property as a natural laboratory, in that this industry contains funds that are traded in segmented capital markets of different competitiveness, but whose managers all choose from the same investment opportunity set. We find that the submarkets most bought by REIT managers outperform the least-bought (or most sold) submarkets, while for our groups of private managers this effect decreases in line with the competitiveness of their capital markets. We also distinguish between movement into submarkets in genuine anticipation of high returns, versus "stock chasing", or movement into submarkets that offer availability and therefore easy entry. We find that REITs tend to move into submarkets in anticipation of high returns, while private institutions have more tendency to stock-chase, with such behavior again becoming more prevalent, the less competitive the capital market.

Political Uncertainty in Developed and Emerging Markets

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Abstract

Following P ?astor and Veronesi (2012, 2013), we test for a relationship between po- litical uncertainty and financial market risk. We extended P ?astor and Veronesi's work by considering a panel of international markets, including emerging markets, which may face greater political uncertainty. Our results are less clear-cut than the original (USA) results, finding that while volatility is impacted by political uncertainty, the same can not be said for value-weighted average pairwise correlations. Finally, we disaggregated our panel and examine the countries individually. The results here are heterogeneous while some countries support the policy to market risk transmission hypothesis, others may do not.

Do Directors' Trades Matter for the Announcement Period Performance of Acquiring firms? The Australian Evidence

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Abstract

This study investigates the relation between acquiring firm director trading (net sales, net purchases or no trade) and share market reaction to merger and acquisition announcement (M&A). With a sample of 667 M&A announcements by Australian acquiring firms between 2003 and 2012, we find that acquiring firms earn significant positive abnormal returns around M&A announcement. Further, acquiring firms with no director trading outperform acquiring firms with net director purchases or net director sales (univariate results) occurring prior to M&A announcements. These results are robust to inclusion of firm characteristics, prior returns, and target type, method of payment, industry, and year. We also find evidence of a size with respect to director trading, larger acquiring firms with net director sales or net director purchases earning higher abnormal returns than smaller acquiring firms. Our results are robust to choice of director trading period prior to the merger or acquisition announcement (12 months, 6 months, 3 months and 2 months). Finally, we find evidence that the results are sensitive to whether the acquiring firm is a growth or value firm and whether the target is publicly listed or not.

Family Descent as a Signal of Managerial Quality: Evidence from Mutual Funds

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Abstract

We study the relation between mutual fund managers' family backgrounds and their professional performance. Using hand-collected data from individual Census records on the wealth and income of managers' parents, we find that managers from poor families deliver higher alphas than managers from rich families. This result is robust to alternative measures of fund performance, such as benchmark-adjusted return and value extracted from capital markets. We argue that managers born poor face higher entry barriers into asset management, and only the most skilled succeed. Consistent with this view, managers born rich are more likely to be promoted, while those born poor are promoted only if they outperform. Overall, we establish the first link between family descent of investment professionals and their ability to create value.

The Benefits of Overvaluation: Evidence from Mergers and Acquisitions

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Abstract

Theoretical predictions and empirical evidence debate on whether acquirers can exploit their overvalued equity and create value by purchasing less overvalued or undervalued target firms with stock as a method of payment. The theoretical predictions of Shleifer and Vishny (2003) and the empirical work of Savor and Lu (2009) argue in favour of this. On the other hand, Fu et al. (2013) and Akbulut (2013) provide evidence against. We revisit this issue and develop a quasi-experimental design through which the misvaluation effect for stock acquirers that are more overvalued than their targets is isolated and measured. Our findings offer direct evidence in favour of the Shleifer and Vishny (2003) market timing hypothesis. The overall negative long-run performance of stock acquirers is driven by signalling rather than lack of exploiting misvaluation.

Future Trading And Spot Market Volatility: Evidence Of Select Agricultural Commodity From Multi Commodity Exchange Of India

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Abstract

Derivatives are becoming increasingly important in world market as a tool for risk management, for price discovery, speculations and for efficient trading in market. These instruments can be used by traders to offset financial risks. They also provide a mechanism by which diverse and scattered opinions of future are collected which helps in revealing information about future cash market price through future market. This in turn helps in improving the market efficiency. The paper focuses on analyzing the impact of future trading activity on price volatility and in studying the relationship between the spot and future price for select agricultural commodities (chana, pepper, guarseed, refined soya oil, mustardseed) in case of Multi Commodity Exchange. The paper considered the daily trading price of above commodities for a period of 10 years from 2004 to 2014. To seek appropriate answers to the above mentioned objectives, two hypotheses were framed and econometric tools like Augmented Dickey Fuller test, Granger's causality Test. GARCH model. Correlation and Regression were applied. The study concluded that for most of the agricultural commodities past conditional variance has greater impact on volatility of spot returns than recent news announcements. Mixed results were obtained about the lead lag relationship between spot and future price of commodities, while strong correlation has been found for all commodities except for refined soya oil.

Markowitz Revisited Social Portfolio Engineering

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Abstract

In recent years socially responsible investing has become an increasingly more popular subject with both private and institutional investors. At the same time, a number of scientific papers have been published on socially responsible investments (SRIs), covering a broad range of topics, from what actually defines SRIs to the financial performance of SRI funds in contrast to non-SRI funds. In this paper, we revisit Markowitz' Portfolio Selection Theory and propose a modification allowing to incorporate not only asset-specific return and risk expectations but also a social responsibility measure into the investment decision making process. Together with a risk-free asset, this results in a three-dimensional capital allocation plane that allows investors to custom-tailor their asset-allocations and incorporate all personal preferences regarding risk, return and social responsibility. We apply the model on a set of over 9000 international stocks and find that investors opting to maximize the social impact of their investments do indeed face a statistically significant decrease in expected returns. However, the social responsibility/risk-optimal portfolio yields a statistically significantly higher social responsibility rating than the return/risk-optimal portfolio.

Migrant's Remittances and Financial Development in Latin America and the Caribbean countries: A dynamic approach

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Abstract

Despite the importance of remittances in total international flows, the relationship between remittances and financial development has not been adequately studied, particularly in Latin America and the Caribbean. However, financial development matters for growth and poverty alleviation and financial inclusion have many beneficial effects for households. We examine the relationship between remittances and financial sector development with several dynamic panel data methods. We find a positive, significant, and robust bi-directional link between remittances and financial development with a parsimonious model and a positive impact of remittances for the panel of 39 countries, and particularly for the sample of countries with high ratio of remittances to GDP.

An Anatomy of the Interrelationship between Equity and Mortgage REITs

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Abstract

We investigate long- and short-term relations between equity and mortgage REITs by decomposing total prices and returns into income and appreciation components. We find the previously documented long-term cointegration relation between equity and mortgage REIT prices stems exclusively from their income components. We also find the previously found shortterm causal relation between equity and mortgage REIT returns is due to the causality runs from equity REITs' appreciation returns to those of mortgage REITs while their income returns do not induce causality. Lastly, we show that equity and mortgage REITs' income returns are both affected by the equity market factor while their appreciation returns are determined by different macroeconomic factors, which explain the heterogeneous performance between them.

