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INDEX

Reassessing the Outlook for Emerging Markets

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Abstract

Emerging markets have lately been the subject of many alarming stories filled with warnings of potentially magnified risks and severe liquidity problems for those who remain invested in them. Using a database of 68 emerging-market funds and statistical tools commonly used by the market, this study thoroughly analyzes their performance from various angles. It determines that although investors who had exposure to emerging markets have indeed suffered large losses, the situation doesn't nearly warrant the current negative hype surrounding them. Not all asset classes were affected to the same extent, and although high risks including liquidity problems still apply when entering these markets, there are also internal sources of growth and very favorable correlations with developed markets. While some keep calling for further pullbacks, this study finds that, on the contrary, the favorable current valuations mean that now is the time to increase exposure to these markets.

Opacity and Liquidity

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Abstract

We present a model that links the opacity of an asset to its liquidity. While low opacity assets are liquid, intermediate levels of opacity provide incentives for investors to acquire private information, causing adverse selection and illiquidity. High opacity, however, benefits liquidity by reducing the value of a unit of private information to investors. The cross-section of bid-ask spreads of U.S. firms is shown to be consistent with this hump-shape relationship between opacity and illiquidity. The analysis suggests that uniform disclosure requirements may not be desirable; optimal information provision can be achieved by subsidizing information. The model also delivers predictions about when it is optimal for asset originators to sell intransparent products or pools composed of correlated assets.

Issues and Concerns in the Financial Reporting Of Islamic Banks: Case- Study of Kuwait Finance House

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Abstract

This paper aims to shed light on the current unorganized state of financial reporting in Islamic banks. In this exercise, I illustrate the negative effects of using conventional accounting standards in Islamic banks rather than Islamic accounting standards and show how this leads to non-transparency and the provision of inaccurate and misleading information to the general public and investors. I also reveal how Islamic banks are not disclosing much of the information available on the financial statements of a conventional bank and are inadequately providing information about Shari'ah compliancy and the activities of the Shari'ah boards. The current state of financial reporting in Islamic banks allows Islamic banks to conduct operations secretively and to hide negative information and losses. The non-transparency of the emerging Islamic banking system should be a major concern for the industry as this may lead to corruption and scandals, which may lead to the demise of the industry. At the end of the paper, I make several key conclusions and recommendations for financial reporting in Islamic banks. The paper is limited in proportion to the amount of limited information available in the financial statements of Kuwait Finance House.

Stock Price Informativeness and Output Growth: Some Evidence from Emerging Economies

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Abstract

This paper extends the output growth model tested by Levine and Zervos (1998) by including a measure for capital allocation efficiency proxied by stock price informativeness. Using a sample of 62 countries, this study finds that stock price informativeness as measured by firm-specific return variation positively contributes to output growth after controlling for variables in the Levine and Zervos (1998) model.This effect is particularly strong for high property rights protection environments and common law countries in emerging economies. We find that stock price informativeness acts as a substitute for stock market liquidity on predicting long-run output growth in emerging economies but not in more developed economies. These results are consistent with the Roll's (1988) claim: more information-laden stock prices signal efficient stock markets and, therefore, stronger output growth.

Oil Returns, Monetary Policy and the Dollar fluctuation from 1987 to 2013

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Abstract

After the oil crises in the 70's and at the beginning of the 80's, many authors argued that the Federal Reserve reaction to oil prices is not optimal and suggested to drop the energy component from the reaction function. This paper studies the period of 1987-2013 and shows substantial feedback between monetary policy and oil returns. Feedback also exists between oil returns and the American dollar's appreciation or depreciation. However, monetary policy was followed by exchange rate adjustments only when it was associated to changes in the dollar price of oil. The dollar price of oil matters to monetary policy makers more than the dollar's exchange rate.

Integration of Developing and Developed Stock Markets: Evidence from India, China, U.S. & European Markets.

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Abstract

Financial markets around the world have seen a high degree of volatility in last 5 years and hence, after recent financial crisis in USA, followed by debt crisis in Europe have forced academicians and portfolio managers to re-evaluate the degree of integration between different financial markets of interest. This paper examines the integration of stock exchanges of India (Bombay Stock Exchange-BSE) and China (Shanghai Stock Exchange- SSE) with U.S (S&P 500) and Europe (FTSE100). This paper study the short-term integration dynamics between markets considered. Granger Causality Test was used to identify the direction of causality. Impulse response was used to identify the effect of shocks from one market to other markets. Variance decomposition method was used to identify the level of dependency of one market on other. Output suggests that BSE Granger Causes FTSE100 as well as BSE Granger Causes S&P500. But SSE doesn't Granger Causes S&P500 as well as SSE does not Granger Cause FTSE100. This result contradicts with other prior research findings "(Janak, Raj, Sarat Dhal 2008)", which suggested that Indian stock markets doesn't Granger Cause US, European and other developed markets. The impulse response of S & P 500 to BSE suggests that any shocks from BSE to S & P500 survive for a period of two days.

Culture and Foreign Bias in U.S. Global Fund Investment: A Multilevel Model

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Abstract

This research uses a multilevel model to extend Beugelsijk and Frijns (2010), which analyzed investment funds for evidence of foreign bias, the tendency for investors to overweight their portfolios in foreign assets. This research further investigates their finding that lower cultural distance does not increase portfolio allocations by investigating and isolating the cultural distance of individualism and uncertainty avoidance, which have a theoretical basis for causing foreign bias. Although the results support theory that lower individualism cultural distance has a positive relationship with increased allocations, the effect of the cultural variable of uncertainty avoidance disappeared with the use of the multilevel model. This last result is supported by the literature of cross-cultural psychology, which holds that uncertainty avoidance should not be used as a proxy for risk. Therefore, this research introduces the use of multilevel models into research on foreign bias in investment funds, separating country-level cultural variables from fund-level variables, and provides support for the cessation of the use of uncertainty avoidance as a proxy for investment risk tolerance.

Defence Industry Corruption Risk: The Role of Culture and Effective Governance

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Abstract

Anecdotal evidence indicates that corruption is rampant in the defence sector globally. Using a unique database on firm level corruption risk in the defence industry, we examine the role of country level and firm level antecedents. Among the country level factors we study are measures of institutional quality, quality of governance with respect to defence industry corruption, and cultural factors such as individualism, power distance and uncertainty avoidance. Our empirical results confirm that these factors indeed influence firm level corruption risk. We also find that at the firm level, factors such as visibility, size and shareholding play a significant role in affecting a firm's corruption risk.

Asset Pricing with Regime-Dependent Preferences and Learning

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Abstract

This paper studies equilibrium in a pure exchange economy with unobservable Markov switching consumption growth regimes and regime-dependent preferences. Variations in risk attitudes have fundamental effects on the structure of equilibrium. Explicit solutions are provided for the market price of risk, the interest rate, stock and bond prices, and asset return volatilities. Calibration shows that this one-factor model can simultaneously support empirical long run values of the market price of risk, the interest rate, the stock market volatility, the equity premium and the moments of the consumption growth rate. Dynamic properties of the model are examined. An implied recession index is constructed and its performance evaluated. The ability to explain the dividend strips puzzle, the term structure of interest rates and the predictive behavior of the term premium are studied.

Model Risk and Validation Challenges behind CCAR Models: Lessons from a US Regulatory Experience

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Abstract

Comprehensive Capital Analysis & Review (CCAR) is a supervisory assessment by the Federal Reserve of the capital planning processes and capital adequacy of the large, complex bank holding companies (BHCs). Fed expects large, complex BHCs to hold sufficient capital in order to maintain access to funding, to meet their obligations to creditors and counterparties, to continue operations, even under adverse economic situations. CCAR is the central mechanism of Fed for developing supervisory assessments of capital adequacy at these firms. The purpose of this paper is to assess the model validation challenges that a bank goes through while implementing models in the CCAR space, with a specific example of the Jumbo Origination model developed by Bank X, a top tier bank in US West Coast. We have found limitations and certain gaps that need to be bridged for a robust and an accurate modeling exercise by any bank working on CCAR submission.

