MAURITIUS

# WORLD FINANCE CONFERENCE

JULY, 25 — 27 · 2018

**E-PROCEEDINGS**

ISBN: 978-989-98816-7-9

UNIVERSITY of TECHNOLOGY, MAURITIUS

## INDEX

# A CSR Asset Pricing Model

Souad Lajili Jarjir
University Paris-Est, IRG, France
souad.lajili-jarjir@u-pec.fr

Aya Nasreddine
EBS Universität, Germany
aya.nasreddine@gmail.com

Marc Desban
University Paris-Est, IRG, France
marc.desban@u-pec.fr

## Abstract

This paper challenges widely used factor models in explaining stock returns in Europe and proposes an innovative corporate social responsibility (CSR) factor model. Our sample covers monthly returns on 18 European stock markets over thirteen years. We observe that less responsible firms have higher risk adjusted returns, on average, than most responsible ones. We reveal a new risk premium associated to extra-financial notation priced by the market. Our parsimonious two-factor model includes both the market and the CSR premia and outperforms existing asset pricing models in describing CSR rated firms' returns. Our model is validated according to the GRS test.

## Some Financial Implications of Global Warming: An Empirical Assessment

Claudio Morana
University DI Minalno Bicocca, Italy
claudio.morana@unimib.it

Giacomo Sbrana
NEOMA Business School, France
giacomo.sbrana@neoma-bs.fr

## Abstract

Concurrent with the rapid development of the market for catastrophe (cat) bonds, a steady decline in their risk premia has been observed. Whether the latter trend is consistent with the evolution of natural disasters risk is an open question. Indeed, a large share of outstanding risk capital in the cat bonds market appears to be exposed to some climate change-related risk as, for instance, hurricane risk, which global warming is expected to enhance. This paper addresses the above issue by assessing the global warming evidence, its implications for the natural environment and the drivers of cat bonds risk premia. We find that radiative forcing, i.e. the net insolation absorbed by the Earth, drives the warming trend in temperature anomalies and the trend evolution of natural phenomena, such as ENSO and Atlantic hurricanes, enhancing their disruptive effects. Hence, in the light of the ongoing contributions of human activity to radiative forcing, i.e., greenhouse gases emissions, natural disasters risk appears to be on a raising trend. Yet, the latter does not appear to have been accurately priced in the cat bonds market so far. In fact, while we find that the falling trend in cat bonds multiples is accounted by the expansionary monetary stance pursued by the Fed, we do also find evidence of significant undervaluation of natural disasters risk.

# The relationship between share repurchases and share-based remuneration for executive directors of JSE-listed companies

Gretha Steenkamp
Stellenbosch University, South Africa
gvn@sun.ac.za

## Abstract

Worldwide, share repurchases (where a company repurchases shares previously issued by themselves) are increasingly used to "create shareholder value" and distribute excess cash to shareholders. The popularity of the phenomenon, as well as the recent recession, has led to questions being asked about the real motivation behind share repurchases, and whether companies should rather be re-investing excess cash in internal growth and innovation, rather than paying it out to shareholders. Although bona fide business reasons for a share repurchase could exist, it can also be used to manipulate both the share price and the earnings per share (EPS) figure. More specifically, in the absence of proper regulation and disclosure, share repurchases could be used by executive directors to increase the value of their share-based remuneration and extract "rents" from the company. The research aim of the PhD is to evaluate the relationship between share repurchases by JSE-listed companies, and the value of share-based remuneration paid to their executive directors. Correlation tests as well as panel regressions will be employed.

## Network Agreements and Firms' Economic Performance

Maurizio Cisi
University of Torino, Italy
maurizio.cisi@unito.it

Francesco Devicienti
University of Torino and Collegio Carlo Alberto, Italy
francesco.devicienti@unito.it

Alessandro Manello
IRCRES-National Council of Research, Italy
alessandro.manello@ircres.it

Davide Vannoni
University of Torino and Collegio Carlo Alberto, Italy
davide.vannoni@unito.it

## Abstract

Using a large sample of Italian small and medium enterprises (SMEs), we investigate the effect of membership in a formal business network ("contratto di rete") on firms' economic performance. We find that network participation has a positive effect on value added and exports, but not on profitability. The advantages of networking are stronger in the case of: smaller SMEs, firms operating in traditional and in more turbulent markets, firms located in less developed areas and firms not already exploiting the weaker ties offered by industrial districts. Network characteristics, such as size, geographical dispersion and diversity, are also found to influence performance.

# Does Regulation Drive Banks to Issue Subordinated Debt?

Leonard Setshegetso
Leeds University Business School, United Kingdom
bnlns@leeds.ac.uk

Kevin Keasey
Leeds University Business School, United Kingdom
kk@lubs.leeds.ac.uk

Francesco Vallascas
Leeds University Business School, United Kingdom
fv@lubs.leeds.ac.uk

## Abstract

Little is known as to why banks issue subordinated debt (sub-debt). Contrasting capital requirement motives with other explanations, and accounting for equity issuance, we find banks issue sub-debt primarily to improve their regulatory capital buffer. While a few non-regulatory factors, related to easier entry conditions to the debt market, influence the issuance decision, their economic impact is normally smaller than the impact of the capital buffer. By exploiting how variation in bank leverage, tail risk and size influences the sub-debt and equity issuance decisions by banks with a low buffer, we show the issuance choices do not reflect risk-shifting incentives.

# Impact of Macroeconomic Variables on Indian Exchange Rate: An Econometric Analysis

Pooja Misra
Birla Institute of Management Technology, India
pooja.misra@bimtech.ac.in

## Abstract

India is the world's seventh largest economy and by 2050 is tipped to be the second largest, behind only to China. Indian exports in September 2017 increased 25.7% in comparison to last year to USD 28.61 billion while imports have also risen 18.1% to USD 37.6 billion. Exchange rate plays a key role in any country's level of trade and has a large impact on world trade and financial flows. A volatile exchange rate gives rise to an uncertain environment for firms that rely on international trade for exports and imports and also influence commodity prices, interest rates and many other variables which can negatively impact the economic fundamentals of a country. Exchange rate variability affects profit levels of companies, financial intermediaries and corporate investors (Kisaka & Mwasaru, 2012). (Mishra & Yadav, 2012), in their research found that factors such as inflation rate, trade balance and money supply influence exchange rate. (Cavallo, 2006) states that appreciation is seen in currencies with rising interest rates and vice versa. (Alam & Ahmad, 2011) found that with an increase in real income demand for imports increased thereby impacting exchange rate. Exports and exchange rate have a negative relationship. The present research study seeks to investigate and analyse the impact of macroeconomic variables such as inflation levels, rate of interest, foreign institutional investment, exports, imports, prices of crude oil and gold, IIP (Index of Industrial Production), foreign exchange reserves and money supply on the USD-INR exchange rate based on monthly data from April 1999- March 2017. The study also seeks to determine the relationship between the independent variables and the dependent variable ie Exchange Rate in the short run and long run based on the Johansen Cointegration test and Vector Error Correction model. It also determines the causal relationship between the independent and dependent variables through the Granger Causality test.

# Portfolio Liquidation and Security Design with Private Information

David Frankel
Melbourne Business School, Australia
d.frankel@mbs.edu

Peter DeMarzo
Stanford Graduate School of Business, United States
pdemarzo@stanford.edu

Yu Jin
Shanghai University of Finance and Economics, China
yjin.sufe@gmail.com

## Abstract

An issuer seeks to liquidate all or part of a portfolio of heterogeneous assets about which she has private information. In contrast with the single-asset case, greater optimism may lead her to sell more of a given asset. But if assets can be ranked by their informational sensitivity then the issuer first liquidates her least sensitive assets, which, under weak assumptions, are her more senior assets (following Myers's pecking order hypothesis). When the issuer can design new securities after learning her information then she has two equivalent, optimal strategies. She may design and sell, ex post, a single standard debt security whose face value is decreasing in her information. Or she may pool and tranche her assets ex ante into many prioritized debt securities and sell, ex post, those tranches whose seniority exceeds a threshold that is increasing in her information. In each case, the issuer retains more of her cash flow when information asymmetries are greater, as has been found in the case of no-documentation loans.

# Strategic fire-sales and price-mediated contagion in the banking system

Yann Braouezec
IESEG School of Management, France
y.braouezec@ieseg.fr

Lakshithe Wagalath
IESEG School of Management, France
l.wagalath@ieseg.fr

## Abstract

We consider a price-mediated contagion framework in which each bank, after an exogenous shock, may have to sell assets in order to comply with regulatory constraints. Interaction between banks takes place only through price impact. We first characterize the equilibrium of the strategic fire sales problem and define measures of contagion. We then calibrate our model to publicly-available data -- the US banks that were part of the 2015 regulatory stress-tests -- and quantify contagion effects. We finally show how our framework may be used to draw regulatory measures such as the systemic risk capital surcharge for large banks.

# Prediction Markets and Polls as Forecasts

Leighton Vaughan Williams
Nottingham Trent University, United Kingdom
leighton.vaughan-williams@ntu.ac.uk

## Abstract

Forecasting election outcomes is a hugely popular activity, and not without reason: outcomes can have significant economic impacts, for example on stock prices. As such, it is economically important, as well as of academic interest, to determine the forecasting methods that have proven more accurate, historically. In this paper we evaluate the performance of prediction markets and opinion polls for US elections between 2008 and 2012. We compare along three dimensions: bias, accuracy and precision. We find that converted opinion polls perform well in terms of bias, and prediction markets on accuracy.

# A Synthetic Indicator of Corruption for Latin America: a global vision

Gilberto Cardenas
Universidad Autonoma de Madrid, Spain
gilberto.cardenas@uam.es

Sofía García
Universidad Autonoma de Madrid, Spain
sofia.garcia@uam.es

Alvaro Salas
Universidad Autonoma de Madrid, Spain
alvaro.salas@uam.es

## Abstract

Abstract Purpose: The purpose of this paper is to develop an overview of the phenomenon of corruption in Latin America and to propose a synthetic aggregate indicator to compress most of the statistical information available on corruption for Latin American countries. Methodology: The indicator of corruption was obtained through factor analysis, applying the principal components methodology. Findings: The authors have managed to obtain a single component that reproduces and synthesizes 86% of all the information about corruption in Latin America gathered by prestigious institutions. Originality/Value: The creation of a new indicator that gathers methodologies to measure corruption in Latin American countries.

# Modeling contaminated financial time series

Tomas Cipra
Charles University (Prague), Czech Republic
cipra@karlin.mff.cuni.cz

Radek Hendrych
Charles University (Prague), Czech Republic
hendrych@karlin.mff.cuni.cz

## Abstract

The robust recursive algorithm for the parameter estimation and the volatility prediction in GARCH models is suggested. It seems to be useful for various financial time series, in particular for (high frequency) log returns contaminated by additive outliers. The proposed procedure can be effective in the risk control and regulation when the prediction of volatility is the main concern since it is capable to distinguish and correct outlaid bursts of volatility. This conclusion is demonstrated by simulations and real data examples presented in the paper. The research was supported by the grant P402/12/G097.

# Hedging against Price Bubbles through Options with Volatility Regime-Switching Risk in the Brazilian Real Estate Market (2008-2015)

Marcelo Zeuli
Brazilian Central Bank, Brazil
marcelo.zeuli@bcb.gov.br

André Carvalhal
BNDES, Brazil
carvalhal@bndes.gov.br

## Abstract

We consider the real estate market a qualified candidate for financial crises source. Concerning the Brazilian scenario, confirming or not a real estate bubble hypothesis (from 2008 to 2015), we propose that mitigation efforts can be more effective with the development of abandon options that may hedge against real estate assets devaluations. The main contribution and innovation is the simulation of real options with regime-switching volatility hedging against real estate price downfalls, based on monthly returns of the FIPE-ZAP real estate index.

# Reverse convertible debt under credit risk

Rossella Agliardi
University of Bologna, Italy
rossella.agliardi@unibo.it

## Abstract

A new pricing formula for reverse convertible debt is found that properly accounts for the embedded credit risk. An analysis of the conversion and default thresholds is performed. This approach also suggests some possible explanations of the reverse convertible overpricing that is documented in the empirical literature.

# Modelling of Implied Volatility Surfaces of Nifty Index Options

Mihir Dash
Alliance University, India
mihirda@rediffmail.com

## Abstract

The implied volatility of an option contract is the value of the volatility of the underlying instrument which equates the theoretical option value from an option pricing model (typically, the Black–Scholes-Merton model) to the current market price of the option. The concept of implied volatility has gained in importance over historical volatility as a forward-looking measure, reflecting expectations of volatility (Dumas et al, 1998). Several studies have shown that the volatilities implied by observed market prices exhibit a pattern very different from that assumed by the Black-Scholes-Merton model, varying with strike price and time to expiration. This variation of implied volatilities across strike price and time to expiration is referred to as the volatility surface. Empirically, volatility surfaces for global indices have been characterized by the volatility skew. For a given expiration date, options far out of the money are found to have higher implied volatility than those with an exercise price at the money. For short-dated expirations, the cross-section of implied volatilities as a function of strike is roughly V-shaped, but has a rounded vertex and is slightly tilted. Generally this V-shape softens and becomes flatter for longer dated expirations, but the vertex itself may rise or fall depending on whether the term structure of at-the-money volatility is upward or downward sloping. The objective of this study is to model the implied volatility surfaces of index options on the National Stock Exchange (NSE), India. The study employs the parametric models presented in Dumas et al (1998), Pena et al (1999), and several subsequent studies to model the volatility surfaces across moneyness and time to expiration. The present study contributes to the literature by studying the nature of the stationary point of the implied volatility surface, and by separating the in-the-money and out-of-the-money components of the implied volatility surface. The results of the study suggest that an important difference between the implied volatility surface of index call and put options: the implied volatility surface of index call options was found to have a minimum point, while that of index put options was found to have a saddlepoint. The results of the study also indicate the presence of a "volatility smile" across strike prices, with a minimum point in the range of 2.3% - 9.0% in-the-money for index call options and of 10.7% - 29.3% in-the-money for index put options; further, there was a jump in implied volatility in the transition from out-of-the-moneyness to in-the-moneyness, by 10.0% for index call options and about 1.9% for index put options.