Non-Performing Loans in the Euro Area: Are Core-Periphery Banking Markets Fragmented?

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Abstract

The objective of this study is to examine the causes of non-performing loans (NPLs) in the banking system of the euro-area countries for the period 2003Q3-2013Q3 and distinguish between core and periphery country determinants. The increase in NPLs post-2008 has put into question the robustness of many European banks and the stability of the whole sector. It still remains a serious challenge, especially in peripheral countries which are hardest hit by the financial crisis. By employing FMOLS as econometric methodology we find results that underline common causes for NPLs and do not support fragmented financial systems. Higher NPLs in the euro-area periphery are mostly due to worse macroeconomic conditions especially with respect to unemployment, growth, interest rates, taxes and credit/GDP. Bank size and quality of management play an important role too. Such findings can be helpful when designing macro-prudential as well as NPL resolution policies.

Development, Financial Integration and Growth: A Quantile Regression Analysis

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Abstract

This study investigate the influence of economic development in international financial integration-growth nexus using quantile regression analysis on cross-sctional data of 73 countries. The results show that international financial integration has a positive impact on economic growth. However, the growth impact of international financial integration does not exist in countries where economic development is too low or in highly developed countries.

The Effects of Corporate Governance Codes on Board Composition and Firm Value

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Abstract

We use a panel dataset comprising 816 large and medium-size companies from 18 countries covering 2005 to 2013 to examine the determinants and effects of compliance with the Corporate Governance Code (CGC) recommendation about independent director ratio. Examining the introduction of the CGC with reference to the effects of independent director ratio to firm performance is interesting since it is an exogenous factor for the determinants of board composition. We find that institutional investors are playing an important role in making firms comply with the Code and that insider ownership is negatively related to compliance in countries where appointing independent directors is more costly. Moreover, although the Code's recommendation is increasing the independent ratio of publicly listed companies in all the countries analyzed, compliance alone is not enough to improve performance. The recommended threshold must be carefully considered since investors are rewarding companies with a majority of independent directors without regard to the Code's recommendation.

Firm Growth, Capital Choice Preferences, And Impact On Performance: Evidence From The Sme Industry

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Abstract

In this paper, we analyze the capital choice preferences made by firms and its effect on performance, after classifying the firms based on their growth levels. Data from 287 SME firms in the manufacturing sector for the period 2007-12 were analyzed using the Path Modeling Technique. The results show that in a low growth firm internal finance, institutional finance and trade credit have significant positive impact and performance increases more with the use of internal finance. Institutional finance is found to be the most preferred source of finance in a high growth firms with volatile earning. Non-institutional finance contributes negatively to return on asset of moderate growth and high growth firms while it significantly contributes to increased profit margin of high growth firms. Our findings indicate that among all external sources of debt capital, institutional finance has a positive impact on performance. The implication for policy makers is that creating conditions that enable SMEs to prefer institutional capital instead of capital from non- institutional or trade credit would lead to an improvement in performance.

Institutional Shareholders and Corporate Governance: A Simplified Framework

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Abstract

This paper presents a framework for understanding findings in previous research on the role of institutional investors in corporate governance. In equilibrium there will be different types of institutions that are fundamentally different in terms of the required skill sets of their key employees. These different skill sets are optimal for institutions that specialize on different policies regarding their investment objects. Institutions that are part of a many layered principal-agent relationship chain, with many intermediaries between the ultimate beneficiary of the investment return at one end, and the producing firm that the money is invested in at the other, tend to focus on investments where there is little information asymmetry and performance is relatively easy to measure. By contrast, for investments where performance is difficult to assess, and a conclusive assessment may require a considerable time period, strong personal financial interests for key-decision makers of the investing institution are preferable. This is typically the case for investments in firms that are in need of substantial restructuring. Direct involvement by a private equity firm run by knowledgeable persons that are driven by strong personal interests could well be the only way to avoid a costly liquidation of this type of a firm. For firms with less serious problems, e.g. cases that can be remedied by applying stricter corporate governance standards, an activist hedge fund, run by persons with a more limited skill set, may be the appropriate kind of institution. The paper discusses how previous empirical results concerning the impact of different types of institutions' ownership on corporate governance can be understood in terms of this simplified framework.

The yield curve in normal times and at the lower bound

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Abstract

We study a model with stochastic regime switches as an alternative approach to deal with the lower bound on nominal interest rates in dynamic term structure models. This approach is arguably best suited to capture prolonged periods of ultra-low interest rates. The regime-switching model is a generalized version of Dai et al. (2007). The region where nominal interest rates are close to their lower bound is treated as a separate regime, where the short rate is restricted to follow a white noise process around a constant level. Regime switching probabilities are state-dependent, so that the likelihood of being in lower bound regime increases, as interest rates fall closer to zero. We estimate on euro area data a version of the model where the state vector is entirely observable and includes macro variables and the term spread. Our estimates suggest that the euro area economy switched to the lower bound regime with high probability in 2013 and is likely to remain in that regime for a while. Compared to an affine specification, the regime switching model indicates that term premia are smaller, hence low long-term rates are indicative of a prolonged period of very low expected future short rates. The model provides evidence as to the relative impact of QE policies on expected furture short rates and on term premia. In the euro area experience, QE appears to have affected mostly the premia component.

A credit rating puzzle: are investors fooled by credit ratings?

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Abstract

Using long-term issuer ratings for listed ?rms in the US and Canada, we study the perceived information content of a change in credit ratings. In line with the literature, we observe a signi?cant negative cumulative abnormal return (CAR) following a rating downgrade event by the Big Three credit rating agencies (i.e. Moody's, Standard & Poor's and Fitch). The larger impact for ?nancials is attributed to bank opacity. The literature generally de?nes the negative impact as a source of non-public information. Contrary to the literature, we show that the CARs for both ?nancials and non-?nancials are mainly driven by an adjustment in public information. Only for ?nancials there is an additional e?ect of non-public information. The results imply that credit ratings only add extra information for ?nancials, while for non-?nancials credit ratings serve merely as an awareness tool for investors.

Country-Specific Equity Returns in Europe

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Abstract

This paper shows that although the size and momentum premiums cannot be detected in aggregate Europe tests, the premiums do often exist at an individual country level. The results call into question to the extent to which the region's equity markets are integrated and present a challenge to existing applications of widely used factor models.

Multiple Lending, Credit Lines and Financial Contagion

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Abstract

Multiple lending, i.e. the practice of ?firms or households of borrowing from more than one lender at the same time, has been investigated by several papers, from both an empirical and theoretical perspective. The literature has highlighted both pros (diversifi?cation of risk, mitigation of hold-up phenomena) and cons (less monitoring incentives, coordination failures) of it but only from a microeconomic point of view. In this paper we take a different perspective as we look at the implications of multiple lending in terms of ?financial contagion within the banking system. To our best knowledge we are the fi?rst to consider the link between multiple lending and ?nancial stability. Since the seminal paper by Allen and Gale (2000), many papers have investigated the role of direct ?nancial interlinkages among banks (e.g. interbank lending, share holdings) as a potential source of ?nancial contagion. No paper has stressed yet the importance of relatively less direct ?nancial interlinkages among banks arising from multiple lending in the market for credit to the real sector and, in particular, stemming from the existence of multiple credit lines. As Detragiache, Garella and Guiso (2000) argued one reason why fi?rms and households borrow from many lenders is that by this way they mitigate the risk of a premature liquidation of the project ?nanced once a lender falls short of liquidity. However, what has been overlooked so far is that in case the liquidity shock that hits a bank is large also many borrowers would be hit and the amount of money that they may draw from other lenders may be large too. Thus, due to the existence of such type of interlinkages among banks, the liquidity shocks may propagate to other banks and from those to others. In this paper, we show that the consequences of this channel for contagion might be quite severe when other sources of bank funding are not available or are too costly and banks are hit by large liquidity shocks, as it occurred during the last fi?nancial crisis.