The Degree of Operating, Financial and Total Leverage: A New Analytical Free Cash Flow Paradigm

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Abstract

The conventional degree of Operating, Financial and Total leverage (DOL, DFL and TDL respectively), measure return and risk in terms of expected profit and the elasticity of profits with respect to output or sales. Our analysis differs from the conventional in two aspects. First, in our analysis Free Cash Flow (FCF) replaces profit as the expected level of FCF and its risk is more relevant for all the investors (bond and stock holders) and thus it is also more relevant than profit for valuation of Enterprise Valuation (EV). Secondly, in contrast to the conventional elasticity risk measure that assumes implicitly that variability of output the source of risk and price and variable cost per unit are constant, our model reflects the impact of uncertain exogenous shocks on the demand of the product and the then the optimal production level is determined endogenously. Our measures of the elasticity assume that the firm maintains optimal production level. The FCF in our model considers only the tax benefit of leverage versus the overall cost of default. Recent theoretical and empirical studies shows that the expected level of this component is very significant and can determine capital structure. Our model determines simultaneously optimal levels of production, investment and leverages that maximize expected cash flow and minimize its elasticity measure of its risk. The theoretical finding of this paper can shed light on the conflicting empirical finding regarding the trade-off hypothesis between operating leverage and financial leverage.

Construction of a BRICS index and option price evaluation relative to constituent indexes

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Abstract

A BRICS index is proposed relative to given indexes on the stock exchanges of the BRICS countries. The BRICS index is calculated by means of a weighted average of these given indexes. Two non-parametric models are used to construct option prices, which are converted into volatility skews via the Black-Scholes model. The first model is a relative entropy model which constructs a risk-neutral forward distribution used to price options. The second model is the Heston and Nandi model which uses a GARCH($1,1$) process to construct the option prices. The effects of pricing options on the BRICS index, for different risk-free interest rates used in different countries, is discussed.

Internationalization of RMB

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Abstract

Analysis of the relative advantage of the RMB as a transaction-, investment- and reserve currency vs YEN, EUR and USD. Currently in presentation form, it will be fashioned into a conference paper.

Bank Competition and Leverage Adjustments

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Abstract

We test whether bank competition affects firms' leverage adjustment speeds. Using Chinese data where bank concentration varies across both years and provinces, we find that under-levered firms move to their target leverage faster when bank competition is high. Tests surrounding an exogenous shock to bank competition lead to the same conclusion. We also find that small firms, nonstate-owned firms, and firms in provinces with many other firms enjoy faster leverage adjustments when bank competition is high.

Why Do Privatized Firms Pay Higher Dividends?

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Abstract

Privatized companies pay higher dividends than do either always-private companies or than did these firms as fully state-owned enterprises. We examine the determinants of this dividend premium using a sample of up to 83,468 firm-years (up to 358 privatized and 4,894 non-privatized firms) across 26 countries, and find that it is significantly positively related to the levels of increased efficiency, higher earnings, and new agency costs induced by privatization. The premium manifests in both civil- and common-law countries, but is significantly higher in civil law countries. The higher dividends paid by privatized firms cannot be explained by the life-cycle or the maturity hypotheses of dividends, nor are they significantly related to the level of home-country economic development or to the cross-country and temporal variation in the dividend tax penalty.

Preferences Regarding Public Pension Characteristics in Japan: An Analysis Using Choice Experiments

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Abstract

We investigate individuals' preferences regarding the characteristics of Japanese public pensions using choice experiments conducted via the Internet. We explore the behavior of three groups of respondents: those participating in an employee pension program, those participating in a national pension program, and those who are intentional non-payers of the national pension premium. We find that the premium non-payers have the most severe price preference in terms of the relation between pension premium and benefits. Second, we find that respondents are willing to pay a higher premium to the national pension fund given an increase in the marginal benefit. Third, regarding the subjective value of the life annuity benefit, we find only a small difference between premium non-payers and other respondents.

The Predictability of Individual Stock Returns and Market Capitalization

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Abstract

The paper compares the extents to which the daily open-to-open and close-to-close returns on individual stocks are predictable from past price changes. Based on the sample of NYSE, Nasdaq, and AMEX listed stocks for the period from 2009 to 2013, it is concluded that (a) the degree of predictability and implied forecasting accuracy of both types of returns substantially increase as smaller securities are considered and (b) this increase is stronger for the open-to-open returns than for the close-to-close returns. We refer to this dependence of both the absolute and relative predictability of these two types of returns on the stock capitalization as the small-cap effect in the predictability of individual stock returns. The small-cap effect is stronger for the high-momentum stocks.

Smart Beta Equity Investing Through Calm and Storm

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Abstract

Smart beta portfolios typically achieve a superior diversification than the benchmark market capitalization weighted portfolio, but remain vulnerable to broad market downturns. We examine tactical investment decision rules to switch timely between equity and cash investments based on an underlying regime-switching model with macro-economic, macro-financial and smart-beta momentum variables as drivers for the time-varying transition probabilities. A regression-based method is applied to select the relevant state variables. An extensive out-of-sample evaluation for the S&P 500 stocks over the period 1991-2014 shows the gains of smart beta portfolios, the usage of time-varying transition probabilities and the implementation of a dynamic minimum expected return constraint which is more restrictive in bearish markets than in up trending markets. The resulting investment decisions are more reactive to changes in the market conditions and lead to a substantially better risk-adjusted performance and lower drawdowns.

The relationship between economic cycles and idiosyncratic risk: A study on the Japanese Stock Market

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Abstract

It would seem that a relationship exists between the idiosyncratic risk and stock returns, and the idiosyncratic risk exhibits a positive and statistically significant trend. The goal of this paper is to use data form Japanese markets to investigate the two issues for the 2000 – 2014 period and provide further evidence that adds to the existing conflicting results. We put forward the hypothesis that the idiosyncratic risk effect only occurs during periods ofeconomic recession. Our results suggest that existence of a positive relationship between the equally weighted measure of idiosyncratic risk and subsequent stock returns, the link between the expansion-recession cycle and the idiosyncratic risk effect has been confirmed.

Private Equity And Workers' Career Paths: The Role Of Technological Change

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Abstract

We examine the long-run career paths of a large sample of individuals employed by firms acquired in leveraged buyouts. In contrast to commonly held views, the average employee from an LBO-acquired firm is subsequently employed for a longer amount of time over her career than similar individuals from non-acquired firms. We argue that the leading explanation for these findings is that private equity has facilitated technological upgrades, which in turn impart many employees with new skills that complement modern production methods. The effects that we document are especially strong for workers who perform tasks that have been transformed by information technologies (IT), and we find that these workers are more likely to transition to firms that have demand for IT-related skills. The findings underscore the role of private equity in diffusing new technologies during the most recent LBO wave and slowing or reversing the depreciation of skills for workers at firms that otherwise underinvest in modern production methods.

Market Concentration And Bank Competition Pre-Post Gfc Across Emerging Asian Countries

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Abstract

This paper aims to investigate both market concentration and bank competition of banking across seven emerging Asian countries (e.g. Bangladesh, Indonesia, India, Philippines, Malaysia, Thailand and Vietnam) over pre and post the 2008 global financial crisis. Levels of market concentration are high and change dramatically over pre and post the global financial crisis. The banking industry in these countries operated in different competitive structures such as monopolistic competition, competitive structure with higher marginal cost than price, and their mixture. The result supposes a negative relationship between market concentration and bank competition.

Impact of Banking Competition on Lending Technologies

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Abstract

For the past 20 years, scholars have extensively discussed the impact of banking competition on the choice between transactional and relationship lending technologies, both empirically and theoretically, but have not yet come to a resolution. This study addresses this issue using a new measure to relationship lending, which takes into account the actual level of soft information used by banks in the loan pricing. Using this new measure, we conclude that banks prefer to implement relationship lending technology when competition is weak. In addition, with regard to the shape of the relationship between competition and relationship banking, we find that, in accordance with extant theoretical conclusions, this relationship is nonlinear and concave.

The benefits of bank firm relationships when credit is unconstrained: The case of French SMEs

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Abstract

According to Kremp and Sevestre (2013), French firms did not suffer from credit restriction during the period 2004–2010. This study seeks to identify the benefits of bank–firm relationships when credit is unconstrained. By using a unique set of data collected from a French relationship bank (CMNE), covering the period 1996–2009, the study shows that, depending on the health of the economy, the benefits of bank–firm relationships may take the form of a weaker credit spread. The results are complementary with those of Sharpe (1990); they indicate that weaker interest rates appear only in normal periods, and hold up is a problem only during economic recessions.

Comparative credit risk in Islamic and conventional banks

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Abstract

This study considers whether Islamic banks and conventional banks have different levels of credit risk. One problem with existing research in this area is the dominance of accounting information to assess credit risk, and this could be especially misleading in the case of Islamic banking. Using Merton's distance-to-default (DD) model, a market-based credit risk measure, we evaluate the credit risk of 156 conventional banks and 37 Islamic banks across 13 countries between 2000 and 2012. We also calculate the accounting information-based Z-score and nonperforming loan (NPL) ratio for the purpose of comparison. Our results show that Islamic banks have significantly lower credit risk than conventional banks when measuring credit risk with the DD. In contrast, and as expected, Islamic banks exhibit much higher credit risk using the Z-score and NPL ratio. Overall, the findings suggest that the methodology used plays a significant role in assessing the apparent credit risk of Islamic banks.