# Are foreign banks better at measuring and managing risks? Evidence from European credit markets

Carlo Milani
BEM Research, Italy
c.milani@bemresearch.it

## Abstract

Are foreign banks subjected to adverse selection in a highly integrated banking market? Recent evidence from the European Banking Authority (EBA) given after EU-wide stress testing suggests that they do not. I find that foreign banks seem to be better at managing credit risks, thanks to more sophisticated quantitative risk techniques, lower susceptibility to political pressures, better corporate governance and the possibility to export more stringent financial regulations. Moreover, I find that the advantages of banking integration are greater in banking markets in which the degree of competition is low and there are better institutional characteristics.

## Why do individuals not participate in the stock market?

Stephen Brown
NYU and Monash University, United States
sbrown@stern.nyu.edu; stephen.brown@monash.edu

Chris Veld
Monash University, Australia
chris.veld@monash.edu

Yulia Veld-Merkoulova
Monash University, Australia
yulia.veld-merkoulova@monash.edu

### Abstract

Using a representative survey panel, we show that individual-level expectations of the equity risk premium are related to stock market participation decisions. We define the Perceived Equity Risk Premium (PERP) as the difference between the individual's expected stock market return and her personal opportunity cost of capital, and find that the PERP is positively related to stock market participation. Although 66% of the non-investors assert that they will never invest in stocks, this attitude is less likely for individuals who expect higher benefits from investing, as measured by the PERP, and/or who have a lower level of inertia.

# Technology and Financial Inclusion: Cross-Sectional Evidence

Ashenafi Fanta
University of Stellenbosch, South Africa
Ashenafi.Fanta@usb.ac.za

Daniel Makina
University of South Africa, South Africa
makind@unisa.ac.za

## Abstract

The paper investigates the relationship between financial inclusion and technology. It examines whether technological developments in ICT are contributing to wider access to and usage of financial services. Proxies for technology utilised are internet access, mobile phone usage and telephone density. Using cross-sectional data of 168 countries, we report that there is significant positive relationship between financial inclusion and technology (internet access and ATM). Thus, technology is seen to be fostering both access and usage of financial services.

## Bond Market Factor Strategy for Tactical Asset Allocation

Andreas Thomann
University of Zurich, Switzerland
andreas.thomann@business.uzh.ch

## Abstract

This paper tests four individual factor investment strategies and one overall bond market factor strategy for the major sovereign bond markets and the world as a whole. The factor strategy can be used as a tool for guiding and framing the debate on duration. On top, the output of our bond market factors can be used to guide the tactical interest rate market views, as well as cross-market calls. Creating an overall factor based on equally-weighted individual factors, we are able to outperform the static buy-and-hold strategy in terms of Sharpe ratio, annualized return and maximum drawdown.

# Do Individual Behavioral Biases Affect Financial Markets and the Macroeconomy?

Harjoat Bhamra
Imperial College Business School, United Kingdom
h.bhamra@imperial.ac.uk

Raman Uppal
EDHEC, United Kingdom
ruppal@edhec.edu

## Abstract

A common criticism of behavioral economics is that it has not shown that the psy- chological biases of individual investors lead to aggregate long-run effects on both asset prices and macroeconomic quantities. Our objective is to address this criticism by providing a simple example of a production economy where individual portfolio biases cancel when summed across investors, but still have an effect on aggregate quantities that does not vanish in the long-run. Specifically, we solve in closed form a model of a stochastic general-equilibrium production economy with a large number of heteroge- neous firms and investors. Investors in our model are averse to ambiguity and so hold portfolios biased toward familiar assets. We specify this bias to be unsystematic so it cancels out when aggregated across investors. However, because of holding underdiver- sified portfolios, investors bear more risk than necessary, which distorts the consumption of all investors in the same direction. Hence, distortions in consumption do not cancel out in the aggregate and therefore increase the price of risk and distort aggregate investment and growth. The increased risk from holding biased portfolios, which increases the demand for the risk-free asset, leading to a higher equity risk premium and a lower risk-free rate that match the values observed empirically. Furthermore, all investors survive in the long-run, and so the effects of their biases never vanish. Our analysis illustrates that idiosyncratic behavioral biases can have long-run distortionary effects on both financial markets and the macroeconomy.

# Affiliated Block Shareholders and Analyst Optimism

Shi Li
Xiamen National Accounting Institute, China
lishi@xnai.edu.cn

Chaopeng Wu
Xiamen University, China
wuchaopeng@xmu.edu.cn

Shijie Yang
University of Hong Kong, China
yangshijie@hku.hk

Chinman Chui
Xiamen University, China
cmchui@xmu.edu.cn

## Abstract

We utilize two unique features of brokerage-firms in China to investigate several previously unstudied conflicts of interest which may result in analyst optimism, namely, the dominant ownership of large shareholders within the brokerage firms and the mandated disclosure of brokerage firms' commission income derived from each mutual fund client. We show that controlling shareholder of an analyst's brokerage-firm put pressure on the analyst to report more optimistically biased earnings forecasts and recommendations to the stocks they hold larger positions in. We also find that the magnitude of analyst's optimism increase with the shareholdings of the mutual funds who contribute commission fees to the analysts' brokerage firm. These findings remain robust after incorporating firm-fixed effect or using instrumental variable regressions, and thus are unlikely to be driven by omitted variables, or reverse causality.

# Public sector size and local asset prices: Evidence from China

Zhengyi Zhou
Shanghai University of Finance and Economics, China
zhou.zhengyi@mail.sufe.edu.cn

## Abstract

Using data from the Chinese stock market during 2007-2017, this paper studies the asset pricing implication of the size of public sector. We find that public sector size negatively predicts local stock returns. A long-short strategy based on the differences in the size of local public sector generates an annual abnormal return of 4.8%. We demonstrate that a large public sector is associated with inferior local stock performance because it reduces the growth potential of local firms. In provinces with a large public sector, too much government budget is used for its routine operation, resulting in insufficient productive public expenditure. This curbs firm growth potential.

# Japanese Exchange Rate Policy and the Hollowing-out of Japanese Industry.

Ansgar Belke
University of Duisburg-Essen, Germany
ansgar.belke@uni-due.de

Ulrich Volz
SOAS University of London & FFJ-EHESS Paris, United Kingdom
Ulrich.Volz@die-gdi.de

## Abstract

Since the demise of the Bretton Woods, the yen has seen several episodes of strong appreciation, including in the late 1970s, after the 1985 Plaza Agreement, the early and late 1990s and after 2008. These appreciations have not only been associated with “expensive yen recessions” resulting from negative effects on exports, since the late 1980s the strong yen has also raised concern about a de-industrialisation of the Japanese economy. Against this backdrop, the paper aims to investigate the effects of the yen exchange rate on the hollowing out of the Japanese industrial sector. To this end, the paper gauges the effects of yen fluctuations on the output and exports of different Japanese industries, using new data for industry?specific real effective exchange rates and taking account also of real and monetary variables.

# Expected Stock Returns

Gonzalo Rubio
University CEU Cardenal Herrera, Spain
gonzalo.rubio@uch.ceu.es

Ana Gonzalez-Urteaga
University Publica Navarra, Spain
ana.gonzalezu@unavarra.es

Belen Nieto
University of Alicante, Spain
belen.nieto@ua.es

## Abstract

Contrary to the standard practice of using past average realized returns when testing asset pricing models, this paper analyzes the factor structure and the cross-sectional variability of expected returns. We show that the first two principal components explain 99.6% of the variability of (lower bound) expected returns. Quality, funding illiquidity, the default premium and the market-wide variance risk premium explain most of the time-varying behavior of the first principal component. A multi-factor model with the market, and the four aggregate factors that explain the first principal component significantly explains the cross-sectional variability of (lower bound) expected excess returns. The cross-sectional R-squares proposed by Kan, Robotti, and Shanken (2013) for the principal component and the multifactor models are 52% and 84%, respectively. Both measures of fit are (asymptotically) different from zero.

# What drives updates of inflation expectations? A Bayesian VAR analysis for the G-7 countries

Ansgar Belke
University of Duisburg-Essen, Germany
ansgar.belke@uni-due.de

Joscha Beckmann
Kiel Institute for the World Economy, Germany
joscha.beckmann@ifw-kiel.de

Irina Dubova
Ruhr University of Bochum, Germany
irina.dubova@uni-due.de

## Abstract

Inflation expectations play a crucial role for monetary policy transmission, having become even more important since the emergence of unconventional monetary policy. Based on survey data provided by Consensus Economics, we assess determinants of professional inflation expectations for the G7 economies. We emphasize the role of international spillovers in inflation expectations stemming from monetary policy decisions in the US. We also consider several possible determinants, such as changes in the path of monetary policy, oil price shocks and uncertainty measures. Based on a Bayesian VAR, we find significant evidence for international spillovers stemming from expectations about US monetary policy based on impulse-response functions and forecast error decompositions. We also provide similar evidence on spillovers from the dispersion across inflation forecasts.

# Mean Reversion of Australian Superannuation Funds Investment Options

Emawtee Bissoondoyal-Bheenick
Monash Universoty, Australia
banita.bissoondoyal-bheenick@monash.edu

Robert Brooks
Monash University, Australia
robert.brooks@monash.edu

Warren McKeown
University of Melbourne, Australia
wmckeown@unimelb.edu.au

Xibin Zhang
Monash university, Australia
xibin.zhang@monash.edu

## Abstract

The objective of this study is to assess the long term returns of Australian superannuation funds investment options. We investigate the relationship between investment options and investment horizons and over what horizon mean reversion of superfunds returns occurs, using monthly data from Morningstar Direct for a period of 27 years from January 1990 to December 2016. We find that holding investment in risky asset classes that is the aggressive and growth investment options, outperform the balanced and conservative options. Further, it takes on average a period of 10 years to have a mean reversion for the aggressive and growth options which have been subject to a prior loss. In particular, over the short term we have mean aversion but over the longer time frame we do have a mean reversion pattern for the risky investment options. In the crisis periods, the pattern in the returns seem to be persistent, that is we have a mean aversion over the short term period.

# Chief Financial Officers, Resilience and Earnings Management

Chris Florackis
University of Liverpool,
florakis@liverpool.ac.uk

Sushil Sainani
University of Liverpool, United Kingdom
sainani@liv.ac.uk

## Abstract

This paper investigates how and to what extent do Chief Financial O cers (CFOs) a ect earnings management. We introduce an index that captures CFOs' ability and incentives to in uence rms' accounting practices. We nd a negative association between the CFO index and discretionary accruals, which suggests that rms with strong CFOs (i.e. higher values of CFO index) are less likely to engage in accrual earnings management. This relation is robust to the inclusion of rm-, CEO- and governance-level controls, including xed e ects and to various approaches used to address potential endogeneity. The negative e ect of strong CFOs on accruals seems to persist even in rms where CEOs have higher equity incentives and more power to engage in opportunistic earnings management. This suggests that CFOs may play an important monitoring role in the governance process. We also demonstrate that when rms are nancially constrained, strong CFOs may (strategically) use discretionary accruals to facilitate its nancing activities, but not when they are more likely to have per- sonal nancial gains from doing so.

# A Re-evaluation of the Solvency II Calibration for Property Risk

Liliana Arias
EDHEC Business School, France
liliana.arias@edhec.edu

Philippe Foulquier
EDHEC Business School, France
philippe.foulquier@edhec.edu

Tristan-Pierre Maury
EDHEC Business School, France
tristan.maury@edhec.edu

## Abstract

This paper proposes a new statistical methodology to reassess the solvency capital requirement (SCR) for real estate investments and the correlation coefficients between real estate and other financial risks (equities, interest rates and spreads) in the Solvency 2 standard formula. We suggest a new framework to analyse the degree of synchronization between the real estate and the financial cycles. A natural approach to model real estate and stock returns features (auto and cross-correlations, non-linearity) is the famous regime switching model introduced by Hamilton (1989). We extend this seminal setup and propose a new multivariate framework combining autoregressive dynamics and regime switching to control for the nature of dependence between property risks and financial risks. Our results show that the European real estate cycle is neither synchronized with stocks, interest rate cycle nor spreads. Furthermore, correlations between the European real estate returns and other financial variables in the downside state are significantly lower than those defined in the Solvency 2 market risk correlation matrix.