X-ine ciency and scale economies of pension fund administration and investment

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Abstract

Costs in running a pension fund eat away benefits, therefore it is key for pension funds to operate at the lowest costs possible, in other words, to operate cost effi cient. This study measures both unused scale economies and X-ineffi ciency of Dutch pension funds using various approaches and models, based on an unique supervisory data set, distinguishing between administrative and investment costs. Estimations show that there still exist strong economies of scale for pension funds' administrations,but modest diseconomies of scale in investments. Furthermore we find that many pension funds have substantial x-ineffi ciencies for both administrative and investment activities. By incorporating best practices, most pension funds should be able to significantly improve performance, and thereby increase pension benefits.

To track or not to track: Can macro-economic and financial indicators help smart indexing?

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Abstract

Funds tracking an index such as the S&P-500 index, which is market capitalization-based, suffer from over-exposure in slower-growth large-cap equities. To improve the fund exposure to a broader group of asset categories, smart index (or smart beta) funds have emerged, an industry which has seen tremendous growth over the last decade. This paper presents a new approach to smart indexing where the portfolio consists of select sector ETFs and the sector exposures are dynamically-adjusted based on shifts in the underlying economic scenarios. While such shifts are evaluated using macro-economic and financial indicator monthly data, the likelihood of a shift determines the risk orientation for the fund. We develop a risk functional that incorporates both the economic state predicted and the likelihood thereof, which is then optimized to determine the monthly-rebalanced sector allocations. The stronger the economic scenario is with greater likelihood, the more closely the fund will be tracking the index. Conversely, weaker economic scenarios, or a lack of confidence in the economic forecast, compels the fund to take a more risk-averse posture by adjusting the fund beta, opposite or neutral to the benchmark. The smart beta fund returns are regressed over the Fama-French-Carhart risk factors to identify the fund alpha. Using data from Jan. 1973 to Feb. 2016, Jensen's alpha in our smart indexing approach is significant as supported by out-of-sample testing.

Google Queries as Indicator of Mortgage Demand: Evidence from Wavelet Analysis

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Abstract

We apply Google query data as an alternative indicator of mortgage demand for households and individuals. The novelty of this paper is the employment of wavelet coherence with phase shift to identify the causality direction between the analyzed time series. Moreover, we apply Monte Carlo method to estimate the significance of results. The sample covers the mortgage market in 14 European countries in the period of from 2007 to 2015. Our results indicate that Google query data help to explain the mortgage demand only in the 7 EU countries. The wavelet coherence identifies co-movements at different frequencies therefore we differentiate forecasting potential in short-term and long-run.

A Model for Bank Performance Measurement integrating Multivariate Factor Structure with Multi-Criteria PROMETHEE Methodology

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Abstract

The global financial crisis and the subsequent Euro-zone crises have resulted in widespread failure of banking systems worldwide. The Indian banking system, which was initially hailed to be unaffected by the crises, was affected indirectly, mainly on account of growing trade and financial integration with the global economy. Although Indian banks were not pushed to the point of insolvency, bank performance benchmarking and evaluation have become important in the dynamic banking environment in India in order to ensure sustained profitability and avoid undue risks. The CAMELS model is one of the most widely-used frameworks for bank performance evaluation (Sahajwala and van der Bergh, 2000). The CAMELS methodology provides a broader view of bank performance than single ratios such as return on equity, particularly as it takes account of both profitability and risk factors in representing bank performance. Several studies have proposed multi-criteria decision models for bank performance measurement (Doumpos and Zopounidis, 2011). The objective of the present study is to integrate multivariate and multi-criteria decision models in bank performance measurement. The study uses the factor structure of the CAMELS model to derive weights for the different criteria in the PROMETHEE methodology. The resulting PROMETHEE scores are used to rank banks under different dimensions, and to compare the performance of public sector and private sector banks in India.

Selling Winners, Buying Losers: Mental Decision Rules of Individual Investors on Their Holdings

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Abstract

We extend the study of the disposition effect – the preference for selling current winning rather than losing stocks - by introducing a new component in this decision process: the investors' preference to increase their holdings on the losing stocks. Using a unique database of 4,428 individual investors, we find that investors prefer to sell their winning stocks and, simultaneously, keep and increase their exposure to the losing ones. We also find that this behavior is pervasive across investors, but stronger for less sophisticated investors. Our evidence suggests that reference prices, prior stock returns, stock visibility, and investor performance and sophistication are determinants of the trading decision behavior.

CSR AND FIRM PERFORMANCE: REAL BENEFIT OR HAPPY MARKETS?

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Abstract

Humankind is currently faced with a series of social, economic and ecological challenges that create further hurdles through their interlinkages. Climate change and scarcity of resources are the pillars of the crises that guide a global tendency towards sustainable development. Firms are now expected to comply with new standards and novel expectations. Nevertheless, consensus regarding the existence of the aforementioned green trend does not meet equal consensus with respect to the view that markets take on the matter. The present study aims to test the nature and significance of the impact that the adopted CSR level has on the firm's financial performance. In particular, running a panel OLS regression we test the impact of CSR levels present in each firm (measured by a "green score") on three financial dependent variables: return on equity (ROE), return on capital employed (ROIC) and Tobin's Q, in order to better understand if and to what extent, green practices affect a firm's profitability and the respective market perception. Results are consistent with existing literature in the field, highlighting a positive relationship between the operating and financial performance of companies and the environmental standards they use. Despite this, our findings show a different impact of green scores on operating (ROE and ROIC) and financial variables (Tobin's Q) in terms of statistical significance and temporal lag.

Bowling all alone: Governmental debt is associated with low social capital

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Abstract

Globalization leveraged pressure on contemporary society. One of today's most pressing societal dilemmas between generations arise from overindebtedness. In the aftermath of the 2008/09 crisis, governmental budget crises around the world led to austerity plans triggering an economic climate of stagnation, federal spending constraints and prospected social welfare decline for decades to come. Outlining the causes of the current overindebtedness crisis in the Western world prepares for an analysis of the implicit social correlates of governmental budgetary constraints. The impact of governmental austerity plans on societal well-being is discussed. Analyzing data from 20 countries of the world, World Bank Social Capital estimates are negatively related to economic public deficit spending based on Central Intelligence Agency (CIA) data. A cross-section regression holds a one unit change of social capital per capita index being related to a -.048 unit change in economic governmental deficit spending. Therefore, the higher the level of social capital in a country, the lower the likelihood of is of the government to engage in deficit spending and austerity policymaking. Innovatively outlining the relation of social capital and governmental debt is targeted at alleviating frictions arising from the up-to-date unknown negative socio-economic correlates of running governmental deficits heralding an unprecedented intergenerational equity kink. Potential overindebtedness remedies are reflected upon with a focus on the US and Europe in order to help sustain a harmonious societal climate between generations.