Do Long-Term Investors Improve Corporate Decision Making?

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Abstract

We study the effect of investor horizons on a comprehensive set of corporate decisions. Long-term investors have the means and motive to monitor corporate managers, which generates corporate decisions that are consistent with shareholder value maximization. We find that long-term investors strengthen corporate governance and restrain managerial misbehaviors such as earnings management and financial fraud. They discourage a range of investment and financing activities but encourage payouts. Shareholders benefit through higher stock returns, higher profitability that is not fully anticipated by the market, and lower risk. Firms diversify their operations. We use a popular identification strategy to establish causality of our results.

Mental Abilities, Specialty Choice and Gender Differences among Investors

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Abstract

We offer new insights to the understanding of the investors' behavior and multiple criteria decision making process from two main perspectives. First, based on the decision of specialty choice, we show that investors are very rational in normal environment, even though they often tend to make irrational decisions in extreme environment. Also we argue that there is a gender gap in choosing specialties. Secondly, we prove that male or female investors do not have prevailing superior mental abilities over opposite sex. We use the unique combination of trading data obtained from NASDAQ OMX Tallinn and detailed educational data from Estonian national educational registry. Finally we prove that male investors are more confident to choose natural and exact sciences as well as applied sciences, even though they fail to prove stronger abilities in these areas. At the same time female investors tend to prefer humanities as they also show slightly better results in this area. Finally choice of social sciences as a probable career field is quite similarly affected by the mental abilities for male and female investors

Does corporate investment in stakeholder capital create value for shareholders? The importance of long-term investors

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Abstract

The effect of corporate investment in stakeholder capital on shareholder value is a matter of great debate. We argue that long-term investors are natural monitors that can ensure that managers choose stakeholder capital investment to maximize shareholder value. We find that long-term investors increase the value to shareholders of stakeholder capital investment, not as a result of higher cash flow but rather of lower cash flow risk. Numerous recent papers show empirically that indexing by investors has a causal effect on financial and real corporate outcomes. We follow this identification strategy to establish causality for long-term investors. Also following prior work, we use the staggered adoption of state laws on stakeholder orientation for identification. Our findings suggest that firms can create value for shareholders by investing in stakeholder capital as long as managers are properly monitored by long-term investors.

Deposit Insurance and Risk Shifting in a Strong Regulatory Environment

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Abstract

This study provides empirical evidence on the moral hazard implications of introducing deposit insurance into a strong regulatory environment. Den- mark offers a unique setting because commercial banks and savings banks have different ownership structures, but are subject to the same set of regulations. The ownership structure in savings banks implies that they have no incentive to increase risk after the implementation of a deposit insurance scheme whereas commercial banks have. Also, at the time of introduction, Denmark had high capital requirements and a strict closure policy. Using a difference-in-difference framework we show that commercial banks did not increase their risk compared to savings banks when deposit insurance was introduced. The results also hold for large commercial banks, indicating that the systemic risk did not increase either. Thus for a system with high capital requirements and a strict closure policy, we reject the hypothesis that deposit insurance induces moral hazard into the system.

A Temporary Corporate Income Tax Reduction and Its Effects on Investment and Reported Profits: Evidence from Vietnam

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Abstract

Should corporate income tax reductions be included in a stimulus package? How do they affect reported profits and investment? This paper evaluates these questions by examining a temporary 30 percent corporate income tax reduction in Vietnam in 2009 for small and medium sized businesses. Eligible businesses are firms with no more than 300 full-time employees or no more than 500 thousand dollars in initial assets. I use a difference-in-differences approach that compares eligible with ineligible firms around the 300 employee cutoff before and after the tax cut got implemented. To avoid employment manipulation, I use numbers of employees in the year before the policy was introduced to determine a firm's eligibility. I estimate causal effects of the tax cut on capital investment, reported profits, and tax revenue. According to my estimates, the tax cut increased the capital stock by 11-13 percent. Relaxation of liquidity constraints, rather than a drop in the user cost of capital, plausibly explains the increase in investment. The estimates also imply large increases in before-tax reported profits in the tax cut year and even in the year after the tax cut ended. Due to increases in reported profits, tax revenue increased. I do not find evidence that increases in profits can be explained by profit-shifting from non-tax cut years to the tax cut year or by changes in capital or employment. Foreign-owned firms contributed to most of the increase in profits. Thus, it is plausible that multinational corporations shifted profits into Vietnam to take advantage of the low tax rate. Overall, the temporary tax cut policy increased tax revenue. The tax cut increased the capital stock. Thus, a temporary reduction in the corporate income tax turned out to be a low cost policy for economic stimulus in Vietnam.

Corporate Credit Ratings: Selection on Size or Productivity?

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Abstract

Following the recent recessions there has been contentious debates about whether the current credit rating system has anything to do with long-term performance? I use a panel of US manufacturing firms matched to their S&P ratings over the years 1980 to 2009 to investigate. Using total factor productivity as a meter of long-term economic performance, I find that investment-grade firms are indeed more productive than their speculative-grade counterparts. However, for some investment-grade firms the role of productivity is replaced by their overly large size. These findings are robust to various specification tests and do not seem to be specific to the recent history. The evidence suggests that large manufacturing firms could be over-rated at least from an economic perspective, the practice coming under spotlight only in the recent decade.

Investment Networks of World Bank in Electric sector in Thailand and Vietnam

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Abstract

Unbundling and liberalization of electricity systems has been the paradigm model used by policy makers and international institutions as the essential framework for developing the sector and dealing with issues including inadequate pricing, lack of capacity, fiscal constraints, efficiency problems, and underinvestment. The process has been actively led by the World Bank. The research collects empirical data to explore the World Bank financing networks (include lending, granting, guaranteeing and channelling) in the electricity sector in Thailand and Vietnam. Public sector actors including government institutions and SOEs are the dominant recipients and create highly dense connections in the financing network whilst the network of private sector actors is much more sparse and receive much less fund from financiers. Funds for Market Reforms account for 38% (in Vietnam) and 44% (in Thailand) of total financing from World Bank, which is comparable to other developmental, infrastructure funds. These loans are directed to the government institutions as borrowers, implementers and end users. The finding puts a question on what key role the World Bank should play in supporting developing countries. The Bank could be much more efficient at initiating connections, guaranteeing and building technical capacity or legitimacy than being the main financial source.

External corporate credit ratings: is there a split?

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Abstract

In this paper, we study corporate split ratings by examining two credit ratings issued by the French Central Bank and an external credit rating agency. We propose to test the different hypotheses of rating splits occurrence from the point view of raters, namely the rating model difference hypothesis, the standard difference hypothesis and the random error hypothesis. This study provides evidence that rating determinants and rating scales differ across financial institutions. Our results are novel and unique because no study has investigated the causes of split ratings on a sample of small and medium sized enterprises. In addition, this study is the first, to our knowledge, which analyses the difference of rating between a Central Bank and a private external credit rating agency.

Entrepreneurs’ Oral Pitch Evaluation: Does the Gender Matter? Insights From a Male Dominated Business Angels’ Network

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Abstract

The aim of this article is to analyze the business angels’ appraisal of entrepreneurs’ oral pitch presentation by taking into consideration the diversity of the angel group and the gender of the entrepreneurs in a male dominated environment. We find differences in the evaluations of entrepreneurs’ oral pitch presentation depending on the gender of the business angel. Interestingly the presence of a female angel is shown to be beneficial to women entrepreneurs’ presentation evaluation. Our results suggest that both women business angels and entrepreneurs may suffer from stereotype threat in a male-dominated business angels’ network. The implication of our study is that in order to reduce the gap between the men-held and the women-owned new ventures, women membership in the male dominated angels’ networks should be encouraged.

The Systemic Benefits of Islamic Banking and Finance Practices: A Comparative Study

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Abstract

An emerging literature in the aftermath of the recent GFC has attempted to investigate whether growing Islamic banking and finance practices add any systemic benefit to the global economic system. This paper explores the issue by examining the determinants of systemic risk for a sample of Islamic banks and financial institutions compared with conventional counterparts. Systemic risk is defined as a function of the stock market capitalization, marginal expected shortfall, leverage ratio, correlation of return, and volatility of return. Our finding shows the impact of market capitalization on reducing the systemic risk of Islamic banks and financial institutions is relatively higher than conventional counterparts. This is consistent with the results of some previous studies on the perceived benefits of Islamic finance practices. However, the influence of leverage ratio and marginal expected shortfall on increasing the systemic risk of Islamic banks and financial institutions is significantly higher than conventional counterparts. Overall, our result does not support the notion that Islamic banking and finance practices provide more systemic benefit to the financial system than conventional counterparts.