# Initial public offerings, subscription precommitments and venture capital participation

Hans Jeppsson
University of Gothenburg, Sweden
hans.jeppsson@handels.gu.se

## Abstract

Past empirical research has shown that subscription precommitments by large blockholders can help certify firm value in new equity issues and influence the subscription decisions of small, relatively uninformed investors. This paper examines the role of insider participation by venture capitalists in initial public offerings and the association with price revisions during the bookbuilding period, IPO underpricing, the likelihood of completing the IPO, and aftermarket performance. Using a hand-collected sample of 311 US venture-backed firms going public during 2003-2016 and controlling for endogeneity in the choice to participate in the IPO, this study finds support for the certification role by venture capitalists. Insider participation in the S-1 filing is associated with smaller offer price revisions, shorter duration to the IPO, positively associated with the offering being completed and better long-run aftermarket performance. Furthermore, the results indicate that insider participation is mediated through offer price revisions, which in turn is associated with IPO underpricing. Overall, the results are robust in both two-stage least squares (2SLS) models and simultaneous equation (SE) models. This paper provides a first step in understanding the complex role of venture capitalists in the initial public offering process and contrasts past research considering IPOs as exit events.

# De Ja Vu: Volatility, Uncertainty, Complexity, and Ambiguity in Stock Markets

Viktoria Dalko
Hult International Business School, United States
viktoria.dalko@faculty.hult.edu

Michael Wang
Research Institute of Comprehensive Economics, United States
hwang@rice-institute.org

## Abstract

The analysis of risk in financial markets has been featured through a long literary history. Because risk is so central in our analysis of financial markets, over time, several concepts have been developed; for instance, uncertainty and volatility. As a result, practitioners and academics use them in such a way that the same terminologies sometimes do not exhibit the same meanings, which complicates communication. We would like to propose to start a collective effort among academics and practitioners to create a taxonomy of the different faces of risk that represent different underlying mechanisms and different possible risk management responses. The semantics we bring to the conversation include the modified version of a set of related concepts from modern strategic warfare, incorporating Volatility, Uncertainty, Complexity, and Ambiguity (VUCA). We invite thoughts, comments, and contributions to be shared within an open debate regarding a better way to recognize the multi-dimensional nature of risk in modern financial markets.

# Earnings Informativeness, Trading Frequency and Synchronicity: Evidence from African Markets

Edward Jones
Heriot-Watt University, United Kingdom
e.jones@hw.ac.uk

Anthony Kyiu
Heriot-Watt University, United Kingdom
akk1@hw.ac.uk

Hao Li
Heriot-Watt University, United Kingdom
hao.li@hw.ac.uk

## Abstract

Previous studies indicate that developing and emerging markets are priced more with regard to market movements than company fundamentals, a phenomenon known as synchronicity. We investigate the informativeness of earnings announcements in a set of African stock markets and examine whether, conditional on the general level of synchronicity and the liquidity of stocks, market reactions are influenced by earnings characteristics. Our preferred measure, normalised volatility, indicates that earnings announcements are informative across the sample. The results are strongly driven by less frequently traded stocks and informativeness manifests more clearly at announcement and in the post-announcement window. There is little evidence of leakage. Yet informativeness is present for the more highly traded stocks, most notably in the post-announcement window. Cross-sectional tests provide evidence of both earnings fundamentals and behavioural effects on stock returns around earnings announcements.

# The Sustainability Footprint of Institutional Investors

Philipp Krueger
University of Geneva & SFI, Switzerland
philipp.krueger@unige.ch

Rajna Gibson Brandon
University of Geneva & SFI, Switzerland
rajna.gibson@unige.ch

## Abstract

Little is known about the environmental and social (or sustainability) preferences of 13F institutional investors. In this paper, we propose a novel measure to quantify the portfolio-level sustainability of institutional investors. We show that portfolios of institutions with longer investment horizons exhibit higher sustainability and that risk-adjusted performance is positively related to sustainability, primarily through a reduction of portfolio risk. Using exogenous shocks to investor sustainability induced by natural disasters we provide evidence of a causal impact of sustainability on risk-adjusted performance. An instrumental variable strategy using geographic variation in constituency statutes further supports a causal interpretation of our results.

## The Relationship Between Corporate Boards Diversity and Non-Financial Disclosure: The Case of Companies Listed on the WSE

Dorota Dobija
Kozminski University, Poland
dobija@kozminski.edu.pl

Joanna Krasodomska
Cracow University of Economics, Poland
joanna.krasodomska@uek.krakow.pl

Karolina Skorulska
Kozminski University, Poland
k.skorulska@kozminski.edu.pl

Justyna Dyduch
AGH University of Science and Technology, Poland
jdyduch@zarz.agh.edu.pl

### Abstract

Research Question/Issue: This paper investigates the relationship between the internal governance structure and non-financial disclosure of Polish companies. Ensuring the diversity of corporate boards has been on the agenda of various regulators nationally and internationally, as it is generally expected corporate boards that are more diverse will be more competent and more effective in monitoring managerial actions, and therefore will positively impact the quality of non-financial disclosures. Methodology: We examine the reports of a sample of 100 companies listed on the Warsaw Stock Exchange in 2014 to evaluate their non-financial disclosures using a disclosure index. We use linear regression to measure the impact of board composition on corporate non-financial reporting practices, and adopt a two-stage regression methodology to deal with the problem of endogeneity, whereby similar economic characteristics determine both voluntary disclosure and board composition. Research Findings/Insights: The results confirm that board characteristics have an important influence on non-financial reporting. Our results suggest board composition has an impact on non-financial disclosures. Independent members and female members on boards positively impact non-financial reporting. However, this is not necessarily the case when experts with accounting and finance experience and experts with international experience sit on the board. Theoretical/Academic Implications: Our findings support theoretical assumptions that board diversity helps to monitor management's actions, even with respect to non-financial performance. Practitioner/Policy Implications: This study makes its core contribution by empirically showing that the diversity of boards has implications for non-financial disclosures. This evidence may be helpful in providing a basis for regulatory interventions aiming to influence the structure of boards of directors. The results may be potentially helpful for supervisory bodies as well as regulators as they provide an insight on how to help companies pursue their non-financial reporting agenda.

# The U.S. Q.E. policy and its spillover effects on Fragile Five

Bum Kim
Far East University, South Korea
pioneer114@naver.com

## Abstract

This paper analyzes the impact of the U.S. monetary policy such as quantitative Easing and tapering on the stock markets of Fragile Five– Turkey, South Africa, India, Indonesia, and Brazil. These five countries are called as Fragile because they are heavily dependent on inflows of foreign capitals, with weak economic fundamentals, suggesting that these countries are more likely to be subject to whims of the U.S. Federal Reserve's monetary policy. The full sample period is from November 25, 2008 in which the first quantitative easing (QE 1) implemented by the U.S. Federal Reserve to November 24, 2017. To test the effects of the U.S. accommodative monetary policies on Fragile Five, the sample is divided into two subsamples before and after the brief allusion of tapering, on May 22, 2013, by former Fed chairman, Ben Bernanke. While most of studies examining co-movements across the countries use market indexes, this paper chooses exchange traded funds (ETFs) – SPDR S&P 500 (US), Dow Jones Istanbul 20 ETF (Turkey), Satrix 40 (South Africa), Kotak Sensen ETF (India), Premier ETF LQ-45 (Indonesia), and iShares Ibovespa (Brazil). This study shows the U.S. stock market is co-integrated, to some extent, with Fragile Five. With respect to the return and volatility spillover effects, the volatility spillover effects are strong, in most cases, from the U.S. to Fragile Five, but those effects from Fragile Five to the U.S. are shown to be weak. After tapering hint, the return spillover effects between the U.S. to Indonesia, Brazil are not statistically significant. In addition, before tapering mention, the volatility spillover effects between the U.S. and Turkey are strong, while, after tapering talk, those effects get weak. In the case of U.S. and South Africa, the return and volatility spillover effects are found to be statistically strong.

# Understanding the greenium in a capital structure model

Elettra Agliardi
University of Bologna, Italy
elettra.agliardi@unibo.it

Rossella Agliardi
University of Bologna , Italy
rossella.agliardi@unibo.it

## Abstract

This paper contributes to the growing literature on impact investing, that is the new set of financial instruments that aim to generate ? environmental impact alongside financial return? (Global Impact Investing Network, 2018). In fact, corporate green bonds contribute to both environmental and financial performance. A structural model for green bond is introduced here in order to explain the formation of green bond prices and to address the issue of the so called ?greenium?. Despite the rapid growth and evolution of the green bond market, a theoretical model for these financial instruments is still lacking. Our paper is the first, to our knowledge, to take an analytical approach in this field. By adapting the structural modeling of corporate bonds we are able to provide some analytical formulas and to investigate the role of several relevant factors for the green bond dynamics. In particular, we provide a (partial) answer to several questions. What are the determinants of the green bond value? Do green bonds enhance the credit quality of the issuer? How can policy makers attract bondholders towards green investments? Are green bonds a relatively cheap tool to fund sustainable investments? Our paper has addressed these questions, but as the market for green bonds is still developing, further evidence is needed to expand the model and draw more consistent conclusions.

# Liquidity Premium and Buyback Auctions in Domestic Brazilian Government Bonds

Gyorgy Varga
FCE - Brazil, Brazil
varga@fce.com.br

## Abstract

This article investigates the return differential between liquid and illiquid Brazilian Government bonds, to find out if there is a liquidity premium among this asset like the evidence for the United States. We also investigate the effect of the Brazilian Treasury buyback auctions on the liquidity premium and the market impact cost by the Treasury. The result does not show positive or negative significant premium even when the bonds object of the buyback where excluded.

# Association Among Stock Market Returns

Mohammed Nishat
Institute of Business Administration (IBA), Pakistan
mnishat@iba.edu.pk

Fahad Malik
Monash University, Australia, Australia

## Abstract

The paper investigates association between Stock Markets of six different economies of the world. A daily return data has been evaluated to measure the structural breaks in the market. Assessing volatility clustering, heteroskedastic Markov switching model is employed such that both mean and variance depends upon unobserved state. The smooth probability plot confirmed that low volatility period usually outlived the high volatility period. The co-movement among stocks returns is evaluated using concordance correlation coefficient. The model managed to capture volatility shock of the returns, the plots of smoothed probabilities confirmed that high variance period usually short lived whereas low volatility period is relatively stable.

# An alternative method to reduce VAT fraud for small businesses in South Africa : a comparative study

Kgabo Freddy Masehela
University of Johannesburg, South Africa
fmasehela@uj.ac.za

## Abstract

An alternative method to reduce VAT fraud for small businesses in South Africa: a comparative study K.F. Masehela ABSTRACT Over two decades South Africa (SA) has built a progressive tax system on the principles of equity, efficiency, simplicity, transparency and certainty. Growing expectations have created financial stress for the governments, and therefore Value-Added Tax (VAT) system was promoted as an alternative to General Sales Tax system (GST) to address the challenges or problems that the GST system had. VAT is one of the largest contributors of revenue collection in SA during the past five years (2012 – 2016). Besides, governments around the world have adopted a large variety of measures that aimed at combating tax fraud and encouraging VAT compliance, however the tax frauds still exist. This paper proposes a model of linking the input VAT claimed taxes with the VAT output charged taxes, this could reduce VAT fraud, specifically when looking into small businesses in SA. Unique to small businesses, VAT fraud is taking place for a number of reasons, for example cash flow problems and most of these businesses cannot afford accountants and auditors to prepare their books for internal control purposes. If the model is successful, it could potentially improve tax revenues injected back into the country and significantly benefit SA society at large.

# A Dividend-Based Factor Model to Explain the Cross Section of Equity Returns for Financial and Non-Financial Stocks

James Foye
University of Ljubljana, Slovenia
james.foye@ef.uni-lj.si

Aljoša Valentin?i?
University of Ljubljana, Slovenia
aljosa.valentincic@ef.uni-lj.si

## Abstract

We propose an alternative factor model of expected returns that can be applied to financial and non-financial firms. The need arises from differences in interpretation of factors for the two set of firms, particularly the HML factor. We replace the HML factor with a dividend yield- or dividend payout-based factor obviating the need to remove financial firms. We base our analyses on the UK market in the period 1989-2015 because a large proportion of firms pay out dividends. We find that: i) replacing HML with a PMR factor (payers-minus-retainers) produces equivalent results for nonfinancial firms; ii) the PMR factor is able to explain returns for portfolios of non-financial as well as of financial firms' stocks; iii) the model can be used to combine financial and non-financial firms in one sample in analyses that require the calculation of expected returns such as in mutual fund performance evaluations.

# Portfolio Theory of Three Tales: Risk-adjusted Returns, Liquidity, and Leverage

Chanaka Edirisinghe
Rensselaer Polytechnic Institute, United States
edirin@rpi.edu

Jingnan Chen
Singapore University of Technology and Design, Singapore
jingnan_chen@sutd.edu.sg

Jaehwan Jeong
Radford University, United States
jjeong5@radford.edu

## Abstract

When leveraged portfolio positions are formed under conditions of illiquidity, especially during significant market swings, increased market impact on prices is inevitable in practice. We study the Pareto-efficiency between risk-adjusted returns and leverage level of a portfolio when asset prices evolve continuously under liquidity impact. We show analytically the Sharpe-maximizing unlevered portfolio is no longer a tangency portfolio (representing SML), and proportionate-leveraging is not an optimal strategy under liquidity risk. At higher target return, a feasible portfolio under market impact exists only when leverage meets a minimum threshold that grows at an increasing-rate with target mean. Moreover, Sharpe-Leverage frontiers are dominated as target mean increases. These results are in contrast to the classical portfolio theory that assumes no liquidity risk. We perform empirical analysis to verify our analytical findings, which shows that ignoring liquidity impact can lead to severe portfolio under-performance, thus, providing corroborating ex-ante evidence for liquidity risk premia that amplify under portfolio leveraging.