Corporate governance, blockholders and disclosure of executive remuneration policy: evidence from banking industry in Poland

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Abstract

The purpose of this paper is to examine the relationship between disclosure of executive remuneration policy and corporate governance. In particular the study is an attempt to identify the corporate governance qualities that determine the level of disclosure of the executive remuneration policy at banks with a controlling blockholder. The index described is a measurement based on information related to the level and structure of the bank's executive compensation, policy on variable components of executive pay, the diligence of the board remuneration committee, and long-term incentive programs based on shares. Using a hand-collected data on all banks listed in Poland for the period 2005-2013, we find a positive and statistically significant relationship between the diligence of the bank's remuneration committee and the disclosure of executive remuneration policy. In addition, our study provides evidence that the larger is the stake in the hands of the private pension funds that are the most significant minority shareholders, the greater is the communication about executive pay practices to shareholders. Finally, the identity of foreign blockholders matters. The banks controlled by financial groups from countries with dispersed ownership structures, such as the US, UK or Ireland, disclose more than the other banks.

Google Trends and Exchange Rate Movements: Evidence from Wavelet Analysis

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Abstract

Empirical exchange rate models that try to explain and forecast the movements of exchange rates do not serve as a good way for proper testing and forecasting of exchange rate movements nowadays because large exchange rate swings could be better explained by institutional, behavioural and other determinants and by market expectations than by economic fundamentals (such as interest parity condition, inflation differential etc.). The objective of the paper is to examine the short- and long-term co-movements between exchange rate of the US dollar and Euro and internet search data provided from Google Trends. Google Trends data provide monthly information about search intensity via search query indices on selected variables and they can serve as a proxy for the market expectations of these variables. We use the method of wavelet coherence analysis with phase shift to identify the causality in Granger sense. We apply Monte Carlo method to estimate the significance of results and edge effects. Our results indicate that data from Google Trends help to explain the movement of exchange rates.

Investment Horizon Depending Market Beta

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Abstract

This paper investigates whether the asset's market exposure, beta, changes as the investment horizon increases and, if so, whether the market beta is increasing or decreasing with the length of the planned holding period. We demonstrate that the q-period market beta is a linear function of the first q single-period distributed-lag betas with the weights declining linearly with the lag and converges to the long-run effect of the market portfolio return on the single-period asset return as the investment horizon increases in length. Exploiting daily data on individual NYSE, Nasdaq, and AMEX listed stocks for the period from January 2, 2009 to November 15, 2013, we find that the mid- and large-cap stocks get less risky as the investment horizon increases. This result supports the time diversification paradigm. By contrast, the small-cap stocks get riskier over longer holding periods. For any length of the planned holding period, the small-cap stocks are less risky, on average, than the mid- and large-cap securities. The difference in the riskiness of the stocks with different market capitalization gets smaller as the investment horizon lengthens.

Investors' Activism and the Gains from Takeover Deals

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Abstract

We examine whether activists add value to the shareholders of targets and their acquirers. Several findings emerge. First, on the announcement of a takeover bid, acquirers of targets that have activists outperform acquirers of other targets. In the long run, however, the performance of acquirers remains independent of activism. Second, the premium received by the shareholders of targets is not affected by activism. Third, superior gains achieved by the acquirers of targets with activists is driven by non-cash deals while the average target benefits more from cash deals. Finally, the gains to acquirers and targets remain independent of the activists' type.

Making Sense of Capital Structure Valuation Effects

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Abstract

We provide a straightforward and comprehensive framework for understanding how changes in capital structure affect firm value. The relation between capital structure and firm value can be complex and difficult to understand. Students often struggle with the theory, and also with the practice of estimating how leverage might affect firm value. This paper provides students and practitioners clear quantitative and qualitative tools for both understanding this relationship, and for estimating value changes for different capital structure choices. Additionally, we illustrate an application of the framework to Amazon.com's recent debt issuances.

Grey Market for IPOs in India: Its Trading Mechanism and Implications for IPO Underpricing

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Abstract

The purpose of the present paper is to analyze the influence of grey market premiums for IPOs in India. As an unofficial market, grey market exists in India for a long time and influence IPO trades in the official market. The interesting part of grey market trading is that there is no system in place to have legal recourse if there are violations in the grey market trading as it is totally illegal market. Still, large numbers of investors are active in the grey market. A detailed discussion is made to explain how the grey market mechanism works as a system for IPOs. By dividing IPOs in to high and low gmp IPOs, the analysis is carried out to know whether there are any significant differences between them. By and large there are no significant differences between high and low gmp IPOs as far as offer related characteristics are concerned. When it comes to the degree of underpricing, there are contrasting results for low and high gmp IPOs. It was found that high gmp IPOs experience high level of underpricing than low gmp IPOs. In the light of analysis, it is accepted that grey market premiums are unbiased predictors of underpricing or listing day prices and high gmp IPOs have better explanatory power.

The Real Culprit of the Growth Problem in the Euro Area

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Abstract

The Euro Area has been suffering from lack of economic growth since the Euro crisis broke out in 2008-9. Numerous measures of expansionary monetary and fiscal policies have been implemented in various forms and to various degrees in the nineteen member countries. But the outcomes on growth creation have been meager and the recovery of the Euro Area is in question. The study analyzes the root cause of the lack of economic growth in the Euro Area from the supply side. It uses growth accounting which breaks down the contribution to growth by labor, capital and Total Factor Productivity (TFP) from 1999-2014. The result shows that the Euro Area has suffered from anemic economic growth long before the Euro crisis broke out. In fact, the lack of economic growth is a cause, rather than an effect of the crisis. The main culprit of the economic growth problem is its low productivity, exhibiting by the Area's TFP growth which was low in the period before the crisis, and turned negative since. Several major implications can be drawn from this study. For the public sector, policy measures that aim at stimulating growth from the demand side will not be effective because the negative TFP growth will counter growth created by enlarged demand. Thus, expansionary fiscal and monetary policy will have limited success in growth creation. For the business sector, the expansionary monetary policy will have limited stimulus effects. In spite of the low nominal cost of capital, the negative TFP raises real production costs and leave businesses with low returns on investment. It is imperative that the Euro Area gives the highest priority to improving TFP growth if it hopes for a sustainable recovery. The study further addresses structural reform measures that various member countries of the Euro Area have adopted to improve their productivity. It points out possible reasons why the measures have not yet achieved good results. The study proposes several key questions of which answers may further improve structural reforms in the hope for more effective implementation.