Pricing Risks across Currency Denominations

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Abstract

Investors based in different countries earn different returns on same strategies because the same risks covary differently with countries' stochastic discount factors (SDFs). We document that investors in low-interest-rate countries earn more than those in high-interest-rate countries on identical carry trade strategies. We propose a novel econometric procedure to estimate country-specific SDFs from foreign exchange market data. We provide out-of-sample evidence that (i) a country's interest rate is inversely related to its SDF volatility, (ii) output gap fluctuations across countries strongly correlate with estimated SDFs, and (iii) our estimated SDFs explain half of the risk in equity markets as measured by priced equity premia.

Financial Crisis Matter? Systematic Risk in the Casino Industry

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Abstract

In December 2007, after a decade of rising market valuations and revenues, the U.S. casino industry began to suffer the effects of systematic risk caused by the 2008 financial crisis. Drawing data from 21 firms spanning 2004–2013, this study explores the relationship between systematic risk (beta) and six key financial variables for the U.S. casino industry: firm size, liabilities as a percentage of assets, asset turnover, return on assets, EBIT growth rate, and current ratio. We analyze the variables that most determine the industry's exposure to systematic risk and the variables that generate the most reliable predictions of beta as a measure of systematic risk. We find that only firm size significantly and affirmatively affects beta before, during, and after the 2008 financial crisis. Asset turnover and liabilities as a percentage of assets are significant predictors before and after the crisis.

Industry Structure, Entry, Exit and Survival Analysis Using Excess Value: Demonstration For Two Indian Industries, 2000-2014

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Abstract

Measuring the extent and dynamics of competition, and its determinants and consequences on performance, has engaged the attention of economists for long. Traditionally, metrics based on the market share of sales, like the concentration ratio, have been employed in this pursuit. The present study examines the use of alternate metrics based on the excess value added to study the competitive dynamics in an industry. The excess value added has been defined as the spread of the return on net worth over a benchmark return scaled by size. The approach has been demonstrated using data for two Indian industries during the period 2000-2014.

CEO Pay Performance Sensitivity for UK Companies

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Abstract

Abstract The aim of this research is to examine the relationship between CEOs' pay-performance sensitivity and firm's capital structure. Agency theory suggests that debt can affect the agency conflicts between managers and shareholders. Capital structure can affect executive compensation because debt can mitigate agency conflicts between managers and shareholders. Debt will induce lenders to monitor the firm, reducing free cash flow available to managers and forcing managers to focus on shareholders wealth maximization when facing bankruptcy threat. This theory predicts that when higher debt and high alignment incentives can be substituted, pay-performance sensitivity will be lower for firm with higher debt. The sample consists of 183 publicly traded companies listed on the FTSE-350 from year 1999 to 2008. The estimates show mixed support for pay-performance and leverage as the negative coefficients for market debt have overall weak significance. This can be concluded that firm's leverage has little effect on pay-performance sensitivity as a mechanism in order to align the interest of CEOs and debtholders of the firm. Meanwhile, there is strong support for hypothesis that CEO pay-performance sensitivity increase with firm's growth opportunities which suggests firms award higher equity compensation to attract managers with more talent.

Robustifying the multivariate chain-ladder method: a comparison of two methods

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Abstract

The expected result of a non-life insurance company is usually determined for its activity in different business lines as a whole. This implies that the claims reserving problem for a portfolio of several (perhaps correlated) subportfolios is to be solved. A popular technique for studying such a portfolio is the chain-ladder method. However, it is well known that the chain-ladder method is very sensitive to outlying data. For the bivariate situation, we have already developed robust solutions for the chain-ladder method by introducing two techniques for detecting and correcting outliers. In this article we focus on higher dimensions. Being subjected to multiple constraints (no graphical plots available), the goal of our research is to find solutions to detect and smooth the influence of outlying data on the outstanding claims reserve in higher dimensional data sets. The methodologies are illustrated and computed for real examples from the insurance practice.

Option pricing in the Piterbarg framework

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Abstract

The Piterbarg framework prices derivatives post the credit crisis of 2008, relaxes the assumption of a risk-free rate, and allows inclusion of collateral payments in the price of a derivative. This paper summarises the discrete derivation of the Piterbarg framework in a binomial setting. It reports on two alternative means of calculating the price of options in the Piterbarg framework, local volatility, a discrete time hedging strategy in the Piterbarg framework, and on how to price and hedge interest rate derivatives in the Piterbarg framework.

Impact of socioeconomic characteristics on customers' Intention to use Internet Banking in Greece

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Abstract

The use of Internet banking in Greece despite the fact that it is increasing with rapid steps, is still very low. The paper aims at analyzing whether bank customers' socioeconomic characteristics influence Intention to use Internet Banking. Eight constructs, namely Perceived Enjoyment, Perceived Ease of Use, Perceived Usefulness, Quality of Internet connection, Perceived Risk, Compatibility, Self-efficacy and Cost were integrated in a model for the investigation. Regarding the factors that influence Intention to use Internet banking, the paper underlines the important positive impact of Perceived Usefulness and Perceived Ease of Use and the negative impact of Perceived Risk and Cost. Statistical significant differences were recorded between gender, age, education, income and Intention to use Internet banking and the factors that possibly affect Intention to use. In order to grow customers' Internet banking adoption, banks should make key improvements that address customers concerns, formulate strategies and launch campaigns for different population segments based on their socioeconomic characteristics

Time-Varying Linkage of Possible Safe Haven Assets: A Cross-Market and Cross-Asset Analysis

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Abstract

This paper contributes to applying the time-varying symmetrized Joe–Clayton copula to study the dynamic linkage among possible safe haven assets in the major international markets over the past 34 years. We re-examine four major asset types (long-term government bonds, equity indices, oil, and gold) and test whether they are qualified individually as a safe haven asset against when paired against each other in a specific market.

There is Nothing New under the Sun: Modern Lessons from Victorian Bank Frauds

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Abstract

The Victorian era in Britain is remembered for many advances in technology and industry, scientific discovery, the development of commercial enterprises, social welfare and education. The era also witnessed the increasing professionalization of the occupational grouping of accountants with a number of professional bodies being formed and the value of the accountants' work quickly gaining recognition. Not unrelated to this development was the proliferation of fraudulent schemes by which the investing public was duped into losing millions of its savings. Regarded as particularly cruel and deceitful was the bank fraud. Typically committed by a small number of powerful men situated at the top of the management structure of the bank's hierarchy, this sort of fraud most often involved the making of loans to high risk projects or to concerns in which the perpetrators themselves were closely involved. The element of fraud came by dint of the production of financial statements which masked the true position of the bank once these loans failed to produce the hoped-for returns. The role of accounting and the often inadequate audits naturally received a considerable amount of publicity once the frauds were brought to light. From the case of the Royal British Bank in the 1850s until the end of the nineteenth century there seemed to be a major banking fraud at least once every ten years. With each revelation came calls for tighter controls and better regulation of the banking sector and each time various measures were put in place as part of the official response to the perceived crisis. The last of these frauds was Dumbell's Bank, situated on the Isle of Man. The involvement of a respected firm of chartered accountants was an insufficient safeguard for the shareholders' and depositors' interests. These cases are noteworthy because they demonstrate how little had been learned from the lessons of the previous 150 years by those involved with banks. The last case shocked the accounting profession because it was the first time that auditors had faced criminal charges. The series of cases also illustrates the severe damage that was caused when professional men, both bankers and auditors, failed to do their duty.

The Use of Trade Credit by Public and Private Firms: An Empirical Investigation

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Abstract

We show that the level of trade credit in private firms is one-quarter higher than that in public firms. The impact of being private on trade credit is robust, and is more pronounced in young, high-growth, and low-tangibility firms, consistent with the argument that firms with greater asymmetric information and credit constraints rely more on supplier financing. Both public and private firms seek to adjust toward optimal trade credit levels, although private firms experience slower adjustment. During the financial crisis of 2007-2009, public firms used slightly more trade credit as an alternative source of financing, while private firms were granted significantly less trade credit.