## Initial Public Offerings on the UK when-issued market

Arif Khurshed
University of Manchester, United Kingdom
Arif.khurshed@manchester.ac.uk

Dimitris Kostas
Ford Motors (UK), United Kingdom
Dimitris.Kostas.82@gmail.com

Abdulkadir Mohamed
Cranfield University, United Kingdom
Abdulkadir.Mohamed@cranfield.ac.uk

Brahim Saadouni
University of Manchester, United Kingdom
Brahim.Saadouni@manchester.ac.uk

## Abstract

We examine the determinants of an IPO firm's decision to trade on a when-issued market and find that better quality firms are more likely to trade on this market. Our 'what-if' analysis shows that for companies that choose to have when-issued trading, the actual offer price is almost 26% higher than it would have been had these firms chosen not to trade on this market. We interpret this higher offer price as a 'rent' that investors pay to acquire shares of such companies. We also show that the informational accuracy of the UK when-issued market is better than that of continental European when-issued markets.

# Is Agency More Important Than Tax In Explaining Corporate Borrowing?

Pascal Frantz
London School of Economics, United Kingdom
p.frantz@lse.ac.uk

Norvald Instefjord
Essex Business School, United Kingdom
ninstef@essex.ac.uk

Vevekanand Nawosah
Essex Business School, United Kingdom
vnawo@essex.ac.uk

## Abstract

We study the optimal dynamic borrowing policy for a firm that controls borrowing for tax-efficiency and/or for agency cost reductions. A theoretical question is which of these is more important (when both are potentially profitable), and an empirical question is how this is reflected in data. Theoretically, we find that the firm always controls borrowing to minimise agency costs and use any residual discretion to pursue tax-efficiency, because agency costs are equivalent to a 100% tax on earnings which is always greater than any actual tax rate. On the empirical side, the agency factor interacts in simulated data to generate counterintuitive results between firm values and borrowing. There is overall a negative coefficient on borrowing (consistent with empirical findings) because borrowing that generates tax savings is also correlated with high agency costs. In contrast, taxes do not interfere with regressions of leverage on governance and executive pay factors. Leverage is negatively related to the strength of internal (non-debt) governance and positively related to high-powered executive pay (both consistent with empirical findings).

# Leading-by-Example and Third-Party Punishment: Experimental Evidence

Reka Heim
Danube University Krems, Austria
reka.heim@donau-uni.ac.at

Juergen Huber
University of Innsbruck, Austria
juergen.huber@uibk.ac.at

## Abstract

In this paper we explore how decisions in a simple three-person game are influenced by dynamics of roles (dictator, recipient, supervisor) and group composition. In the game, a dictator decides how much of his endowment to transfer to the recipient. The third-party (the supervisor) can punish the dictator and/or transfer to the recipient after learning about the dictator's decision. The most pronounced effect we find is a strong leading-by-example effect, that is, supervisors transfer more if dictators gave higher amounts, and dictators give more in the next period the more supervisors gave in a period. This holds for all treatments. We further find that transfers by a dictator are highest and stable when the group of three is fixed, no matter whether roles change or not.

## Real Duration and Inflation Duration: A Multidimensional Hedging Strategy

Iraj Fooladi
Dalhousie University, Canada
iraj.fooladi@dal.ca

Gady Jacoby
The University of Manitoba, Canada
gady.jacoby@umanitoba.ca

## Abstract

In this study we consider two different duration measures: (i) real duration, which is a measure of a financial instrument (asset or liability) value sensitivity with respect to changes in the real interest rate, and (ii) expected-inflation duration, which is a measure of the instrument value elasticity with respect to changes in the expected rate of general price inflation. These two measures arise because the nominal interest rate is divisible into a real rate and the expected-inflation rate. Thus, when inflation is present, a duration measure depends on the source of the change in the interest rate. In our analysis we consider different inflation-indexation schemes. We show that under-protection of cash flows against inflation may significantly lower the asset value with a sizeable expected-inflation duration. On the other hand, assets with an indexation scheme that over protects against inflation, will be significantly more expensive with nontrivial and negative elasticity with respect to the inflation rate. Finally, we demonstrate that the real and expected-inflation durations can be utilized to simultaneously hedge the net worth of a firm against adverse impacts of changes in the real interest rate and changes in the expected-inflation rate.

# A Firm Level Study on Determinants of Spillover Effects of Foreign Direct Investment in the Manufacturing Industry in India.

K.V.Bhanu Murthy
Delhi School of Economics, India
Bhanumurthykv@yahoo.com

Deepa Saran
University of Delhi., India
dr_deepasaran@rediffmail.com

Meghna Malhotra
University of Delhi., India
meghna.hrc@gmail.com

## Abstract

This paper aims to study whether foreign and domestic firms can be distinguished from each other on the basis of their behavior in terms of the factors that are considered to be the determinants of spillover effects from foreign firms to domestic firms. For this purpose logistic regression is used at firm level. The period of study is 2000-01 to 2009-10. The main sources of data include CMIE's Prowess database, Annual Survey of Industry (ASI) of India by MOSPI and the "Handbook of Statistics on Indian Economy 2010-2011" of Reserve Bank of India. Our sample set includes 1846 firms comprising of 1559 domestic firms and 287 foreign firms from 13 manufacturing industries in India. The results of logistic regression at firm level show that this model could very well explain the behavior of the foreign firms' vis-à-vis domestic firms. Foreign firms have more horizontal and vertical (backward and forward) linkages as compared to the domestic firms. Multinationals are not confining themselves to the industries which are less concentrated rather they are giving tough competition to the domestic firms. Firms with higher export intensity, import intensity, R&D intensity, technical fees intensity are foreign firms. It is observed that as the predictor variables are added one by one to the model the results improve at every step which shows that these predictor variables explain the group membership to foreign or domestic category very well. On the basis of analysis of five test criteria, five models and individual exponential beta coefficients, it is fairly evident that foreign firms behave differently from domestic firms in terms of spillover effects.

# To whom the next cyber attacks will be aimed ? Information security in microfinance institutions

Eleonora Zgonjanin Petrovikj
Jozef Stefan Internacional postgraduated school, Slovenia
ezgonjanin@fulm.com.mk

## Abstract

The purpose of this paper is to present research proposal for PhD dissertation project in awareness, benefits and challenges of information security in micro-finance non-banking financial institutions (MFI) in Republic of Macedonia, Greece, Bosna and Hercegovina, Serbia and Albania (selected countries). The general objectives have been settled, such as measurement of level of information security (IS) and guide program for application of IS. The literature review is use as a startup point for identifying key points of IS. IT strategies, policies and procedures are playing essential role in the literature as focal bases for implementing IS. Also, training and digital education are extrapolated from the literature, and further deep analyses should be performed for cyber insurance for MFI. The proposed methodology for examining IS, based on literature research findings is use mix of self-respond questionnaires and interviews with CEO or employee /person that responsible for IT. The structure of questionnaire would be build up based on interview with 3 MFI. Limitations and resources are acknowledged for examining the methodology. Ethical issues were recognized during all process of the study, starting with access, data collection, data storage and interpretation of results. It was confirming that the study will not have “sensitive personal data”, therefore explicit written consent is not obligatory for participants. Properly premeditated expected outcomes were offered to lead for tremendous implications of the study for management to overcome the obstacles for introduction of information technology with appropriate level of information security in MFI. However, it will be crucial to identify the key trigger for introducing information security, whether the need for better business or regulatory requirements. The main objective is to determine whether increasing the information security will enable higher productivity and efficiency and creation of competitive micro-finance products or delivery canals in the selected countries.

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

Agnieszka Slomka-Golebiowska
Warsaw School of Economics, Poland
aslomka@sgh.waw.pl

Piotr Urbanek
University of Lodz, Poland
piotrur@uni.lodz.pl

## Abstract

The purpose of this paper is to examine the influence of corporate governance on disclosure of executive remuneration policy at banks with a controlling blockholder. Using a hand-collected data on all banks listed in Poland for the period 2005-2014, we find a positive and statistically significant relationship between the diligence of the bank's board remuneration committee and the disclosure of executive remuneration policy. Additionally, our outcomes support the view that firm-level governance matters more than country-level. The banks controlled by financial groups from countries where a dispersed ownership structure is predominant disclose significantly more than the rest of the banks. This study offers important insight to policymakers to drive changes either in regulation or voluntary Corporate Governance Codes that motivate banks to exhibit larger levels of disclosure of executive pay policy in structure with a controlling shareholders typical for Eastern European countries.

# THE ROLE OF CREDIT RATINGS IN THE DYNAMIC TRADEOFF MODEL

Viktoriya Staneva
University of New Hampshire, United States
viktoriya.staneva@unh.edu

## Abstract

This study examines what costs and benefits of debt are most important to the determination of the optimal capital structure. Prior literature has identified a set of variables that help explain the variation in observed leverage ratios. In the context of the dynamic tradeoff model, where firms do not immediately adjust to their target leverage ratio due to the presence of adjustment costs, some factors will inform the optimal capital structure, while others will cause firms to deviate from it. To isolate the variation in leverage due to differences in the target from that caused by deviations, I aggregate the data across a dimension that is likely to identify firms with similar targets – credit rating category. Estimating the traditional leverage regression on the aggregated data reveals size, profitability and tangibility as the most important proxies for the determinants of the target debt ratio. However, in contrast to theoretical priors, large and profitable firms have lower targets. Further analysis shows that size and profitability proxy for firms with lower non-financial risk and the benefits of a better credit rating outweigh the costs of foregone tax shields for those firms. Furthermore, while all firm characteristics are highly significant in the traditional leverage regression, they can only jointly explain about 20% of the variation in debt ratios across firms. On the other hand, the heterogeneity in leverage across rating categories is to a much larger extent determined by our proxies as the explanatory power of the model rises to close to 90% in that dataset.

# Spillover effects of global liquidity's expansion on emerging countries: evidences from a Panel VAR approach

Nady Rapelanoro
University of Paris Nanterre, France
nady.rapelanoro@gmail.com

## Abstract

The attention for the global liquidity concept has grown over the recent years insofar as its dramatic increase is considered among regulators and economists as one of the possible determinants of the last global financial crisis. Although global liquidity remains without a generally accepted definition in the literature, the destabilizing effects of its expansion are widely studied, especially for the advanced economies. However, empirical studies regarding the consequences in the emerging countries are scarcer and this paper is related to this topic. We rely on a Panel VAR approach to investigate those effects on emerging economies and we find that the consequences are in line with the results of the literature on advanced countries. Nevertheless, contrary to previous empirical studies, we find that the choice of the exchange rate regimes is not important, as the exchange rate regime does not fully isolate the countries from a surge of global liquidity in the issuing countries.

# Identifying systemically important banks using the structural approach

Galina Gospodarchuk
Lobachevsky State University of Nizhni Novgorod, Russia
gospodarchukgg@iee.unn.ru

Maria Shashkina
Lobachevsky State University of Nizhni Novgorod, Russia
mshashk@mail.ru

Ekaterina Suchkova
National Research University "Higher School of Economics", Nizhny Novgorod, Russia
esychkova@hse.ru

## Abstract

The article studies contemporary theoretical and methodological approaches to the identification of systemically important banks with consideration for the specific features of national economies. The article proposes the author's approach to the identification of systemically important banks. This approach is based on the use of methods of induction and cluster analysis. It involves ranking banks according to the level of influence separately for the non-financial and financial sectors of the economy with subsequent aggregation and ranking of the obtained results. The study is based on the analysis of theoretical and methodological approaches to the identification of systemically important banks and conducted with application to the Russian economy. The study includes the analysis of the financial statements of commercial banks and identification of indicators that characterize their impact on the non-financial and financial sectors of the economy. The study suggests criteria that will help rank banks in terms of their impact on individual sectors and the economy as a whole. A rating scale has been developed for qualitative characterization of the systemic significance of banks with the identification of three levels of significance. Based on the proposed methodology we have conducted the analysis of the systemic significance of Russian banks for the non-financial and financial sectors and the economy as a whole. The article provides quantitative and qualitative assessment of the systemic importance of Russian banks. It also features a comparative analysis of the obtained results with the officially established list of systemically important banks of the Russian Federation. The criteria and ranking scales proposed in the study allow for a more objective classification of banks as systemically important. At the same time, they create a platform for the application of a differentiated approach to regulating the activity of systemically important banks. The method of identifying systemically important banks with consideration for their influence on certain sectors of the economy proposed in the study is universal and can be applied in different countries.

# The First Difference Property of the Present Value Operator

Bjarne Astrup Jensen
Copenhagen Business school, Denmark
ba.fi@cbs.dk

Stephen Buser
Ohio State University, United States
Buser.1@osu.edu

## Abstract

The present value of a future cash flow, together with derived risk measures such as duration and convexity, are some of the most fundamental concepts in all of financial economics. Technological advances have greatly enhanced methods for numerical calculations. Nevertheless, analytic solutions continue to play an important role by identifying essential properties of numerical calculations. This paper identifies closed form solutions for the present value and related risk measures for a wide array of payment streams including some that exhibit cyclical variation. We establish that one particular property of present value calculations, which we refer to as the first difference property, greatly simplifies the derivation process and also avoids cumbersome differentiation operations as well as complicated summation exercises.