Islamic Indices Revision: Price, Volatility and Liquidity Effects

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Abstract

A major reason explaining the rapid growth of Islamic finance is that it is considered as a financial system relatively resilient to situations of economic distress when compared to conventional finance. Such growth has engrossed considerable attention in the financial literature. In finance, applications of event studies are very numerous e.g. merger announcement, earnings announcement, listing announcement… and the ultimate purpose of this methodology is to measure a firm's value reaction to a specific event. In our study and in a Shariah compliant system, we focus on the impact of addition and deletion events into/from market indices on daily stock returns. We thus use the event study methodology to empirically analyze the effects of additions into and deletions from the Dow Jones Islamic Market – GCC (DJIM-GCC) on stock prices, liquidity and volatility during a time period that stretches from March 2012 to October 2015. Our findings reveal the existence of an abnormal significant return for added stocks after the announcement and a return reversal after the effective index revision, whereas results are insignificant for deletions. When examining the liquidity, we found a transient increase during the post-release window for both events.

The Choice of Seasoned Equity Offering Mechanisms in Korea

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Abstract

Seasoned equity offerings (SEOs), or the sales of stock after the initial public offering, are an important source of funding for corporates. Despite the importance of this topic, the literature on the choice of equity selling mechanism in the Korean stock market is scarce. In this paper, we examine market reactions around SEO announcements, and explore the information asymmetry, control considerations, and financial distress explanations on the choice among the four types of seasoned equity flotation methods in Korea. Through event study and logit model, we find that 1) firms with high levels of information asymmetry favor third party placements, 2) firms belonging to Chaebols avoid private offerings, which probably reflects their aversion to loss of control, and 3) firms with low ROI and high B/M ratio are more likely to choose public offerings that rights offerings.

The Role of the Financial Sector in Quantitative Easing Decisions: Evidence from the UK

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Abstract

The paper investigates the implications arising from the responses of the financial sector in the United Kingdom to the incentives determined by quantitative easing decisions. In a panel vector autoregressive modeling framework, we examine the effects of Bank of England asset purchases on the main accounting variables for different types of financial institutions, which reflect differences in the sequencing of the quantitative easing strategy. We find that quantitative easing decisions are driven by the fluctuations in the financial institutions' profitability and asset growth levels, which are explained by the crucial role of commercial banks. In this setting, the monetary policies made by the Bank of England are effective in easing the pressures on the banking sector and supporting the leverage of financial institutions.

Analysis of US Healthcare Sector with a New Carhart 4-Factor Model

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Abstract

In this paper, we test a new Cahart 4-factor model which includes 4 factors in Carhart 4-factor model and EGARCH-type volatilities of Nelson(1991) with non-Normal errors distributed as SSAEPD of Zhu and Zinde-Walsh(2009). We construct an index of healthcare sector under American market(IHS34) and use it to compare with the index constructed by Professor Kenneth R. French. Sample period is from Jul. 2002 to Jul. 2015. LR test, KS test and AIC are used for testing parameter restrictions, residual check and model comparison, respectively. MLE is used to estimate parameters by Matlab. Empirical test shows that the Carhart 4 factors are still alive! The new Carhart 4-factor model fits the data well and has a powerful explanation for the sample indices.

Financial State Aid and European Banking Union

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Abstract

Between October 2008 - November 2014 European Commission has approved € 5 763 billion of financial state aid to the bank bail-outs (39% of the EU GDP). In a short term state interventions stabilized the financial markets, however in the long term the effect of massive bailouts can be negative as they distort competition in multiple ways. Although the European Union (EU) as a whole shows signs of growth, the public debts continue to grow as well and thus create new systemic risk to financial stability. Financial state aid provision to the problematic banks together with sovereign debt crisis and euro-area crisis gave rise the development of the European Banking Union, which centralizes the major banks supervision and resolution of banks in Eurozone and thus opens a door for closer integration.

Algorithmic Trading and Mutual Fund Performance

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Abstract

This paper examines the effect of AT on the US mutual fund performance. Using the AT proxy similar to that of Hendershott et al. (2011), and US domestic equity mutual fund returns over the period of 2001-1010, we formed portfolio trading strategies based on AT and find no predictability of AT on investor returns. We however discover a positive causal effect of AT on the return gap, one of two component comprising the raw investor return defined by Kacpersyk et al. (2008), suggesting that AT benefits fund managers in increasing their interim trading profits/reducing their interim trading costs. Additional analyses - the use of instrument variable during the autoquote phase in; and the test of AT's incremental effect after controlling for liquidity – are also undertaken to support for our findings.

Comparative Analysis of Trade Balance with respect to Marshall-Lerner condition of India, Pakistan and China (1983-2013)

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Abstract

Abstract This research paper has attempted to scrutinize the international trade sector of the three countries namely India, Pakistan and China by using the J-curve phenomena and the Marshall-Lerner condition. The period from 1983-2013 is particularly interesting to study as it involves the various reforms, policy measures and economic situations which led to structural changes in the domestic markets of these countries and as a result affected their international share. The sole stimulus to explore this region came as no study was undertaken to verify the J-curve pattern using the Marshall-Lerner condition in any of these countries. In order derive the conclusion, an export-import model is created by the annual data of five variables namely; Exports, Imports, GNI, Exchange Rate and the World Income taken from World Bank database (for total exports and imports). This model is analyzed using the best possible econometric technique where all these variables are tested for Stationarity and then for Co integration via SAS and finally OLS technique has been implied in order to find the import and export elasticity. In order to analyze the J-curve, the trade balance (export – imports) is plotted on a line graph for the 31 year period. Overall, the results of this study suggest a fulfilment of the Marshall-Lerner condition criteria in all the three countries but the degree of satisfaction differs due to the export and import elasticity and also indicates the existence of the J-curve in all except in Pakistan even though it has very high export elasticity. The findings are also supported with the theoretical aspects. Thus, establishing the relationship between a country's trade balance and the domestic currency carries practical significance for the nation's conduct monetary policy. Therefore, this paper serves as a stepping stone towards future research on which the policies can be adopted in India, Pakistan and China & this will be helpful for the growth and development of the global market as a whole.

An Analysis of Brokerage Recommendations for the Biggest Companies of WIG20

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Abstract

The aim of the article is an analysis of stock recommendations. The article presents the measures that can be used for estimating the effectiveness of recommendations. The biggest companies of WIG20, the basic index of the Warsaw Stock Exchange, were analysed. Almost 600 recommendations issued by 40 brokerage offices and houses in the years 2010-2015 were analysed. Apart from the analysis of the rates of return fulfilled on the basis of stock recommendations, attention was drawn to the issue of the investment risk.

Bank size and ?nancial cross-border linkages

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Abstract

We estimate the e?ect of the distribution of banks by asset size on a country's propensity to engage in cross-border banking, using a stan- dard two-step gravity regression framework. We ?nd that measures of the asymmetry of the distribution of banks' size have relevant power in explaining cross-border bank holdings, in addition to the standard variables normally considered in the gravity literature, such as country size and distance. Countries where the distribution of banks by asset size is more skewed to the right, meaning that there is a small number of very large banks, are recipients of a larger amount of funds from foreign banks. On the contrary, we do not ?nd robust evidence that the distribution of banks by asset size impacts on the value of ?nancial stakes held by banks abroad.