The risk parity portfolio and the low risk asset anomaly

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Abstract

Recently a portfolio management method called risk parity has been attracting attention for its high performance. This method levels out portfolios' risk allocations, but very few explanations have been provided for the high performance. One of the exceptions is Asness et al.[1]. Asness et al. [1] links the discounting of low-risk assets by leverage aversion to risk parity portfolios. But risks and risk allocations should not be regarded as the same. On the other hand, it is also possible to show that investor overconfidence is a discounting factor for low-risk assets. In this case, as the size of risk allocations in the market is directly linked to either overvaluation or undervaluation, we could get a result supporting risk parity portfolios, which suggests that it is desirable to level out risk allocations by constantly comparing them with the market portfolio. Here we seek the more appropriate explanation for risk parity portfolios between leverage aversion and overconfidence. As a result, we choose the latter as the more plausible explanation. First, we summarize the relationship between the respective implications of the two theories and risk parity portfolios. Next, we conduct a research on bond markets where we could detect some difference between leverage aversion and overconfidence. Our empirical study shows that risk parity portfolios demand explanations other than leverage aversion.

Relationships between chemical commodities, the FTSE/JSE Top 40 Index, and the South African Rand

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Abstract

The relationships between seven chemical commodities, namely naphtha, paraffinic-xylene, poly vinyl chloride, polyethylene, styrene, terephthalic acid and vinyl chloride monomer; and the FTSE/JSE Top 40 Index will be investigated. The relationship between the seven commodities and the FTSE/JSE Top 40 Index against the South African Rand (versus the United States Dollar) (ZAR) will also be investigated to determine the impact of the variables on the ZAR. The analysis of the variables will include correlation, regression, vector autoregression and the Johansen cointegration test to determine linear interdependencies among the variables. The results indicate that there are cointegrating relationships between the both relationships investigated in this paper.

RESEARCH ON THE IMPACT OF RURAL HOUSEHOLD'S CREDIT ACCESS TO SUSTAINABLE POVERTY REDUCTION IN VIETNAM

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Abstract

The study on the impact of rural household's credit access to sustainable poverty reduction in Vietnam is carried out on the data set of Vietnamese household living standard survey (VHLSS) in 2010 and 2012. The findings indicate that the rural credit market in Vietnam is still under developing and it is limited for poor households to access formal credit source. Tobit and OLS regression model in econometric have been applied and produced the results that factors relating to the head of household (such as the age, sex and education degree) have had impact to the credit accessibility. In addition, it is shown that collateral assets like production and residential area have affected positively to credit access of rural poor households. It is a surprised result that there is no significant effect of interest rate from the formal credit source to the poor. In turn, accessing the formal credit has impacted helpfully to investment expenditures for education. Results from OLS regression also point out that investment on education and health care have affected positively to the income of the households. These investments which do not bring benefits at present but in future also, will facilitate the poor in stable escaping from the poverty. This is a strong base for sustainable poverty reduction in multifaceted access. From those findings, the authors propose the solutions to help poor households be out poverty sustainably. Those solutions include changing interest rate mechanism in rural credit market towards commercial rate with easy loan procedure; little collateral request; enhancing the policy of encouraging education for these households

How to Reduce Exposure to Financial Crises in Europe?

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Abstract

More debt will increase the risk exposure of an economy. When the debt level in a country goes up, the advantage of debt, which is low information costs, will at some point be surpassed by increase in expected crisis costs. Evidence indicates that in present day Europe the aggregate debt level is beyond this point. This paper argues that regulation and supervision may contribute to an overreliance on debt by having a negative impact on economic growth. More regulation and supervision will make debt more costly. This will harm investment activity required for growth in countries where an excessive part of project funding takes the form of debt. Also for other reasons debt is far from ideal as a financial instrument to spur economic growth. Equity is much better suited for that purpose. Equity, as opposed to debt, allows investors to benefit from the typical return distribution of growth generating projects. Since Europe needs economic growth to service existing loans there must be a shift towards equity and away from debt, to make European economies more crisis resistant. Consequently, reduction of obstacles that make equity financing costly for European companies at many different levels, must be an essential ingredient in policies that aim at a reduction of Europe's crisis exposure.

The Wang transform as an option pricing model

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Abstract

The Wang transform, which is based on the Choquet integral, provides a model to price insurance risk, but can also be used to price options. The aim of this paper is to provide a report, of known and of new facts, on the use of the Wang transform as a model for option pricing. More precisely, the Wang transform is considered, a brief outline is presented on how it is used for option pricing, the derivation of the Black-Scholes-Merton price of an option as a special case of the Wang transform is discussed, a comparison is made between the Greeks (i.e. the partial derivatives with respect to the model parameters) of the Wang transform and the Black-Scholes-Merton model, and the feasibility of the Wang transform yielding arbitrage-free option prices is discussed.

Price efficiency in Commodities Futures Market – A case study of Gold Futures in India

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Abstract

Commodities play a very important role in the macroeconomic environment of an economy. Futures on commodities are widely traded in global markets and in India, the Indian Government allowed trading in commodity futures in 2003. Among the commodities futures contracts traded in India, Gold accounts for the largest share of contracts. The trading on gold is also concentrated in one Exchange. The price and production behaviour of gold differs from most other commodities. During the recent financial crisis, the gold price increased by 6% while many key mineral prices fell and equities dropped by around 40%. The unique and diverse drivers of gold demand and supply do not correlate highly with changes in other financial assets (WGC, 2009). Efficient price discovery mechanism is an important issue in a competitive market. Price behavior in the physical and financial markets determine how the agents of the market like producers, speculators, financiers and users would behave. If price discovery is inefficient, liquidity becomes the biggest challenge for all. It is generally believed that because of a liberalization policy and the consequent development of underlying markets, the spot and futures markets are well integrated. However, our study does not support this view. Rather, it finds that spot gold market is not at all integrated with the gold futures market. The study finds that London spot market and CME futures have a very strong long-term relationship. We conclude that the pre-requisites, which are required for a long-run relationship are not present in the Indian gold futures market so far.

Analysis of Co-movement for Stock Markets based on a New VAR-MGARCH-BEKK Model with SSAEPD Distribution

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Abstract

Abstract Based on the VAR-MGARCH-BEKK_Normal model, a new VAR-MGARCH-BEKK model with non-Normal marginal errors of SSAEPD is proposed in this paper. Markov Chain Monte Carlo (MCMC) is used for error term simulation. Parameters are estimated by Maximum Likelihood Estimation (MLE) and MatLab. We use our new model to study the return and volatility spillover among Chinese stock market with that of 5 other stock market (Europe, Hong Kong, Japan, Singapore, USA) and empirically test following hypotheses: Can our new model beat the VAR-MGARCH-BEKK_Normal model ? What is the return and volatility spillover for stock markets based on the new VAR-MGARCH-BEKK_SSAEPD Model ? Is it different from VAR-MGARCH-BEKK_Normal ? Empirical results show: 1) Our new model performs better than VAR-MGARCH-BEKK_Normal by AIC, BIC and HQ. 2)We find out our new model can capture the skewness, fat tailness and asymmetric kurtosis of our sample. Europe has uni-direction return and volatility spillover to China; China has uni-directional return and volatility spillover to Japan; USA, Hong Kong and Singapore have bi-directional volatility spillover and unidirectional return spillover to China. The estimate result of VAR-MARCH-BEKK_Normal is quite different.

Modelling the stock Indices of the CIVETS countries using univariate GARCH models

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Abstract

In this paper the GARCH(1,1), GJR-GARCH(1,1) and EGARCH(1,1) models were used to explore the daily closing values for the CIVETS. Return volatility, the persistence there of and the best fitting model for volatility forecasting was determined. The result obtained indicated that the GJR-GARCH model was the best fitting model for the equity Indices of Colombia and Egypt. The EGARCH model was the best fitting model for Indonesia, Turkey and South Africa, whilst the result obtained delivered no clear best fitting model for the Vietnamese VN-Index. In addition, there is evidence of the leverage effect for all the Indices included in this study with the exception of the Vietnamese VN-Index. The presence of leverage effects implies that a negative shock will lead to greater volatility.

Comparative Performance of Banks in India

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Abstract

The objective of this paper is to analyze the performance of banks in India across ownership type and over time. The performance of the public, old private sector banks, new private sector banks and foreign banks in India are compared in several sets. Financial and operational dimensions of performance are considered. Four measures of financial performance i.e., Capital Adequacy Ratio (CAR), Return on Assets (ROA), Net Profit/Loss, and Non-Performing Asset/Loans (NPA/L) percentages are considered. Operational performance of banks is measured by the Variable Returns to Scale (VRS) technical efficiency scores obtained by performing Data Envelopment Analysis (DEA). A rigorous analytical approach was used to select the right model of inputs and outputs for the bank. Several statistical hypotheses are tested using non-parametric methods. The results suggest that the new private sector banks have performed better with regard to operational and financial dimensions. The state-owned public banks have performed worst in terms of asset quality which going forward is a serious concern for them. The foreign banks in India seem to be the most profitable of the four types of banks.