# Are Hedge Fund Activists Break-up Experts: Evidence from Corporate Divestitures

Jie (Michael) Guo
Durham University Business School, Durham University, United Kingdom
jie.guo@durham.ac.uk

Vinay Utham
Durham University Business School, Durham University, United Kingdom
vinay.utham2@durham.ac.uk

Xing Wang
Durham University Business School, Durham University, United Kingdom
xing.wang@durham.ac.uk

## Abstract

Using a sample of hand-collected sample of hedge fund activist engagements, we examine whether hedge fund activists add value to the shareholders of targets through corporate divestitures. Several findings emerge. First, on the announcement of a divestiture, the targets of hedge fund activists outperformed other firms in the short-run. Second, hedge fund activists preferred spinoffs to selloffs as a mechanism of value creation. Third, it was found that hedge fund activists increased the probability of takeovers post the divestiture, thereby using change of control effect to create value, post divestiture, for their target shareholders. Fourth, the acquirers of firms undertaking divestitures with hedge fund activist involvement outperformed the acquirers of firms undertaking divestitures with no hedge fund activist involvement in the short-run.

## Corporate value, capital structure and social welfare after corporate tax reform: The case of Japan

Takero Doi
Keio University, Japan
tdoi@econ.keio.ac.jp

Hiroshi Katagi
Keio University, Japan
hiroshi.ktg0418@gmail.com

## Abstract

In this paper, we analyze intertemporal effects of corporate tax reform on corporate value, capital structure and social welfare using a dynamic general equilibrium model. The dynamic model in this paper includes capital structure, that is, choice of equity, debt, and retained earnings to implement investment. It also includes agency cost on debt: per unit of agency cost on debt is progressively-increasing. We implement a simulation based on the dynamic model, and compare corporate value, capital structure and social welfare with the before and after corporate tax reform. Based on the framework, we investigate the effects of corporate tax reform in Japan, wherein the (effective) corporate income tax rate decreases from 34.62% to 29.74% and the rates of size-based business taxation (levy on the sum of value-added, not a value-added tax: VAT) rise at 2.5 times in Japan. From results of numerical analyses, we confirm that corporate value and social welfare are improved after the tax reform in Japan, in spite of an increase in rates of size-based business taxation ("pro-forma" taxation). Moreover, we find that corporate value and social welfare are more improved by replacing raising rate of pro-forma taxation with rate of VAT.

# Effects Of Mergers and Acquisitions on Banks' Performance: The Case of The Polish Banking Industry

Katarzyna ?wietla
Cracow University of Economics, Poland
kswietla@uek.krakow.pl

Joanna Krasodomska
Cracow University of Economics, Poland
joanna.krasodomska@uek.krakow.pl

Katarzyna Budny
Cracow University of Economics, Poland
katarzyna.budny@uek.krakow.pl

## Abstract

This study investigates the influence of mergers and acquisitions (M&As) on the performance of banks operating in Poland. For this purpose, we use a sample of 14 transactions that occurred in the Polish banking sector from 2001 to 2015. Our data set includes pre- and post-merger accounting information covering a period of two years before and two years after the merger. We follow Pilloff's (1996) approach to determine the average performance changes measured with ROAA and ROAE. According to the research results, M&As transactions seem to affect profitability as both ROAA and ROAE means change. However, these changes do not follow the same trend. The correlations between the acquirer's pre-merger weighted performance measured with ROAA and ROAE and merger-related changes in performance are significant and negative. The same situation is observed as regards the target premerger weighted performance measured with ROAE and merger-related changes in performance. The results also suggest that large acquirers are associated with less successful M&As. Despite some limitations, the paper contributes to the understanding of the influence of M&As on banks' performance.

# STOCK MARKET DEVELOPMENT: AN ASSESSMENT OF ITS MACROECONOMIC AND INSTITUTIONAL DETERMINANTS IN MAURITIUS.

Jeevita Matadeen
University of Mauritius, Mauritius
j.matadeen@uom.ac.mu

## Abstract

Stock market development is now well known for the role that it plays in generating gains in terms of economic growth. It has therefore become very important to now scrutinize the main driving forces which actually cause the expansion of stock market development. To do so, the paper scrutinizes the both the macroeconomic and institutional determinants of stock market development in Mauritius during the period 1989-2016 through a dynamic VECM. The results indicate that macroeconomic factors such as economic growth, banking sector development, stock market liquidity and gross fixed capital formation are important drivers of stock market development in the island. Additionally, political stability, rule of law, government effectiveness, voice accountability and control of corruption also play a key role in terms of enhancing stock market development.

# The impact of financial education on financial literacy: insights of first year university students in Australia

Jun Feng
Monash University, Australia
jimmy.feng@monash.edu

Viet Do
Monash University, Australia
minh.do@monash.edu

John Vaz
Monash University, Australia
john.vaz@monash.edu

Amale Scally
Monash University, Australia
amale.scally@monash.edu

## Abstract

Financial decision making is complex and requires substantial knowledge. The level of financial literacy has significant implications for welfare as well as for policy design. The ability to improve an individual's financial literacy can serve to minimise the instances of making poor investment choices that may result in sub-optimal investment outcomes and use of capital. This study assesses the level of financial knowledge among undergraduate students through two sets of repeated surveys with similar complexity. We report an initial figure of 36% of correct answers to questions testing key financial literacy criteria. This figure increases significantly to 45% after nine weeks of teaching key financial principles, theories and applications of finance at introductory level to first year university students enrolled in a Foundations of Finance unit. The results also indicate a substantial degree of overconfidence among subjects, suggesting that students often think they know more than what they actually know. These findings corroborate the findings of the majority of prior studies on financial literacy. We further contribute to the study on this topic by testing whether the method of teaching may provide different outcomes when it comes to improving the financial literacy of university students. We find that there are no significant differences in the margin of improvement between the two cohorts that received two different methods of teaching. Both the traditional lecture/tutorial style of teaching and the flipped method of teaching provide similar outcomes.

# Financial Performance of Public Hospitals Revolving Funds Between 2008-2016 in Turkey

Necdet Saglam
Anadolu University, Turkey
nsaglam@anadolu.edu.tr

Abdullah Orhan
Anadolu University, Turkey
abdullahorhan@anadolu.edu.tr

## Abstract

The purpose of this study is to analyze the financial situation and financial performance of PH in Turkey. It is also aimed to identify the factors affecting the financial performance of PH. The data used in the research are the financial statements of PH. The financial tables of 948 PH between 2008 and 2016, which are all of the PH in Turkey, were collected. These financial statements have been consolidated and analyzed by ratio analysis technique. In the ratio analysis, 43 financial ratios determined in advance were calculated and 17 of these ratios were interpreted. As a result of the analysis, it was determined that PH has low ratios of debt repayment, inadequate turnover ratios and low profitability. In addition, Altman Z-Score analysis was used to measure PH's risk of financial failure, and rating analysis was used to measure credit risk. As a result of these analyzes it was determined that the PH had difficulty in fulfilling their financial obligations and that their credibility was low.

# The Applicability of Banking Accounting Ratios for the Identification of Banking Problems

Lilly X Huang
University of Durham Business School, United Kingdom
xinyi.huang@durham.ac.uk

## Abstract

Although a large body of literature has proposed various models to identify an impending financial crisis by studying systemic risk and contagion, scarce previous research has considered the possibility that banks can protect themselves during a financial crisis and therefore affect the propagation of losses through financial linkages, such as the interbank market. Drawing upon a subset of U.S. bank accounting ratios from 1992Q4 to 2011Q4, this paper investigates banks? preemptive actions by analysing significant structural shifts in response to crises at the aggregated bank level. We?ve found Bank size does matter in context of applicability of banking accounting ratios serve as early warning signals. The results show that certain indicators such as ?leverage? and ?coverage? ratios are appropriate indicators for the detection of banking system vulnerabilities all banks. And nonperforming loans ratio (NPLs) additionally serves as an indicator for the timing of a crisis. We also find that whereas capital levels were closely monitored, heavy reliance of banks on wholesale funding is often overlooked. Banks accumulate liquidity to protect themselves from liquidity shocks and therefore contribute to (or mitigate) the onset of a crisis. Therefore, the impact of bank size and interbank lending on bank risk-taking are carefully examined; and a nonlinear (U-shaped) relationship is found. It adds empirical weights to the ?too big to fail? phenomenon. Author also finds those same factors leading to precautionary liquidity hoarding also contributed to a decline in interbank lending. Therefore, proposes a new model can be proposed to allow investigating how the actual behaviors of banks contribute to or mitigate the onset of a banking crisis, whereas the literature on this is scarce. Finally, we could investigate real banking systems by using actual banking system, which could extend our framework to determine an optimal regulation.

# An Empirical Investigation of Stock Market Interdependence between Developed and Emerging Markets

Hassan Hamadi
Notre Damwe University - Louaize, Lebanon
hhamadi@ndu.edu.lb

Charbel Bassil
Notre Damwe University - Louaize, Lebanon
cbassil@ndu.edu.lb

Jessica Aoun
Notre Damwe University - Louaize, Lebanon
jaoun@ndu.edu.lb

## Abstract

The objective of this paper is to empirically test the level of stock market interdependence in terms of return volatility spillover among selected developed and emerging markets, namely US, UK, Euro area, Japan, Turkey and Hong Kong, to determine whether international portfolio diversification can still result in risk reduction in the light of globalization and liberalization. We use the modified iterative cumulative sum of squares (ICSS) algorithm to detect break points in the return variance of six selected stock markets. Then a GARCH (1,1) process with structural breaks is used to model the volatility of the stock market's return. The resulting volatilities are then used in a seemingly unrelated regression (SUR) model to detect both instantaneous and delayed volatility spillover among countries, while controlling for country-specific variables. Bidirectional return volatility spillover across the six studied stock markets is detected: some are instantaneously affected by other markets' performance, while others exhibit delayed response to events moving return volatility abroad. Stronger spillover effect is found running from developed to emerging countries, and among developed markets at times of major events. The US has primarily the strongest spillover effect on other markets.

# Pairs trading strategies in a cointegration framework: back-tested on CFD and optimized by profit factor

Franck Martin
Université de Rennes 1, France
franck.martin@univ-rennes1.fr

Zhé Huang
Université de Rennes 1, France
craverh@gmail.com

## Abstract

Abstract Statistical arbitrage is based on pairs trading of mean-reverting returns. We used cointegration approach and ECM-DCC-GARCH to construct 98 pairs of 152 stocks of 3 currencies. Stocks trading is done by Contract for Difference (CFD), a financial derivative product which facilitates short selling and provides a leverage up to 25 times. To measure the performance of a leveraged strategy, we introduced the profit factor which is the annualized return rate per unit risk. And the historical risk is measured by maximum drawdown. We compared three main strategies: percentage, standard deviation of cointegration long term residuals and Bollinger Bands (dynamic standard deviation), with and without double confirmation of short term standard deviation modeled by ECM-DCC-GARCH. Each of the three main strategies is optimized by two optimizers: absolute profit and profit factor. The optimization period goes from 2012-01-01 to 2014-12-31, and validation period is from 2015-01-01 to 2016-06-01. Our results showed that the USD Bollinger Bands strategy without double confirmation and optimized by profit factor, outperformed other strategies and provided the highest annualized return rate per unit risk. 32% of our sample pairs ended up in loss, and 94% of which are explained by a cointegration break during the testing period.

# Smart Beta and Empirical Alpha Representation

G. Charles-Cadogan
University of Leicester School of Business, United Kingdom
gcc13@le.ac.uk

## Abstract

Smart beta portfolio strategies, i.e., periodic revision of asset allocation or readjustment of portfolio weights within an asset class different from a benchmark index, are revolutionizing active portfolio management. This paper introduces a representation theorem for the pure alpha generated by such strategies when a benchmark index is augmented with active portfolio management. We find that the alpha process generated by smart beta is a local semimartingale with a background driving bridge process that mimics portfolio manager price reversal strategies. The path properties of alpha are such that it is positive between suitably chosen stopping times for active management. We demonstrate why econometric tests of portfolio performance are biased against positive alpha, and explain why alpha may be significant in backtested portfolios but insignificant when the portfolios go live.

# Board of Directors' Cultural Proximity and Investment Efficiency of Multinational Corporations

Like Jiang
The University of Melbourne, Australia
like.jiang@unimelb.edu.au

Angie Wang
The Chinese University of Hong Kong, Hong Kong
angiewang@cuhk.edu.hk

## Abstract

This paper investigates how cultural proximity, defined as a shared cultural background between the board of directors and the regions in which the firm's foreign subsidiaries operate, affects the investment efficiency of multinational corporations (MNCs). We argue that ethnicity can be viewed as a proxy for board members' cultural backgrounds and that cultural proximity creates an alignment between the board's comparative advantage and the MNC's great need for mitigating cross-border information frictions and monitoring foreign subsidiaries. Consistent with our prediction, we find that U.S. MNCs with cultural proximity make more efficient investment decisions at both the firm- and the subsidiary-level. This study suggests that cultural proximity, instead of the board diversity per se, is an effective internal control mechanism.