Risk Assessment Methodology

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Abstract

In this paper we propose a new methodology for measuring companies financial risk exposure. It is based on the concept of Duration in assets and liabilities management and can be applied in terms of companies? valuation and interest rate changes. The concept of Duration has been traditionally focused on banks, where their financial statements are dependent on the margins between deposits and loans. In that case risk indicators generally respond to a measure of the dynamic accounts of the income statement and capital levels. However, we demonstrate how the methodology can be applied to any company independently of its scale, total assets or industry sector. We compare the available methods for managing balances in financial institutions and identifying their adaptability to any type of company. Then, we review the tools used on fixed income instruments that can be applied into corporate portfolios. Third, a comparison is done between the management elements used in financial markets and organizations assets, verifying their adaptability level. Finally, we present a real case study for validation purposes.

GCC Sovereign wealth funds on Asia Equity Markets

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Abstract

Even after the Subprime Lending Crisis, the investments of the capital-rich Sovereign wealth funds (SWFs) went on increasing in the global equity markets. They are going to be huge shareholders in the foreseeable future since the growth of traditional institutional investors based in developed markets is limited. We analyze the equity investment on Asia-Pacific`s developed markets, in which are Japan, Australia, Hong Kong, Singapore and New Zealand, by the GCC Sovereign Wealth Funds (SWFs) using ownership data of listed companies in 2010-2014. The paper finds that the GCC fund are relative positive with market capitalization but lower than equity investment of China SWFs. The GCC will be more active and bottom up investment style than China SWFs. We also find that ownership data of Japanese listed companies by Saudi Arabia is equivalent to 30 percent of IMF/Bank of Japan's portfolio survey.

Aggregate Consumption: an analysis by numerical simulation

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Abstract

In the paper it is estimated the aggregate consumption behavior of households by computational determination procedures in abstract model that includes maximizing agents' utility, the considering of budget constraints and general equilibrium conditions. Therefore, we employ the technique of selection of candidate points in a simulation process that evolves each two adjacent periods, as well as incorporating portfolio of efficient assets and two hypotheses for the process of determining the returns and prices of securities: that of a simple recursive process and the GARCH process. For that, we applied numerical simulations to financial markets that do not pay dividends over time and in which the agents' endowments follow a path led by a discrete recursive process. The simulation model is tested by making the comparison of artificial series with an empirical base containing information of the aggregate household consumption in the US. By this technique, it is possible to explain the standard stochastic volatility of this consumption.

Bank deregulation, consolidation, and stability: M&A centric evidence

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Abstract

We analyze whether and how bank deregulation relates to the M&A centric consolidation of U.S. banking industry. Using difference-in-difference approach on M&A activity of banks over a time span of 1990-2009, we find a positive and statistically significant effect of deregulation on bank consolidation in overall and functionally diverse M&A terms. However, geographically diverse M&A activity remains largely unaffected by bank deregulation. Importantly, these results are predominantly observed in a pre-crisis period analysis. We also confirm negative implications of deregulation and consolidation over the bank stability, thus supporting the popular narrative that holds bank deregulation partly responsible for the 2007 financial calamity.

Sensitivity Measures of the Price of Simple Chooser Options

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Abstract

SENSITIVITY MEASURES OF THE PRICE OF SIMPLE CHOOSER OPTIONS Abstract Rapid changes which take place on modern markets make it necessary to improve the methods of risk management. In the current era of increasing globalisation and integration of financial markets, companies have new investment opportunities which, when taken advantage of, can increase their competitiveness. However, changes in financial markets are accompanied by instability of market conditions in which companies find it difficult to operate. Companies are forced to seek new methods and instruments of risk management. Skilful implementation of risk management can help them to survive and thrive in an increasingly volatile environment. This is way it is so important in risk management to carry out risk analyses for the financial instruments that are to be implemented. Options, due to the asymmetry of the rights and obligations of the transaction parties, are a special instrument of risk management. Chooser options are the time-dependent options in the class of exotic options. The simple chooser option allows the holder of the option a choice between a call option and a put option of the same strike price and time to maturity, at some predetermined time in the future. The article presents the properties of the simple chooser option: construction of instrument, the pay-off function, the pricing model, measures of risk (coefficients delta, gamma, vega, theta, rho), the influence of selected factors on the pricing and value measures of risk. The article also contains a comparative analysis of the properties of standard and simple chooser options. The aim of the paper is to present the analysis the influence of the underlying instrument's price, the chooser time and price volatility of the underlying instrument on the risk performance of the simple chooser options. The empirical illustration included in the article are concerned with the pricing simulations of the currency simple chooser options and standard options on EUR/PLN. Keywords: risk management, measures of risk, currency options, financial instruments. JEL Classification: G23, G32

Interdependencies and Causalities in Coupled Financial Networks

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Abstract

We explore the foreign exchange and stock market networks for 48 countries from 1999 to 2012 and propose a model, based on complex Hilbert principal component analysis, for extracting significant lead-lag relationships between these markets. The global set of countries,including large and small countries in Europe, the Americas, Asia, and the Middle East, is contrasted with the limited scopes of targets, e.g., G5, G7 or the emerging Asian countries, adopted by previous works. We construct a coupled synchronization network,perform community analysis, and identify formation of four distinct network communities that are relatively stable over time. In addition to investigating the entire period, we divide the time period into into “mild crisis,” (1999–2002), “calm,” (2003–2006) and “severe crisis” (2007–2012) sub-periods and find that the severe crisis period behavior dominates the dynamics in the foreign exchange-equity synchronization network. We observe that in general the foreign exchange market has predictive power for the global stock market performances. In addition, the United States, German and Mexican markets have forecasting power for the performances of other global equity markets.

Convergence in bank performance for conventional and Islamic banks during and after the Global Financial Crisis

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Abstract

This study examines whether the Global Financial Crisis has led to a convergence in performance between Islamic and conventional banks in the Middle East, Africa, and Southeast Asia (MENASA) region in recent years. Using data for 1997 - 2012, we find that Islamic banks (IBs) initially weathered the onslaught of the GFC better than conventional banks (CBs). Then, as the crisis spread to the real economy in 2009, profitability declined substantially for IBs relative to CBs. Speed of adjustment tests indicate that CBs have historically recovered faster from economic shocks than IBs. However, by 2012 profitability was essentially the same for CBs and IBs. Other financial ratios of bank performance also appear to have converged between IBs and CBs in the aftermath of the crisis. We formally test for beta and sigma convergence of bank performance ratios and apply the Phillips and Sul (2007a) log-t test to check for convergence. Our results suggest beta and sigma convergence across all banks. The log-t test rejects convergence of most ratios across banks, but shows that IBs have been converging toward CBs over a range of many financial variables, including return on assets, net interest margin, size, and Z-scores. The degree of convergence for IBs toward CBs is greater if only the period 2006 – 2012 is considered.