The differences between choice task and matching task in eliciting time preferences

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Abstract

This paper investigates two popular methods of eliciting time preferences: choice task using Multiple Price List (MPL) and matching task. The subjective discount rates (SDR) were collected from the Willingness To Pay (WTP) and Willingness to Receive (WTR) of approx 400 subjects over different time horizons. Using two-group experimental designs, we found that matching yields significantly higher SDRs than choice for both WTR and WTP. These differences are getting smaller with time. We suggest that this premium is a results of the structure differences; the complexity of the matching relative to MPL structure may cause higher SDR compensating for the effort. Moreover, the similarity between matching task and first price auction may results in higher SDR relative to MPL, which is more similar to second price auction.

Geographic Proximity of Institutional Investors and Payout Policy

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Abstract

This paper examines the role of the geographic proximity of institutional investors on corporate dividend policy within the US context. We find that dividend payout is important for non-local institutions, but not for local institutions, and that firms use local institutional ownership as an alternative quality signal rather than costly dividends. Moreover, local and non-local institutions have different preferences for truly-local and geographically-dispersed firms. Overall, non-local institutions invest in higher dividend-paying or geographically-dispersed firms to reduce information asymmetry while local institutions, which have an information advantage in truly local firms, choose dividends as compensation for higher monitoring costs when investing in geographically dispersed firms.

Managing Upside Risk as a Strategy for Value Generation

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Abstract

This article explores the concept of risk in terms of its theory, application, management and value. In particular, the study demonstrates how the management of upside risk can be used to create shareholder value by reducing the discount rate of the valuation flows of the underlying asset. This can be accomplished through the implementation of risk management models. Three models of “real derivatives” are put forward: sales derivatives, cost derivatives, and EBIT derivatives. These real derivatives focus on maximizing asset value through systematic risk (beta) reduction strategies. In summary, the results of this study contradict one of the central principals of modern management, put forward by C. W. Smith in his well-known article, “Corporative risk management”.

Make in India and FDI: Challenges Ahead

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Abstract

Abstract In spite of abandance stock of natural resources, huge source of labour forces and large domestic market India's production is being hampering due to shortage of domestic capital and modern technology. Considering these issues new Prime Minister Narendra Modi launched 'Make in India' on 25th September, 2014 to invite large business houses from around the world to invest and manufacture in India. It is expected that by effective implementation of 'Make in India' slogan utilization in a maximum extent of Indiannatural resources, labour,money and mechinery across the country will be possible. This initiav Tive , in turn, will create huge job for new generation, produce good quality and higher volume of goods and services. As a result, it will boost national economy and transform India as a self-relient country as well as make it a global manufacturing hub. To make the slogan successful Prime Minister made a 9 days foreign tour in France, Germany and Canada in April, 2015 giving special emphasis on 'Make in India' campaign and inviting FDI in India. But it is not an easy task. So many problems exist in India like poor infrastructure, cumbersome land procuring process, excessive regulations, rigid labour law, frequent power cut etc. In addition to that political opposition and non co-operation of State Governments may also create a big hurdle in this initiative. To assess the initiative of 'Make in India' we analysed trends and patterns and patterns of FDI inflows in India, evaluated the impact of FDI on the Indian economy, views of India's industrial captains, response of foreign investors in the initiative. We also analysed the views of critics in this effect and finally tried to point out the challenges to the Central government. Success of 'Make in India' depends upon how Narendra Modi led Central Government will convence and motivate both the opposition parties and opposition led State Governments and create favourable as well as friendly environment for inviting FDI and make India a manufacturing hub.

House Price Dynamics and Bank Herding: European Empirical Evidence

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Abstract

This paper investigates the behavior of residential property and examines the linkages between house price dynamics and bank herding behavior. The analysis presents evidence that irrational behaviour may have played a significant role in several countries, including; United Kingdom, Spain, Denmark, Sweden and Ireland. In addition, we also provide evidence indicative of herding behaviour in the European residential mortgage loan market. Granger Causality tests indicate that non-fundamentally justified prices dynamics contributed to herding by lenders and that this behaviour was a response by the banks as a group to common information on residential property assets. In contrast, in Germany, Portugal and Austria, residential property prices were largely explained by fundamentals. Furthermore, these countries show no evidence of either irrational price bubbles or herd behaviour in the mortgage market. Granger Causality tests indicate that both variables are independent.

The impact of foreign banks on monetary policy transmission: Evidence from the bank-level panel data in Korea

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Abstract

This paper examines the impact of foreign banks on the monetary policy transmission mechanism in the Korean economy during the period from 2000 to 2012, with a specific focus on the lending behavior of banks with different types of ownership. Using the bank-level panel data of the banking system in Korea, we present consistent evidence on the buffering impact that the foreign banks, especially foreign bank branches including U.S. bank branches, on the effectiveness of the monetary policy transmission mechanism in Korea from the bank-lending channel perspective during the global financial crisis of 2008-2009. One of the underlying reasons for the buffering effect by foreign bank branches is the existence of internal capital markets operated by multinational banks to overcome capital market frictions faced when the foreign banks finance their loans.

Determinants of liquidity in nationalised banks of India

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Abstract

The purpose of this paper is to identify the determinants of liquidity among government owned nationalised banks in India. Nationalised banks in India are the biggest group of banks and any issue with nationalised banks can have the potential of affecting liquidity of entire banking system in India. The data covers a period from 1996 to 2012. Results of OLS regression show that the most significant factors influencing liquidity in nationalised banks of India are: call rate, cash reserve ratio and statutory liquidity ratio, gross domestic products, among the macroeconomic factors and capital to total assets and log of total assets for bank specific factors. Others factors have very little influence on liquidity of banks in India. Cash reserve ratio has a positive and expected relationship with liquidity ratios. As such statutory liquidity ratio are not very effective instruments of managing liquidity in nationalised banks of India. Supervision of each bank may become necessary for proper implementation of regulatory measures in India.

The Availability of Household Deposits in the Euro Area vs. Regulatory Approach to Funding Stability of Credit Institutions

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Abstract

Single liquidity regulations of the "CRD IV package" are the results of the last banking crisis, when easy access to vulnerable funds caused serious problems for the Eurozone credit institutions. New standards – LCR and NSFR pay special attention to household deposits, emphasizing their stable nature, both under normal and stress conditions. Their real sensitivity during destabilization, however, turned out to be geographically diversified. This paper concerns the stability of household deposits placed with monetary financial institutions in the years 2006-2012, in 17 Eurozone countries. Its purpose is to identify the determinants of this stability during the last crisis, on the background of new regulations. Moreover, it seeks to assess the geographical differentiation of deposits' sensitivity to economic and financial instability in the Eurozone, thus the availability of the "resistant" ones for local MFIs.

FUND CHARACTERISTICS AND THEIR IMPACTS ON THE PERFORMANCE OF HEDGE FUNDS: AN EMPERICAL EVIDENCE FOR EUROPEAN AND NORTH AMERICAN HEDGE FUND INDUSTRIES

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Abstract

In this paper, we investigate the impacts of fund characteristics on the performance of North American hedge funds (NAHFs) and European hedge funds (EHFs) over a period of 1st January 2001 - 31st December 2013. The study period is divided into two sub-sample periods:(1) non-crisis sub-sample period (1st January 2001- 31st December 2007) and (2) during-crisis and post-crisis sub-sample period (1st January 2008 - 31st December 2013), to measure the impact of the global crisis on the results of our study. Our samples consist of 325 North American hedge funds (NAHFs) and 166 European hedge funds (EHFs), which all survive through the sample period. Using the cross sectional regression method, the omega ratios of hedge funds in each sample are regressed against their fund characteristics for a full sample period and sub-sample periods. Results show evidence of the significant impacts of fund strategies on the performance of both NAHFs and EHFs. More fund characteristics are found to have significant impacts on the performance of NAHFs and EHFs during the non-crisis sub-sample period. As compared to NAHFs, the performance of EHFs is rarely affected by theirs fund characteristics during the crisis- and post-crisis sub-sample period.