# Anti-corruption Campaigns and Financial Development: Evidence Around the World

Ziwei Xu
University of Edinburgh Business School, United Kingdom
Ziwei.Xu@ed.ac.uk

Wenxuan Hou
University of Edinburgh Business School, United Kingdom
Wenxuan.Hou@ed.ac.uk

Brian Main
University of Edinburgh Business School, United Kingdom
Brian.Main@ed.ac.uk

## Abstract

Corruption is a prevalent phenomenon which people fight for centuries, and is considered as a vital factor to hold back global economic development. According to World Bank (2017), the cost of corruption is estimated to be more than $2.6 trillion, equivalent to 5% of global GDP. Modern research on the economics of corruption began with Rose-Ackerman (1975, 1978), who considers the relationship between market structure and the incidence of corrupt dealings in the government contracts. Empirical evidence tried to find out the causes and consequences of corruption. Mauro (1995) conducted the first systematic empirical research using global data, and showed that high levels of corruption are associated with lower levels of investment measured by investment over GDP, and thereby reduce economic growth. Followed by Mauro, other scholars found that corruption is also linked with human capital, tax evasion, inflation, high inequality, low trust, low quality of infrastructure (Al-Marhubi, 2000; Dreher & Herzfeld, 2005; Johnson, Kaufmann, & Zoido-Lobaton, 1998; Li, Xu, & Zou, 2000; Reiter & Steensma, 2010; Tanzi & Davoodi, 1998), and ultimately influence economic growth (Mauro, 1995). In an attempt to deter corruption, anti-corruption campaigns become increasingly important. Are anti-corruption campaigns effective enough to decrease corruption levels, and promote financial development and economic growth? The research question remains uncovered.

# Finance, Accounting and Other Business Students: Values and Prorities

George Lan
University of Windsor, Canada
glan@uwindsor.ca

## Abstract

The Schwartz Values Questionnaire (SVQ), developed by Shalom Schwartz, was used to report on the values and value priorities among finance, accounting and other undergraduate business majors, as well as males and in a mid-sized Canadian university in the province of Ontario. These business students, belonging to the millennial generation, considered family security to be their top personal value and ranked successful, healthy and enjoying life among their top ten values. On the other hand, detachment, accepting my portion in life and social power were among the values least considered important. Finance majors ranked the meta value Openness to change first followed by Self-transcendence while for the accounting and other business majors, Self-transcendence was ranked first and Openness to change, second. Finance majors also considered the value type of power (consisting of the individual values of social power, authority and wealth) to be significantly more important than the accounting and other business majors while these two groups rated the value type universalism to be significantly more important than the finance majors. In addition, the females exhibited values and value systems that were more of a social focus and less of a personal focus when compared with the males. Overall, both genders were more concerned with growth than with self-protection and highly rated and rank the valued benevolence; however, their social concern has yet to extend itself in wider circles.

# An Empirical Analysis of the Determinants of Exchange Rate in Selected Sub-Saharan African Countries Using Single-Country Estimation Techniques

Zameelah Rifkha Khan Jaffur
University of Mauritius, Mauritius
zam.kjaffur@gmail.com

Boopendra Seetanah
University of Mauritius, Mauritius
b.seetanah@uom.ac.mu

Noor-Ul-Hacq Sookia
University of Mauritius, Mauritius
sookian@uom.ac.mu

## Abstract

Exchange rate has become a buoyant issue in a globalised world where countries compete with each other to sustain growth and development. Despite the importance of exchange rate in sustaining economic growth and development in Sub-Saharan African (SSA) countries, empirical analyses in these countries are quite sparse. Research done in this area focusing on each of these countries remains more fairly limited. Hence, this study aims at investigating the determinants of exchange rate in selected Sub-Saharan African countries using single-country estimation techniques. In particular, an autoregressive distributed lag (ARDL) model is employed to examine the determinants of exchange rate in nine SSA countries using annual data spanning from 1980 to 2013. Our findings show that the long-run and short-run relationships between exchange rate and its determinants rely upon the country investigated.

# Testing pricing inefficiency using the Support Vector Machine and Arbitrage Pricing Theory: Evidence from the Stock Exchange of Mauritius

Aleesha Mohamudally-Boolaky
University of Technology, Mauritius, Mauritius
aboolaky@umail.utm.ac.mu

Teemulsingh Luchowa
, Mauritius
ashistl@gmail.com

Kesseven Padachi
University of Technology, Mauritius, Mauritius
kpadachi@umail.utm.ac.mu

## Abstract

This study, attempts to test the weak form and semi-strong form market efficiency as presented by Fama (1970) under the efficient market hypothesis to contribute to the previous findings on the Stock Exchange of Mauritius. A popular Machine Learning Technique called the Support Vector Machine (SVM) is adopted to determine if stock market returns are predictable based on information from past prices, allowing arbitrage opportunities for abnormal profit generation. Another objective of the study is to identify whether the market demonstrates sensitivity to common risk factors using the Arbitrage Pricing Theory (APT). Data is obtained for a sample of 17 companies listed on the Stock Exchange of Mauritius for the period from 2007 to 2016. The serial correlation test and the SVM technique show evidence that previous information on share prices and indicators constructed from same are useful in predicting share price movements. The APT model demonstrates that systematic risks show little explanatory power in explaining the returns, suggesting that the returns could be sensitive to other factors, including unsystematic risks.

# Valuation modeling in periods of abnormal interest rates

Magnus Axén
Uppsala University, Sweden
magnus.axen@fek.uu.se

Mattias Hamberg
Uppsala University, Sweden
mattias.hamberg@fek.uu.se

## Abstract

In valuation modelling, it is common to assume constant capital costs. Due to recent central bank activities in Europe and elsewhere, these capital costs are considerably higher than actual corporate interest rates in Europe and elsewhere. We discuss two implications when actual interest rates are lower than capital costs; and thus, value is created in financial markets. First, the finding violates the assumption of financial market efficiency and valuation models that do not properly account for costs of capital produce incongruent value estimates. Second, financial theory assumes that capital structure has no value implications. But unless the discrepancy is similar between equity and debt capital, stable businesses can increase leverage and create shareholder value by locking-in effects of abnormal interest caused by central bank interventions. In sum, the consequences of current central bank activities cause a cumbersome theory-practice gap that so far has escaped an academic debate.

# Overconfidence and the Rational Expectations Model of the Term Structure of Interest Rates

George Bulkley
University of Bristol, United Kingdom
George.Bulkley@bristol.ac.uk

Richard Harris
University of Exeter, United Kingdom
R.D.F.Harris@exeter.ac.uk

Vivekanand Nawosah
University of Essex, United Kingdom
vnawo@essex.ac.uk

## Abstract

We propose a behavioral explanation for the widely reported rejection of the rational expectations model of the term structure of interest rates. We distinguish between public and private information and show that overconfidence among investors about the precision of private information can account for the empirical failure of the rational expectations model. Using a simulation experiment calibrated with data on US interest rates, we demonstrate that only a small degree of investor overconfidence is needed to replicate the principle features of the rejections of the rational expectations model that have been documented in different tests in the empirical literature.

# Empire Building and Corporate Social Responsibility

Chandrasekhar Krishnamurti
University of South Australia, Australia
chandra.ck@gmail.com

Syed Shams
University of Southern Queensland, Australia
syed.shams@usq.edu.au

Hasibul Chowdhury
University of Queensland, Australia
h.chowdhury@business.uq.edu.au

## Abstract

What is the principal driver of empire building? We jointly examine a firm's corporate social responsibility (CSR) engagement and a firm’s tendency to engage in M&A (proxy for empire building) to generate testable hypotheses that help us to distinguish between agency theory and behavioral traits. Our empirical results support the behavioral traits theory but are inconsistent with agency theory. Firms with high CSR engagement are less likely to engage in M&A and if they do, they pay a lower bid premium to target firms. Further, our evidence suggests that CEO narcissism and overconfidence reduce CSR activity but increase empire building. An exogenous shock in the CEO’s behavioral disposition due to CEO turnovers confirms the validity of the behaviorial traits theory. Our empirical findings are robust to alternate methodological specifications and measurements.

# Option-implied Idiosyncratic and Systematic Risk in the Cross-section of Expected Stock Returns

Ricardo Lopez Aliouchkin
Syracuse University, United States
rlopezal@syr.edu

## Abstract

I introduce a model-based approach to estimate higher order idiosyncratic moments and co-moments (co-skewness and co-kurtosis) of individual equities exclusively from the cross-section of option prices, including the full spectrum of available maturities and strike prices. These estimates are forward-looking and can, thus, be interpreted as truly ex-ante conditional measures of risk. Using standard cross-sectional asset pricing tests, I show that ex-ante moments help explain the cross-section of expected stock returns beyond traditional asset pricing factors, firm characteristics, and ex-post measures of moments. Specifically, I find that idiosyncratic volatility, idiosyncratic skewness and co-skewness are significantly negatively related to expected returns, while co-kurtosis shows a significantly positive relationship. Ex-ante moments are economically significant. A one-standard-deviation increase in idiosyncratic volatility, for example, leads to a 4.44% drop in annual expected returns.

# Endogenous Multiplex Bank Networks and Contagion

Jieshuang He
The Chinese University of Hong Kong, Shenzhen, China
jieshuanghe@cuhk.edu.cn

## Abstract

I develop a model to study two related questions: how bank decisions to form connections depend on fundamentals; and how financial stability depends on bank network structure. In my model, banks are connected through two layers of networks: interbank debts and banks' common investments in non-financial firms. These layers of interconnections are incentivized by diversified investments when banks maximize their expected equity values according to mean-variance rules. I show that the topologies of the two network layers interact with each other. Comparative statics of a small number of banks indicates that, in equilibrium, as banks become less risk averse, they tend to issue more debts and form more links within the banking sector. Furthermore, I conduct numerical computations for bank default probabilities in a circle network and a more connected network. The results demonstrate that increased bank interconnectedness and common asset holdings significantly reduce systemic stability.

# Analyst Tipping: Evidence on Finnish Stocks

Reuben Segara
University of Sydney, Australia
reuben.segara@sydney.edu.au

Joakim Westerholm
University of Sydney, Australia
joakim.westerholm@sydney.edu.au

## Abstract

Market analysts typically present their views on firms through publicly released recommendation reports and revisions, in which they 'upgrade' or 'downgrade' their stock picks. Traders can earn substantial profits if they have access to the information in these reports in advance of their public release. Analysts have an incentive to tip their major clients by earning commission on informed trades. Using data from the Nasdaq Helsinki between 2001 –2014, we find evidence of analyst tipping. Trading patterns reveal that domestic institutional investors buy recommended stocks from four days prior to upgrades and sell from one day prior to downgrades. We also find evidence that the Market Abuse Directive slightly reduced analyst tipping in the two years following its implementation.

# The (Un)secured debt puzzle: evidence from U.S. public manufacturing firms

Kizkitza Biguri
BI Norwegian Business School, Norway
kizkitza.biguri@bi.no

## Abstract

The benefits of pledging (inside) collateral have been widely discussed in the literature because collateral helps solving market imperfections that are caused by asymmetric information and limited contract enforceability problems. However, the implicit assumption made is that the only financial contract available is secured debt, ruling out the role of unsecured debt, which represents 64% of total debt outstanding of U.S. Public manufacturing firms from 1994 to 2010. This paper shows three main results. First, I show that debt structure is not solely determined by collateral, but by the interaction between collateral and financial strength, which determines unsecured debt. In addition to this, I show that collateral only plays a role for those firms that are financially constrained. Second, I prove that higher collateral does not increase borrowing capacity by lowering the financial frictions faced, but only secured debt borrowing capacity. This result allows for a complementary channel to the so-called collateral channel, the unsecured channel. Moreover, I test the pecking-order hypothesis and conclude that firms have a clear preference for unsecured debt because it allows to minimize total costs of financing.

# Do CEOs Have Risk Management Style? The Effects of CEOs on Corporate Hedging Activity

Carol Liu
Tulane University, United States
mliu12@tulane.edu

Zili Zhuang
The Chinese University of Hong Kong, Hong Kong
ziliz@cuhk.edu.hk

## Abstract

The strategic management literature suggests that there are manager-specific influence corporate outcomes. We investigate whether individual CEOs plays a significant role in their firms' risk management activity, in particular, the hedging decisions and intensity. Tracking CEOs across firms over time, we find that CEOs exhibit unique influences (i.e., CEO fixed effects or style) on hedging incremental to known economic determinants of hedging. Further, we find abnormally large changes in hedging decision and intensity after endogenous CEO departures but little after exogenous CEO departures. Our evidence supports managers' effects predicted by the upper echelons theory, and is more consistent with the notion that the board selects a CEO with a specific style to carry out the firm's strategy. Finally, the CEO fixed effects are generally not associated with demographic characteristics, reinforcing the fact that managerial style is primarily driven by unobserved heterogeneity of individual managers.