Non-monotonic Tradeoffs of Tiering in a Large Value Payment System

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Abstract

Even though international authorities encourage open and wide access to large value payment systems, the optimal level of access, or tiering, is still an open question. In the case of real-time gross settlement systems (RTGS) the level of access, or tiering, may be limited by the tradeoff between potentially higher liquidity needs of a larger pool of direct participants settling in real time and the lower counter-party credit risks as a result of a lower number of second-tier participants entering in uncovered bilateral credit positions with correspondent banks. Previous literature has evaluated this tradeoff through simulations finding monotonically increasing liquidity savings and increasing credit risk exposures as the level of tiering in the system rises. In contrast, we find that in the Colombian RTGS case the liquidity savings of limited access to direct participation may not increase monotonically but rather show a hump shape where at the margin, tiering of an additional participant may actually increase the liquidity needs of the system. Our results provide insights into the effects of tiering when participants are too-big or too-connected to tier.

A Systemic Stress Test Model in Shared Portfolio Networks

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Abstract

We propose a simple yet powerful deterministic model for systemic risk using a fully dynamical bipartite network of banks and assets and apply it to the Eurozone sovereign debt crisis. The results closely match real world events (e.g., the high risk of Greek sovereign bonds and the failure of Greek banks). The model can be used to conduct \systemic stress tests" to determine the vulnerability of banks and assets in time-dependent networks. In addition, the model provides a simple way of assessing the stability of a system by using the ratio of the log returns of sovereign bonds and the stocks of major sovereign debt holders. We also propose a "systemic importance" ranking, BankRank, for the financial institutions analyzed in this study.

Regulating Capital Flows at Both Ends: Does it Work?

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Abstract

This paper examines whether cross-border capital flows can be regulated by imposing capital account restrictions (CARs) in both source and recipient countries, as was originally advocated by John Maynard Keynes and Harry Dexter White. To this end, we use data on bilateral cross-border bank flows from 31 source to 76 recipient (advanced and emerging market) countries over 1995–2012, and combine this information with a new and comprehensive dataset on various outflow and inflow related capital controls and prudential measures in these countries. Our findings suggest that CARs at either end can significantly influence the volume of cross-border bank flows, with restrictions at both ends associated with a larger reduction in flows. We also find evidence of cross-border spillovers whereby inflow restrictions imposed by countries are associated with larger flows to other countries. These findings suggest a useful scope for policy coordination between source and recipient countries, as well as among recipient countries, to better manage potentially disruptive flows.

Returns Achieved by International and Local Investors in Stock Markets: Comparative Study using Evidence from the MENA Region – Conceptual Framework

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Abstract

Determining which investor group, foreign or local, performs better with respect to stock market returns remains a controversial issue. Information asymmetry remains the preferred theory for explaining superior returns. It is commonly assumed that a better informed investor will be able to perform better. The question then becomes who has better information, local or foreign investors? Empirical support for foreigners under-performing domestic investors is strongly present in the literature; however, many researchers have also concluded that foreign investors are able to outperform local investors due to their investment experience. Broker size and research coverage were also found to be relevant elements to this study as they impact the quality and quantity of information available to any investor group.

An Assessment of How Government Banking Regulations Affect the Merger Activity in MENA and the Subsequent Impact on the Overall Economies-Conceptual Framework

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Abstract

In the aftermath of the global economic crisis, government regulation of the banking sector changed. Regulations pertinent to a bank's capital requirements, banking supervision and market discipline have been altered. These changes commonly lead to a wave of mergers and acquisitions in an effort to meet those new standards. The impact of regulating the banking sector remains vague; this study aims to assess the effect regulation has on the merger and acquisition activity in the sector and ultimately on the sector's lending and credit accessibility; the banking sector's primary function. The study also aims to assess the impact of these changes on the economies of the impacted countries.

The Impact of Audit Committees on Financial Performance: Colombian Evidence

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Abstract

Audit Committees whose main mission are monitoring and supervision of financial and accounting information of the entity, in the international and national level there is a requirement for some specific sectors of the economy ; however in others it becomes a good Corporate Governance practice . There academic research in the international arena have shown that the existence and characteristics of Audit Committees impact the financial performance of the entities. Precisely, we empirically investigate the effect of the Audit Committees on Financial performance of Colombian companies. Our investigation has been achieved on a sample of 1075 whose annual accounting information is available in BENCHMARK. The studied period includes years from 2008 to 2013. The information regarding the board of directors, the audit committee and its composition was reached via survey. Therefore, our findings show the effect of the existence of Audit Committees in Colombian companies belonging to different sectors of the economy and which has historical financial information.

Investors' Divergence of Opinion, Trading Volume and Return:Evidence from an Online Stock Forum

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Abstract

This paper investigates the impact of the divergence of investors' opinions (disagreement), constructed from an online stock forum (the so-called StockTwits), on the trading volumes using the daily data from 30 companies listed on the DJIA index over the period April 4, 2012, to April 5, 2013. The volume-disagreement model adopted in this paper provides a comprehensive framework that offers a theoretical understanding of assets pricing in the capital market. The framework constructed in this paper offers great support to the heterogeneous agent model by successfully allowing a direct investigation of the joint effect of investor disagreement on trading volumes and other behavioural aspects of stock prices (e.g. returns). The results provide strong evidence that online divergence of opinions has a predictive ability to explain trading volumes and, consequently, stock prices in the capital market. Our findings on the asymmetric impact of disagreement on two-market regimes (bull vs. bear) reveal that high disagreement among traders triggers an intensity in trading activities in both bull and bear markets and that this effect is likely to be more pronounced in the bear market. For the volume portfolio strategies based on the online disagreement measure, the results provide evidence that the impact of the high-disagreement portfolios shows a distinct asymmetric effect on returns in different sizes of traded stocks whereby higher (lower) returns are likely to be found in the lightly (heavily) traded stocks, respectively. Low-disagreement portfolios, by contrast, show a symmetric effect on returns in the large and small traded stocks; disagreement leads to a decrease in stock returns regardless of the trading volumes' size. In general, our results are consistent with assets pricing theory incorporating widespread belief dispersions.

The Role of Perceived Access to Start-Up Capital in Pursuing Entrepreneurial Ventures: A Cross-National Comparison of Young Adults in Saudi Arabia, UAE, UK, Canada, and US

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Abstract

This international-comparative study (Saudi Arabia, UAE, Pakistan, UK, Pakistan, Canada, US) provides an innovative classification of future "propensity" for Entrepreneurship among students age 25 years or younger. A factor Analysis of key attitudinal characteristics is specified (eg, Risk Taking, Work Commitment, Personal Sacrifice) and respondents reporting their interest/intent to start a new business is compared with those that do not. This comparison is then replicated by Gender for identifying differences among females. The key research question is the perceived role of access to financial capital in shaping behavioral choices in pursuing Entrepreneurship versus salaried employment. Multivariate regression analysis will then be conducted to compare the rank order of perceived access to capital in plans to start business by Gender. The analysis will then be replicated by Gender across the individual countries. Questionnaires were conducted in either Arabic or English, depending on the preference of the respondents.