MAKE IN INDIA: THE GLOBAL CONTEXT

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Abstract

MAKE IN INDIA: THE GLOBAL CONTEXT ABSTRACT The world is fast changing, with a rebalancing of manufacturing weight across the developed and developing economies. China, with its rising wages and increasing cost of production, is fast losing its cost advantage. Russia too is facing challenges in maintaining its competitiveness, with rising wages, increasing factor costs, and geo-political issues. The US and Mexico, on the other hand, are reclaiming their share of the global manufacturing pie on the back of declining factor costs and rising productivity. India, in this competitive global environment, is starting from a position that is far from advantageous. India’s manufacturing sector, with an I5% share of overall GDP, compares poorly with peers like Malaysia, Thailand and Indonesia. India also suffers from some critical drawbacks like a lack of an enabling infrastructure, poor perception of India in terms of ease of doing business, and a lack of proven ability to compete at a global scale. At the same time India’s long term prospects remain intact, with its core strength of human resource, a strong base of entrepreneurs, and a robust and growing domestic demand. In many ways, therefore, the stage is set for India to transform its manufacturing and seek global leadership. The paper draws heavily from secondary sources of data and is of exploratory in nature.

Inattentional Blindness and Post-Earnings-Announcement-Drift

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Abstract

Recent evidence in Psychology indicates that we are surprisingly unaware of the details of our environment from one view to the next. We often do not detect large changes to objects ('change blindness'). Furthermore, without attention, we may not even perceive objects ('inattentional blindness'). This paper tests the investor inattentional blindness hypothesis, which holds that the arrival of extraneous news causes trading and market prices to react sluggishly to relevant news about a firm. Our test focuses on the competition for professional investors' attention between a firm's with eye-catchy streaming news and with less coverage. We find that a stock's post-earnings-announcement-drift is stronger, when professional investors are in the state of 'inattentional blindness'.

AN APPLICATION OF NON-LINEAR CO-INTEGRATION TEST MODEL TO GOLD INFLATION HEDGING ABILITY

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Abstract

This study aims to analyze the question of how effective gold is as an inflation hedge in both long-term and short-term in Vietnam from a new perspective – non-linear co-integration. The two-stage testing procedure is applied to analyze the inflation hedging ability of gold in Vietnam both in long and short-run with monthly data of gold price from World Gold Council (per ounce denominated in Vietnam Dong) and CPI of Vietnam from International Monetary Fund (IMF) over the period of January 1995 to July 2014 are used for analysis. The results figure out the long-term effective hedging ability but unstable relationship between gold and inflation. To further explore the inflation hedging ability of Gold in short-run, the study uses the non-linear error-correction model (TC-TVECM) to examine the price rigidity in low regime (when variation margin of gold price is lower than that of CPI) and high regime (when variation margin of gold price is higher). It is found that in short-run, gold is partially effective in hedging against inflation. The protection ability is stronger in low momentum than in high momentum. Furthermore, by comparing the results in two countries – Vietnam and Thailand, this research tries to provide a broader view on inflation-hedge of gold across South-east Asian countries.

Analysis the Level of Intra-Industry Trade for ASEAN's Economy

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Abstract

This paper aims to examine and analyse the level of intra-industry trade on economy of ASEAN. These data obtained from the accurate and reliable source of ASEAN Trade Statistics databases. The important of intra-industry and measurement also described. Moreover, the linkage of intra-industry trade and trade and investment liberalization under the ASEAN Economic Community (AEC) also explained. The effective enhancement schemes to increase the competitiveness of specific industries had been proposed to enhance ASEAN to be efficient production hub and network of region that lead to the ultimate goal of single market. The further studies can be applied to construct and estimate the econometric model and forecasting technique to confirm by the empirical results.

Tail dependence between gold and sectorial stocks in China:Insights for portfolio diversification

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This article analyzes dynamics of relationship between gold quoted on the Shanghai Gold Exchange and Chinese sectorial stocks from 2009 to 2015. Using different copulas, our results show that there is weak symmetric tail dependence between gold and sectorial stocks. Based on the efficient frontier, optimal weight, hedge ratio and hedging effectiveness, we find that adding gold to Chinese stock portfolios can help to reduce their risk. Gold appears to be the most efficient with stocks of the Energy, Information, Telecommunication and Materials sectors and the less efficient with the Utilities sector. As a robustness check, gold is compared to oil and the results show that gold is also more efficient than oil in the diversification of Chinese stock portfolios.

The Co-movement of Credit Default Swap Spreads, Stock Market Returns and Volatilities

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Abstract

We study the co-movement of credit and equity markets in four Asia-Pacific countries at firm and index level. First, we establish realized volatility as an important determinant of credit default swap (CDS) spread levels and changes. Second, we examine lead-lag relationships between CDS spreads, volatility, and stock returns using a vector-autoregressive model. At the firm level stock returns lead the other variables. However, at the index level volatility and CDS spreads are equally important. Third, we analyze volatility spillovers using the measures proposed by Diebold and Yilmaz (2014). The results suggest that realized volatility is the main contributor to cross-market volatility spillovers.

Lethal lapses - how a positive interest rate shock might stress German life insurers.

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Abstract

Life insurers typically grant policyholders a surrender option. We demonstrate that the resulting lapse risk could materialise in the form of a ``policyholder run" if interest rates were to increase sharply. An inverse stress test based on a unique set of regulatory panel data suggests that German life insurers have become less resistant to an upward interest rate shock in the course of the financial and sovereign debt crisis from 2007 to 2011. Despite the challenges presented by the low-interest-rate environment, the situation has not deteriorated since then. In light of the quantitative easing (QE) of monetary policy in the euro area, life insurers may find it difficult to continue this positive trend.

How 'International orientation' of Acquirers' Top Management Teams influences their deal payment modes in cross-border M&As?

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Abstract

Abstract Focusing on information asymmetry, prior research has primarily considered the different modes of payment currency in M&As from the perspective of returns to acquirers in domestic contexts. However, virtually no study has considered the decision-making role of top management teams (TMTs) of such firms in making such payment choices. We therefore, explored whether and how TMT 'international orientation' by virtue of their international experience and different nationalities in such teams may(not) influence the preferred mode of payment mitigating information asymmetry under high uncertainties and complexities in deals involving international targets. Further, previous literature has presented contradictory views on the impact of such 'international orientation'. While one view advocated for the benefits of international competences for firms expanding abroad, the other view based on managerial beliefs and biases, documented potentially adverse consequences thereof, presumably due to overconfidence and inefficient decision-making. Integrating widely divergent views from a number of streams of research viz., behavioural corporate finance, upper echelons, etc., we proposed and tested non-linear effects of TMT 'international orientation' on the possibilities of making an appropriate choice of method of payment in cross-border transactions. Analyses of 1,708 international acquisitions completed by 429 UK firms over a period 1999-2008 showed that only the most experienced TMTs and/or executive-teams with greater diverse mix of nationalities are more likely to opt for a suitable payment mode, amidst high environmental uncertainties prevalent in such decisions relating to expansion abroad. Our findings shed new light on when TMT international orientation may (not) effectively alleviate information asymmetry, hitherto not studied.

Contagion in an Economy with Heterogeneous Beliefs

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Abstract

This article examines contagion to the light of the financial crisis of 2007-2009. I adopts here the perspective of emerging markets economies. In line with Gertler and Kiyotaki (2010) and Cogley et al. (2012), I develop a theoretical model where agents in a small economy differ in beliefs about the state of the foreign economy. When the small economy is liquidity constrained and the rest of the world is fully integrated, I find that a bad news about the state of the foreign economy can lead to abrupt changes in agents' beliefs. As a consequence, increases of foreign interest rates and liquidity constraints can be accompanied by huge rises or collapses in the prices of assets. The discrepancy in beliefs thus can exacerbate the distress created by liquidity constraints.

Can Banks Offer Technological Advance with Less Inequality?

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Abstract

This article is devoted to examine the role of financial intermediation on technology adoption and income distribution, from the perspective of developing countries. In line with Krusell (1998), Jovanovic (1998), and Hornstein et al. (2005) we develop a model where technological change is embodied in capital of different vintages. Assuming that workers differ by skills that complement differently with capital, we introduce financial intermediation to challenge previous literature that predicts a permanent trade-off between technological advance and income equality. Among other results, we find allocations where credits can contribute positively to both goals, the promotion of a faster technology adoption that enhances growth and the reduction of income inequality.