# The Effect of Share Repurchases - A Study on Share Price Behavior in India

M Chandra Shekar
Institute of Public Enterprise, India
m.chandrashekar@ipeindia.org

Akbar Ali Khan Mohammed
Osmania University, India
maakhan1155@gmail.com

Ram Kumar Mishra
Institute of Public Enterprise, India
rkmishra@ipeindia.org

## Abstract

Share buy backs, also known as share repurchases, were permitted in India in 1998 through a change in the provisions of the Companies Act, 1956. In developed countries, companies reward shareholders through a mix of dividends and buy-backs. So also in India. However, the prevalence of buy-backs in the developed world, and even among other developing countries, is much more than in India. The present study is to investigate share buyback programs in India to test hypothesis on signaling, leverage, corporate control, and tax incentives. When a company buyback shares, the reduction in outstanding shares boosts ratios such as earnings per share, which should theoretically lift share prices. But in many cases, the market seems to have punished the company for its wrong pricing and timing, not only did the share price suffered, the enterprise value i.e. the price of the firm contracted too. Though both dividends and buybacks are mechanisms to return money to shareholders, the defence of buybacks lies in three factors – they are more tax efficient, eranings per share (EPS) accretive and provide liquidity to stocks, especially during down cycles.

# Identifying the best Forecasting Model for Exchange Rates: The Case of Mauritius.

Noor-Ul-Hacq Sookia
University of Mauritius, Mauritius
sookian@uom.ac.mu

Houmera Bibi Sabera Nunkoo
University of Mauritius, Mauritius
houmera.nunkoo@umail.uom.ac.mu

Preethee Nunkoo Gonpot
University of Mauritius, Mauritius
pgonpot@uom.ac.mu

## Abstract

Exchange rate dynamics play an important role in the international trade and overall economic performance of all countries, thus a need for a good forecasting tool arises. This paper models and forecasts three daily foreign exchange rates vis-à-vis the Mauritian Rupee (MUR) over the period 11/08/2010 – 19/10/2016. Univariate linear and non-linear hybrid models are estimated and the RMSE criterion is used to select the best models. Emphasis is also placed on the Diebold-Mariano (DM) test as a forecasting accuracy test. The ARIMA-Fourier model is proposed as an alternative to the commonly used SARIMA model and the results obtained show that the out-of-sample forecasts from the ARIMA-Fourier model is more accurate. The large RMSE values obtained for longer horizons demonstrate that some of the models are better at forecasting short-term exchange rates. This study may contribute to a better understanding of the potential trends in the exchange rate markets thus improving decision making, planning and efficient allocation of resources.

# Financial development, trust and the lingering effect of the Cultural Revolution

Jianan Lu
University of Edinburgh Business School, United Kingdom
Jianan.Lu@ed.ac.uk

Wenxuan Hou
University of Edinburgh Business School, United Kingdom
Jianan.Lu@ed.ac.uk

Brain Main
University of Edinburgh Business School, United Kingdom
Brain.main@ed.ac.uk

## Abstract

The relationship that historical events may affect people's trust, thus influence the development of modern financial institution has got increasing attention in the recent literature. While, this mechanism in China, especially with the Cultural Revolution has not yet drawn much attention. We will discuss how deep this event affected people's trust and thus affect modern China's financial development. Literature has provided the evidence that the Cultural Revolution prevalently changed the belief of populaces in China. Beyond the Cultural Revolution, this paper will stress the theory that by a specific channel the historical event determined the differences of social trust in modern time, and thus shape the modern financial development.

# EFFECTIVENESS OF RISK MANAGEMENT FRAMEWORK: AN ANALYSIS OF THE MAURITIAN BANKING SECTOR

Lilesh Sookye
University of Technology, Mauritius, Mauritius
kavish1102@yahoo.com

Aleesha Mohamudally-Boolaky
University of Technology, Mauritius, Mauritius
aboolaky@umail.utm.ac.mu

## Abstract

The global economic meltdown caused by the subprime mortgage crisis in the United States in 2007 along with its subsequent adverse effects on the economy and financial participants around the world, have raised questions on the effectiveness of the risk management policies adopted by most financial institutions and banks worldwide. This study focuses on the analysis of the risk management framework and its efficiency in the Mauritian banking sector. Panel regression and Non-parametric regression Lowess Smoother methodologies were employed in measuring the impact of the various financial risks on the efficiency of risk management of a sample of ten Mauritian banks over a period of eight years starting in 2006. The dependent variable selected to measure risk management efficiency is the Capital Adequacy Ratio (CAR). On the other hand, the financial risks indicators are the credit risk (CRisk), liquidity ratio (LQR), interest sensitivity ratio (ISR) and foreign exchange risk (FER). Both the parametric and non-parametric regressions indicate that the risk variables are significant and have a positive relationship on risk management efficiency. A survey on the subject matter was also carried out through questionnaires to support the results of the regressions. The findings obtained from the survey substantiated the main results. The methods used by the Mauritian banks and the importance of the Basel principles for effective risk management were also revealed by the questionnaires.

# What determines the net stable funding ratio of Swiss retail banks?

Andreas Dietrich
Lucerne University of Applied Sciences and Arts, School of Business, Switzerland
andreas.dietrich@hslu.ch

Fabio Sigrist
Lucerne University of Applied Sciences and Arts, School of Business, Switzerland
fabio.sigrist@hslu.ch

Gabrielle Wanzenried
Lucerne University of Applied Sciences and Arts, School of Business, Switzerland
gabrielle.wanzenried@hslu.ch

## Abstract

New liquidity rules phased in under Basel III define the new net stable funding ratio (NSFR) and the liquidity coverage ratio (LCR) to promote sustainable funding structures at financial institutions. Using the GMM estimator technique by Arellano and Bover (1995), this paper analyzes characteristics and drivers of the NSFR for a sample of 65 retail banks in Switzerland between 2006 and 2016. We include bank-specific, system-specific and macroeconomic variables as main determinants of the NSFR. We also analyze the impact of the latest financial crisis as one of the main drivers for the revision of the liquidity rules under Basel III. We find that that safer banks, i.e., those with higher capital ratios, do not have stronger structural liquidity as we would have expected. But banks that are more aggressive in terms of credit expansion have a lower NSFR as they might rely more on short-term funds in order to support their loan growth. Even though in Switzerland, the ‘too big to fail’ issue is of big importance, we do not see any relationship between the NSFR and the bank size. Our results also highlight the importance of the macroeconomic environment for the level of the NSFR. Our paper is the first study that investigates the determinants for an extensive sample of smaller and medium-sized retail banks over a longer time period. Also, due to the structure and size of the Swiss banking market, Switzerland provides an ideal environment to study these questions.

# Oil Price Plunge: Are Conventional and Islamic Banks Equally Vulnerable?

Ghulame Rubbaniy
Zayed University, United Arab Emirates
ghulame.rubbaniy@zu.ac.ae

Osama El-Temtamy
University of New Brunswick, Canada
otemtamy@unb.ca

W.A. Khan
University of Evansville, United States
wk3@evansville.edu

## Abstract

In response to the recent debate on the potential vulnerability of the banking industry to oil price plunge, we investigate the effect of oil price plunge on credit and insolvency risks of the banking industry in the Gulf Cooperation Council (GCC) over a period from 2000 to 2014 with a particular focus on Islamic and conventional banks due to their different risk characteristics. Our findings show that falling oil prices significantly increase the credit risk for the overall banking industry in the GCC region and specifically for banks operating in Kuwait and UAE. However, the results become insignificant and remain invariable across different bank categories, (conventional, Islamic, and Islamic window only), even using different proxies. Our insolvency risk analysis does not provide any convincing evidence to support the hypothesis that oil price plunge increases the insolvency risk of the banking industry in the GCC region. Our findings based on recent time period offer some insights to the various stake holders in banking industry as well as regulators in the gulf region in terms of credit risk vulnerability and absence of insolvency risk.

# Customer financing, bargaining power and trade credit uptake

Simona Mateut
University of Nottingham, United Kingdom
simona.mateut@nottingham.ac.uk

Thanaset Chevapatrakul
University of Nottingham, United Kingdom
thanaset.chevapatrakul@nottingham.ac.uk

## Abstract

We investigate the impact of well-established trade credit theories on different parts of the distribution of trade credit taken by firms. Our results suggest that the trade credit - bank loans substitution increases at the higher trade credit quantiles and is stronger for larger firms (financing theory). Firms with high market shares operating in less concentrated industries have higher account payables to assets ratios (bargaining power theory). While the customer bargaining power motive strengthens up to the 70th quantile and prevails in industries independent on external finance, financing reasons play the main role especially at the higher trade credit quantiles.

# The use of a Multifactor Model to Measure Risks and Performance in Public Administration

Iordanis Eleftheriadis
University of Macedonia, Macedonia
jordan@uom.edu.gr

Vasilios Vyttas
University of Macedonia, Macedonia
vasvyt@hotmail.com

## Abstract

The present research aims to apply a valid and reliable tool and examine how that can be used by state organizations, in order to measure economic, operational (present and future) risks and the generic satisfaction of the administration, the generalized self efficacy of the administration and the performance of the organization. The research results showed that the measurement tool selected, applied, presented and proposed in this essay comprises six (6) scales: The economic risk scale, which consisted from fifteen items, the operational risk measurement scale, both present and future, which contained seventeen items, the generic satisfaction of the administration which consisted from ten items, the generalized self efficacy of the administration which consisted from six items and the performance of the organization which consisted from six items. The concurrent and predictive validity analysis with the reliability analysis has shown that all six scales are useful tools for management risk issues.

# Performance of microfinance institutions in Europe - Does social capital matter

Gabriela Chmeliková
Mendel University, Brno, Czech Republic
gabriela.chmelikova@mendelu.cz

Annette Krauss
University of Zurich, Switzerland
annette.krauss@bf.uzh.ch

Ond?ej Dvouletý
University of Economics in Prague, Czech Republic
ondrej.dvoulety@vse.cz

## Abstract

This paper investigates performance drivers of microfinance suppliers in Europe. As these, in contrast to advanced microfinance suppliers in developing economies, typically focus on uncollateralized microcredit services to individuals at the margin of society and of labour markets, we draw on the theory of social capital and empirically investigate the role that social capital may play in the overall performance of European microfinance suppliers. We build a unique unbalanced panel data set of 302 microfinance service providers in Europe covering the years 2008 to 2015 and measure their performance in terms of credit risk, financial and social performance as well as efficiency. Pursuing an econometric approach, we test a series of hypotheses using various measures of conditions conducive for building social capital on both institution-specific and country level, such as the client base of a microfinance supplier and the level of cultural fractionalization in a society. Our findings confirm that a higher intensity of social capital is positively associated with all areas of performance of microfinance suppliers in Europe. Our conclusions could help in designing and launching microfinance institutions in those European countries in which microfinance markets are developed not at all or to a very limited extent. Our paper, thus, contributes to the nascent literature on microfinance in developed economies by applying and extending the theoretical framework and empirical models on social capital and microfinance that were originally elaborated for developing countries.

# Costs of Investing in Equity Mutual Funds in India

Shamim Mondal
NMIMS, India
shamimsm@gmail.com

## Abstract

In this paper, I investigate the costs of investing in equity mutual funds in India, and try to put the costs in the global context. I find that on average, the costs of investing are rather high in India compared to world standards, using different measures. Using data on equity mutual funds over the period 2008-2015, I find that in general, while costs reduce with size of the funds, are lower for passively managed funds, and are also lower for funds that are primarily foreign-owned, over time there has been very little decline in overall costs of investment in mutual funds, except for a regulatory intervention by SEBI that reduced costs by banning of entry loads. In addition, another regulatory intervention by SEBI in 2013 that allowed for the purchase of mutual funds by investors without a sales agent resulted in cost reduction for purchase in that mode, but resulted in higher costs of purchase in the traditional mode involving sales agents. Mergers and acquisitions that have resulted in a significant number of foreign-owned mutual funds exiting the Indian market also could potentially result in higher costs for investors. I discuss the implications of my findings, and implications for policy.

# How Effective are Stock Market Reforms in Emerging Market Economies? Evidence from a Panel VAR Model of the Indian Stock Market*

Sumon KUmar Bhaumik
Sheffield University Management School,, United Kingdom
s.k.bhaumik@sheffield.ac.uk.

Manisha Chakrabarty
Indian Institute of Management CAlcutta, India
mchakrabarty@iimcal.ac.in

Ali, M Kutan
Southern Illinois University, United States
akutan@siue.edu

Ekta Selerka
Madras School of Economics, India
ekta@mse.ac.in

## Abstract

The growing literature on stock market development in emerging market economies, however, does not adequately address two important issues. First, governments and regulators use a number of policy measures to develop the stock market. For example, in the Indian context, there is a long list of reforms that included the creation of the National Stock Exchange with order-driven, anonymous screen-based trading, creation of settlement and trade guarantee fund and investor protection fund, gradual introduction of T+N settlement rules, and introduction of derivatives trading on market indices and individual stocks. In this paper, we model trading cost and trading volumes of a panel of individual stocks as vector auto-regressive (VAR) processes that are influenced by each other and also by policy measures aimed at stock market development. Our results suggest that all these policy measures primarily help the operation of mid-cap firms. The desired impact on smaller firms has still not gathered momentum and large firms are able to sustain even without these policy measures. Hence, a deeper and extensive intervention is the need of the current scenario.