Assessing the Economic Value of Probabilistic Forecasts in the Presence of an Inflation Target

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Abstract

We consider the fundamental issue of what makes a ``good'' probability forecast for a central bank operating within an inflation targeting framework. We provide two examples in which the candidate forecasts comfortably outperform those from benchmark specifications by conventional statistical metrics such as root mean squared prediction errors and average logarithmic scores. Our assessment of economic significance uses an explicit loss function that relates economic value to a forecast communication problem for an inflation targeting central bank. We analyse the Bank of England's forecasts for inflation during the period in which the central bank operated within a strict inflation targeting framework in our first example. In our second example, we consider forecasts for inflation in New Zealand generated from vector autoregressions, where the central bank operated within a flexible inflation targeting framework. In both cases, the economic significance of the performance differential exhibits sensitivity to the parameters of the loss function and, for some values, the differentials are economically negligible.

Stochastic Discount Factor Theory Under Tests in International Markets

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Abstract

We follow a method proposed in Pukthuantong and Roll (2015) to estimate pricing kernels that strictly depend on returns, only. Then, we investigate the stochastic discount factor theory in an international framework. More specifically, we compute pricing kernels using equity and bond prices denominated in local currency for China, the Eurozone, Japan, Russia, Switzerland, United Kingdom and the United States. We perform tests to give evidence of a possible common pricing kernel. Our empirical results support the stochastic discount theory in international markets and are consistent with complete markets for the time period that spans from January 1999 up to September 2015. Furthermore, we shed light on additional international financial market issues. High interest rate currencies tend to have low pricing kernel volatilities and market data are consistent with low risk sharing indexes.

The Role of Consumer Bankruptcy in US Housing Market Stabilization and Implications to US Economic Recovery

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Abstract

This paper provides rare insights into the role of consumer bankruptcy in the success of households struggling to retain their homes through mortgage modifications. Based on a proprietary sample of a GSE mortgage modification pool (N=32,462 borrowers), a net income analysis was conducted and the borrower pool classified by financial capability groups. Then, a follow-up sample of 809 borrowers from this borrower/mortgage modification pool were counseled and an in-depth household budget analysis was conducted. The initial analytics, based on Experian data, reported that about 16% of the borrowers had filed for bankruptcy over the preceding six years. This number almost doubles to nearly 30% when the "Counseled" sample reports bankruptcies more than six years ago and includes those currently filing for bankruptcy or in the process of filing for bankruptcy since the Experian data was extracted. The increase in bankruptcy filings cannot be dismissed as a sampling issue since these borrowers reported their bankruptcy filings/intent to file in the period six months after the Experian data was obtained. This finding is especially significant when compared with salient household strategy of "Strategic Concealment" of consumer debt (concentration of debt with partner/spouse that is not the primary borrower for the mortgage modification). More importantly, when financial capacity of the households is cross-classified by whether they have or intend to file for bankruptcy, a surprisingly high number of those that qualified for mortgage modifications with low levels of debt report recent or impending bankruptcy filings. This raises important questions in regard to current housing finance policy, the impact of impending resets of adjustable rate HAMP mortgages, and the presumed efficacy of housing counseling in promoting improved mortgage payment performance.

The Political Economy of the Impossible Trinity

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Abstract

This paper reconsiders the policy trilemma in an open economy by incorporating political economy concerns. We argue that the impact of government ideology on monetary policy, exchange rate policy, and capital account policy decisions should be analyzed in the more general context of restrictions imposed by the impossible trinity instead of the usual single-dimensional constraints. Considering these restrictions by a de facto measurement of the respective policy decisions and a sample of 124 countries from 1980 to 2014, we show that government ideology only has a direct impact on one component of the trilemma, namely exchange rate stability. Our empirical results are based on a data-driven and cluster-based distinction between open / rich and closed / poor countries and, as a robustness check, also on a split of OECD vs. non OECD countries. Overall, we find that the analysis of ideology effects on policy choices in open economies should be carried out in the context of a joint determination of the impossible trinity variables. We find ideology effects to be most important in the context of exchange rate policy.

Capital Structure under Economic Policy Uncertainty: Evidence from the US

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Abstract

We find unambiguous evidence that economic policy uncertainty has a significant positive impact on the level of debt financing among non-financial US firms over a 44-year period from 1979 to 2013. This effect is stronger during the Global Financial Crisis. In addition, debt ratio is positively related to the US inflation rate, firm size and asset tangibility but negatively related to the term spread of interest rates and a firm's profitability and market-to-book ratio. These results are consistent with the predictions of Strebulaev's (2007) dynamic trade-off model and the findings of Frank and Goyal (2009).

THE ROLE OF INSTITUTIONS IN THE MIGRATION OF CORPORATE GOVERNANCE PRACTICE INTO EMERGING ECONOMIES – THE CASE OF AFRICA

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Abstract

This study examines the role of institutional environment in influencing the migration of corporate governance best practice into 22 emerging African economies. Using a unique and comprehensive sample hand-collected sample of 202 IPO firms from across the continent we adopt a novel institutional logics perspective in studying the diffusion of CEO salary disclosure – a central element of corporate transparency. Our findings reveal that the adoption of CEO salary disclosure by firms is more likely in more homogenous informal institutional contexts. Complementarities arising from disclosure originating from an Anglo-American shareholder value governance framework and indigenous formal institutions adhering to English common law infer disclosure is more likely than in contrasting civil code law contexts. Finally firms with higher proportions of their boards of directors being drawn from indigenous social elites are less likely to disclose CEO salary – where this is reversed in the context of elevated institutional quality. Our findings are important for regulatory authorities, investors and policy makers alike who are interested in institutional improvements in emerging economies

The Impact of the Sarbanes-Oxley Act on Corporate Innovation

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Abstract

We investigate whether innovation by publicly listed U.S. companies deteriorated significantly after the adoption of the Sarbanes-Oxley Act of 2002. Using data on patent filings as proxies for firms' innovative activities, we find firms' innovation as measured by patents and innovation efficiency dampened significantly after the enactment of the Act. The degree of impact is related to firm-specific characteristics such as the firm's value (Tobin's Q) and its measure of corporate governance (G-Index), as well as the firm's operating conditions (i.e., the firm being in an high-tech industry, and being delisted or not). We find evidence that the SOX's impact on firms is more pronounced for growth firms, firms with low governance scores, firms operating in high-tech industries and firms that continued to stay listed. In sum, the results suggest that the SOX has an unintended consequence of stifling corporate innovation.

Multiple Objectives Optimization in Islamic Investment Portfolios A Conceptual Framework

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Abstract

In view of the growing popularity of Islamic finance, this research develops a conceptual framework to address the following two issues which have not so far been addressed by the researchers: 1. Ethical/moral aspects of investments and 2. Multiple objectives in Islamic Investments Portfolio. The specific research objectives are: 1. Examine the return and risk profiles of Islamic portfolio in GCC context. 2. Analyze the performance of Islamic portfolio by considering Stochastic Multiple Objectives (SMO) Framework. 3. Apply modified CAPM framework for selecting Islamic securities. 4. Evaluate Islamic portfolio versus conventional E-V portfolio for the set of investments. The above objectives are addressed by formulating the following research questions: 1. How multiple objectives framework in Islamic portfolio is managed under uncertainty environment? 2. Besides return and risks, how Islamic values could be modelled in the Islamic stochastic multiple objectives (ISMO) framework? 3. Does this ISMO framework provide efficient solutions compared to traditional portfolio framework viz., E-V and CAPM?