IMPACTS OF CHINESE BANK GLOBALIZATION ON THE INTERNATIONAL FINANCIAL SYSTEM

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Abstract

Chinese banks have thus far opted for slow, organic growth in their overseas network expansion rather extensive acquisition of local banks, but their expected impact on international banking practices should be large. International banking practices have been defined partly through organizational isomorphism, partly through hypernorms and local banking cultures, and partly through a legacy of Anglo-American institutional logics. Important institutional and ethical differences exist between incumbent and Chinese banking practices, and these differences arise through development of national banking systems and local culture. These manifest as local variants of banking institutional logics. Chinese international bank expansion carries with it three important differences: Chinese banks' tilt toward relationship banking, the pervasive impact of guanxi in financial contracting, and the fact that internationally-expanding Chinese banks are largely state-owned. Examining the intersection between incumbent and emergent institutional logics helps to predict how Chinese banking may affect international banking ethics and vice versa.

AN INSTITUTIONAL HISTORY OF FINANCIAL RISK: BANKING CLUBS, ACTORS' TACTICS

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Abstract

Avoidance of risk and increasing returns are the two main motivators in finance. Returns are better understood and perhaps more easily regulated than financial risk, which a complex and slippery concept. Financial risk may be best viewed as a complementary good, but the nature of this good varies as the size of the investment position scales up. That is, the effects of financial risk may be conceived of as a private good for a small financial actor, but becomes a club good, then a common pool, and occasionally a public good as the financial risk impact of the investment position spreads to affect more of society. Examining banking history shows us that banks and bankers have offset risk while retaining returns through structuring financial products and investment vehicles as club goods, thereby enabling financial actors to jointly benefit from ownership while harming those outside the club walls. Laying out governance strategies and concepts, I suggest that pervasive club good structures in finance may be employed to gather regulation-enhancing information, to better understand the networked nature of financial risk and to craft self-governance structures.

On the time-varying link between ?finance and growth: A smooth transition approach for Brazil, 1890-2003

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Abstract

This paper revisits growth-fi?nance nexus with a new approach and new data. It applies the smooth transition (LST) model to annual data for Brazil from 1890 to 2003. The main fi?nding is that ?financial development has a time-varying effect on growth, which depends on a time-varying effect of political instability and trade openness as well, with the latter used as the transition variable.

Risk Attribution Analysis on South East Asian Markets

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Abstract

This paper is concentrated on those factors which have significant influence over stock returns on fife South East Asia markets. Quantifying these factors and accounting for their influence lead to the specific stock return which we call “pure return”. This process is called return decomposition or risk attribution and it shows the sources of return/risk to the assets. This information can be very valuable in portfolio construction, because it makes managing expositions more precise and flexible. Better understanding which factors drive stock prices allows asset managers to adjust their investment strategies accordingly and apply more successful risk management. We find that nine macroeconomic factors are significant for the studied markets. Also we quantify the specific risk exposure of the companies of the studied markets.

Bank Ownership, Firm Characteristics, and Banking Relationship in China

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Abstract

Using 8260 matched commercial loan deal terms of listed companies to provider banks over the period 2007-2012, we examine the determinants of the choice of bank-type by listed firms in China in the provision of loans. The empirical results provide evidence that large, old and high quality firms are more likely to engage into foreign banking relationships; while firms have high likelihood to get larger loan size from state-owned banks. As to the “guanxi” tie analysis, state-owned banks are illustrated to be closer to state holding firms in this study; while foreign banks are found to be closer to foreign holding firms, which suggest a complex "guanxi" business relationship in the Chinese banking market. However, the result shows that private holding firms have no special "guanxi" banking relationship. The benefit of a “guanxi” banking relationship is that foreign banks tend to offer larger loans to foreign companies while state-owned banks tend to offer the larger loan size contract to state-owned firms.

Opening the Box on the Stock Selection Skills of US Mutual Funds

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Abstract

This paper uses the hit rate, the percentage of stocks in a fund's portfolio which achieve a return greater than the return of the fund's benchmark index over a specified time horizon, as a proxy for stock selection skill. We find that the average fund in our sample would have achieved a higher hit rate by holding the stocks of the benchmark portfolio, and that many of the active investment decisions made by fund managers actually decrease their realised hit rate. We find that the hit rate is closely related to contemporaneous fund performance, and has some predictive power of future fund performance.

Do Antidumping Measures Affect Chinese Exporting Firms?

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Abstract

We examine how the US and EU antidumping (AD) cases against Chinese firms affected their stock prices and long-term financial performance during 1995–2012, and whether the affected Chinese firms received more or less government subsidies in the subsequent years. Our findings indicate that AD news, especially the final decision on imposing antidumping measures, has significant negative effects on the stock price of relevant Chinese export firms. Besides, little empirical evidence reveals an increase in government subsidies given to AD affected firms after the imposition of AD duties, but we find a decrease in subsidies for non-SOEs.

A Comparison of Investors' and Analysts' Efficiency in Incorporating Accounting Information

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Abstract

In this study, we compare the relative efficiency of investors and sell-side analysts in incorporating various accounting information. Our results indicate that the equity value estimates inferred from the analysts' earnings forecasts are more biased than the stock prices in interpreting stock price momentum, accruals, and past sales growth, while the former is less biased than the latter in interpreting the growth in long-term net operating assets. Combining the evidence, we conclude that sell-side analysts are generally less efficient than investors in incorporating certain accounting information. Thus, sell-side analysts need to mitigate their bias in interpreting certain accounting information to enhance market efficiency by providing investors with a good benchmark for their earnings expectation.

The Merger of Stock Exchanges and Co-movement: The case of NASDAQ and OMX

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Abstract

This paper is among the first to analyze the impact stock exchange mergers and index co-movement. We analyze a group Nordic and Baltic stock Exchanges (Norway, Denmark, Sweden, Finland, Estonia, Latvia and Lithuania) that composed the OMX and was merged with NASDAQ stock exchange. In our analysis, we compare the co-movement between the pairs of index of Nordic and Baltic stock Exchange, and also the co-movement between the indexes of these markets and US indexes such as S&P500 and NASDAQ composite. The motivation is to explore if the merger affect the relationship between any two index inside Nordic and Baltic stock markets, and improve the integration of these indexes with global markets. We use GARCH model to test the heteroskedastic cointegration between these indexes. Our results describes that the co-movement between each pair of indexes in Nordic and Baltic stock markets adjust due to the merger. The result also support that the merger of NASDAQ with OMX induce the level of integration between the Nordic & Baltic stock markets and other stock markets such as USA stock market.

A COMPARATIVE STUDY OF BANK SOUNDNESS METHODS TO MARKET DISCIPLINE AND CORPORATE VALUE

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Abstract

Experience a crisis of 1997-1998 and 2008 showed that the banking crisis is one of the main factors that lead to countries experiencing severe economic contraction. If the banking system in an unhealthy condition, the bank functions as an intermediary institution will not function optimally, the allocation and provision of funds from banks for investing activities and financing productive sectors in the economy will be hampered, traffic payments made through the banking system is not smooth and efficient, and also will hamper the effectiveness of monetary policy. Various problems in the banking crisis, indirectly, have shown a variety of systemic weaknesses that still exist rules of prudence (prudential regulation) that the current banking. In accordance with the Bank's business development is dynamic and increased risk exposure and risk profile, the Bank Rating methodologies need to be improved in order to better reflect the current condition of the Bank and in the future. This is exactly what makes the method CAMELS refined into RBBR method. This study aimed to compare methods of bank soundness, CAMELS and RBBR methods, using Market Discipline and Corporate Value as a performance indicators. In this study analyzed 14 major variables, namely CAR 1, KAP, BOPO, ROE, LDR, BETA (CAMELS); NPL, IRR, PDN, NIM, ROA, CAR 2 (RBBR); ? Deposits and Tobin's Q. The population in this study are all commercial banks registered in Bank Indonesia's directory and listed in Indonesia Stock Exchange (IDX), at four years period time, 2010 until 2013. Sample was selected by using purposive sampling method. The analysis technique used is multiple regression and comparation test. The results of this research showed that the CAR 1, KAP, ROE, LDR (the CAMELS method) and NPL, PDN, ROA, CAR 2 (the RBBR method) are proven to give a significant effect on ?DPK. And, the ratio of BOPO, ROE, BETA (the CAMELS method) and IRR, NIM, ROA (the RBBR method) are proven to give a significant effect on Tobin's Q. In addition, based on means comparation test, this research showed that there is no difference between the variance of the residual value of the two methods CAMELS and RBBR, both the ? DPK and Tobin's Q regression. In the analysis of the model's accuracy in predicting the dependent variable, RBBR more accurate in predicting market discipline (?DPK), and CAMELS method is more accurate in predicting the corporate value (Tobin’s Q).