# Purchase Price Allocation Decisions

Peter Frii
Norwegian School of Economics, Norway
peter.frii@nhh.no

Mattias Hamberg
Uppsala University, Sweden
mattias.hamberg@fek.uu.se

## Abstract

Goodwill is a debated and criticized accounting item, but its origin; the purchase price allocation (PPA) decision, is largely unstudied. We hand-collect detailed acquisition data on 2,214 business combinations that apply IFRS 3 and document that acquisitions are frequent, material and they actually give rise to more goodwill than to revalued specific tangible and intangible assets together. Indeed, three fourths of the excess price becomes goodwill. Economic indicators such as acquisition uncertainty and experience affect the PPA decision. In our sample, a main driver of the PPA decision is ownership incentive. Family firms are more prone to allocate excess purchase prices to goodwill than to specific assets and liabilities. Interestingly, indicators used to study goodwill impairment decisions (e.g. the value of excess purchase price) are important also for discretionary PPA decisions. This dual importance suggests that researchers underestimate the total level of discretion involved in goodwill impairment decisions.

# Investment and Financing Decisions in Family Firms

Mattias Hamberg
Uppsala University, Sweden
mattias.hamberg@fek.uu.se

Jon Frank
Uppsala University, Sweden
mercumin@spray.se

## Abstract

Firms in which the founder still maintains control perform better than firms with other type of main owners. But there are unresolved issues concerning how investment and financing decisions differ for founding family firms. We use detailed hand-collected data to distinguish between various forms of family firms; and particularly, family firms with a founder and a long-term non-founding owner. Founding family firms do not only possess less interest bearing debt, but at the same time they hold more excess cash. There is no difference in the use of defensive equity issues, but founding family firms make fewer offensive issues. Founding family firms also make fewer corporate acquisitions. Interestingly, founding family firms are often more different from firms with long-term non-founding family owners, than from non-family firms. The observed differences within family firms can be a reason for the sometimes inconsistent results in this emerging field of research on family firms.

# Effects of the short sale circuit breaker on the stock market

Lorne Switzer
Concordia University, Canada
lorne.switzer@concordia.ca

Heng Yue
Concordia University, Canada
y.heng7@gmail.com

## Abstract

We provide new evidence on the effects of the recently introduced short sale circuit breaker, Rule 201, which triggers when the price of a stock drops more than 10 percent in a single day. The regulatory presumption is that the trigger should damper intraday price declines for affected stocks. However, our evidence suggests that this is not the case. The circuit breaker fails to reduce intraday volatility and intraday price declines, especially for the most volatile stocks in the market. Market quality measures based on liquidity and pricing efficiency are largely unaffected. Higher dispersion of investor opinion increases overpricing when the circuit breaker is in force. Price stabilization after stocks trigger the circuit breaker is shown for stocks that experience substantial price declines. Finally, post shock drift reduction is consistent with improved informational efficiency.

# Productivity and Exchange Rate: A Meta-analysis

Zameelah Jaffur
University of Mauritius, Mauritius
zam.kjaffur@gmail.com

Boopendra Seetanah
University of Mauritius, Mauritius
b.seetanah@uom.ac.mu

Noor-Ul-Hacq Sookia
University of Mauritius, Mauritius
sookian@uom.ac.mu

## Abstract

Background The factors that usually cause exchange rate to fluctuate have long been explained in many theoretical and empirical studies. Productivity remains one of the key determinants of these fluctuations in exchange rate. In literature, the productivity and exchange rate nexus is usually investigated to empirically test the Balassa-Samuelson hypothesis. According to this hypothesis, productivity causes exchange rate to appreciate. In other words, this hypothesis posits that there exists a positive relationship between productivity and exchange rate. Nevertheless, in the empirical literature, the results on the productivity and exchange rate nexus were mixed and divergent; while most studies revealed a positive relationship between productivity and exchange rate, some found a negative relationship and very few even demonstrated a null relationship. Objectives To this end, the present study aims at investigating the underlying elements influencing the productivity and exchange rate nexus within a meta-analysis framework. In particular, on the basis of the literature available, a thorough examination of our data set is done to obtain answers to a series of questions highly relevant for both researchers and policy-makers: (1) Do data characteristics, specification characteristics and estimation characteristics systematically influence the estimates? (2) Do home country's characteristics affect the size of the impact of productivity on exchange rate? Research Design/Methodology/Approach The first step of any meta-analysis is to collect the maximum possible number of empirical studies on the topic. As such, a systematic search of the literature has been conducted using Google scholar and journal databases such as Science Direct (http://www.sciencedirect.com/), Wiley Online Library (http://onlinelibrary.wiley.com/), Taylor and Francis Online (http://www.tandfonline.com/) and Springer (https://link.springer.com/) with keywords: "productivity", "exchange rate", "effect of productivity on exchange rate", "productivity and exchange rate nexus", "determinants of exchange rate" and "Balassa-Samuelson hypothesis" through until 2017. A search has also been carried out on the web sites of research institutes working on the topic and references from existing empirical studies. Pure theoretical papers and those written in languages other than English have been excluded from our search. As such, we have also included master and Ph.D dissertations, articles from local journals and working papers. The searching process was repeated until no new studies have been found. The last study was added on 30 November 2017. The above search has initially produced a sample of 322 studies. After having collected a maximum number

of studies on the productivity and exchange rate nexus, we proceeded with the selection of studies to be included in our meta-analysis. To have a consistent analysis, four selection criteria have been established for the inclusion of studies in the meta-analysis:(i) the study must include a dependent variable describing exchange rate;(ii) the study must consist of an independent variable measuring productivity and (iv) the study must provide information on precision of estimates (t-statistics or standard-errors). Our sample was thus reduced to 121 studies with a total of 1392 estimates of the effect of productivity on exchange rate. However, we have observed that even after a careful re-checking of the data, several estimates remained remarkably different from the main population. These extreme values (outliers) might affect the results and the graphical analysis. As such, following Havranek and Irsova (2011), we used the multivariate method of Hadi (1994) to jointly detect outliers in both the estimates and their precisions. By this procedure, a total of 203 observations were identified as outliers. We, thus, continued our analysis using a much narrower set consisting of 1189 estimates of the effect of productivity on exchange rate extracted from 114 studies, without the outliers. The oldest study in our sample was published in 1982 and the most recent in 2017. Since different studies use different units of measurement, the estimates are not directly comparable. Thus, following previous meta-analyses conducted in economics (Valickova et al., 2015; Iwasaki and Tokunaga, 2014; Iwasaki and Tokunaga, 2016; Hamdaoui, 2017), we used partial correlation coefficients as standardized effect sizes to summarize and compare the results from various studies. Moreover, one important concern when conducting a meta-analysis is publication selection bias, whereby some estimates of the impact of productivity on exchange rate may be more likely to be selected for publication than others. Publication selection bias in the literature has two potential sources: researchers may be tempted to report a particular direction of the effect of productivity on exchange rate (Type I publication bias), and some researchers may report statistically significant results more favourably than insignificant ones (Type II publication bias). In our case, the publication selection bias has been tested both graphically and statistically. Furthermore, we employed the Rosenthal's Fail-safe N method to check whether the presence of publication bias can affect our analysis. After assessing whether publication selection bias was a problem or not for our sample, a random-effects meta-analysis model has been used to obtain an overall effect of productivity on exchange rate. Finally, in order to understand the reasons behind the variations in the effect of productivity on exchange rate across the whole body of data, a meta-regression will be done. This will help us to understand whether data characteristics (annual data, quarterly data, monthly data, time-series data, panel data, cross-sectional data and sample size), specification characteristics (exchange rate measures, productivity proxies, theoretical background), estimation characteristics (regression specification, number of explanatory variables included in the regression, static/dynamic econometric models, long-run/short-run effect), publication characteristics (journal/working paper and year of publication) and home country characteristics (geographical location, economic size, level of economic development, macroeconomic stability, foreign direct investment inflows, trade openness and terms of trade) affect the empirical estimates. These distinct characteristics, with the exception of some variables accounting for home country characteristics, will be controlled using a set of dummy variables. Since there may be many such control variables which can explain the disparities among the effect sizes, the Bayesian Model Averaging (BMA) model will be applied to identify potential determinants of the latter. We will only consider control variables having a posterior inclusion probability higher than 0.1 as potential drivers of these variations across the literature. As a robustness check to the BMA, both the ordinary least square and the weighted least square methods will be used. Anticipated Results Both the funnel and Galbraith plots clearly depicted the presence of publication selection bias in the literature of productivity and exchange rate nexus. This was also confirmed by the FAT-PET test. However, Rosenthal's Fail-safe N proved that publication bias was not a serious problem in our case. In other words, the presence of publication bias in our sample would not affect the conclusions drawn from our analysis. On the other hand, the random-effects meta-analysis of the productivity estimates extracted from 114 studies generated a partial correlation coefficient of 0.225 with a 95% confidence interval [0.200, 0.251]. This suggested that the effect of productivity on exchange rate is positive and statistically significant. In other words, our results confirmed the Balassa-Samuelson hypothesis. In addition, it is obvious from the observed effect size, which ranged from 0.2 to 0.251, that the size of the impact of productivity on exchange rate varies across studies. As such, a meta-regression analysis will be carried out in order to understand the reasons behind the variation in the effect sizes of productivity across the whole body of data. Conclusions/Implications To our knowledge, this is the first study to employ a meta-analysis framework to investigate the relationship between productivity and exchange rate. The findings from this study can be used to make a generalisation of the expected positive impact of productivity on exchange rate and whether the variations in the effect sizes across studies are influenced by data characteristics, specification characteristics, estimation characteristics, publication characteristics and home country characteristics. Thus, the findings from this study will be useful whenever an understanding of the productivity and exchange rate nexus is deemed pertinent and critically important.

# Bond valuation under lower and upper bounds for the Short Rate

Yves Rakotondratsimba
ECE Paris, France
w_yrakoto@yahoo.com

Jae Yun JUN KIM
ECE Paris, France
jaeyunjk@gmail.com

Stephane Dang-Nguyen
to_be_determined, Belgium
stephane.dang@gmail.com

## Abstract

We address here the issue related to the bond valuation when the associated underlying shadow rate is assumed to stay inside a given tunnel, but not only above a lower bound as is considered by various authors when dealing with the zero lower bound for the interest rate or with the negative interest rates situation, arisen after the policy adopted by the European Central Bank from 2014. The model considered here is referred to as LUB (Lower and Upper Bound) model, and for the simplicity, the underlying shadow rate is assumed to follow the one-factor Vasicek model for the interest rate. Our consideration of the LUB model is not only done under the willing to deal with a model representation consistent with market situations observed both in developed and emerging countries, but it is also performed with the intention to provide a helping tool when structuring bespoke financial products linked to interest rates. As is well-known for the Black's approach in the context of interest rate zero-lower bound, the LUB restriction on the shadow rate level leads to technical complications in the valuation such that getting tractable zero-coupon bond prices is challenging. We first provide a Monte-Carlo explicit based expression for the zero-coupon price, in the sense that this last is given as a deterministic function of the bond characteristic(s), the model parameters, the underlying state variable and independent realizations of the standard normal Gaussian random variable. Not only the obtained price is helping from the pricing audit point of view, but it has also the advantage to provide a starting point for the derivation of the zero-coupon price sensitivities. Then we provide the definitive closed formula approximation which is the expected solution, at least from the theoretical point of view. To overcome the difficulty linked to the practical implementation of the multidimensional integral associated with this solution, we finally derive an approximated closed form for the zero-coupon, by using a cubature approach. This obtained approximate closed form may serve as a quick tool for the LUB model parameter calibration and the underlying shadow rate estimation.

# FDI, Institutions and Sustainable Development: A Dynamic Panel Analysis

Ourvashi Bissoon
University of Mauritius, Mauritius
o.bissoon@uom.ac.mu

## Abstract

With the advent of globalisation, the world underwent dramatic changes: Foreign direct investment (FDI), through multinational enterprises (MNEs) flourished including in the developing world. Although a consensus has more or less been reached in the literature on the link between FDI and economic growth, it is sustainable development that represents one of the major challenges of the modern world. However, the impact of economic globalisation and in particular FDI on sustainable development has scarcely been investigated especially in the context of developing countries. This paper thus investigates on the impact of MNEs' presence proxied by the level of FDI stocks on sustainable development for a sample of developing countries. This study focuses on sub-Saharan Africa (SSA) using a panel data set of 30 countries over a period of 35 years using System-GMM to cater for dynamic effects. Africa has become one of the world's fastest-growing regions for foreign direct investment, especially resource-seeking in nature. Furthermore, the majority of SSA countries are 'fragile states' having been plagued with conflicts and poor institutional quality for much of their history. Therefore, the impact of MNEs' interaction with the institutional quality of host countries on sustainable development is also assessed. The Genuine Savings (GS) is used as a measure of sustainable development. Findings show that improving institutional quality in the countries considered in the sample could improve sustainability through its impact on the contribution of MNEs' presence.

# Initial Coin Offerings: Investor Protection and Disclosure

Jiafu An
University of Edinburgh, United Kingdom
jiafu.an@ed.ac.uk

Wenxuan Hou
University of Edinburgh, United Kingdom
wenxuan.hou@ed.ac.uk

Xianda Liu
University of Edinburgh, United Kingdom
xianda.liu@ed.ac.uk

## Abstract

As a newly emerged financing facility for entrepreneurs, initial coin offerings (ICOs) has experienced explosive growth since 2016. This paper provides one of the first empirical studies on ICOs from 37 countries. While it's not always the case that ICO investors are classified as shareholders, we find that the anti-director rights and anti-self-dealing index are positively associated with the country-level raised fund of ICOs after controlling for economic and culture factors. The disclosure quality and investor rights as specified in the Whitepapers are generally poor and they are found to be important to raise more funds in ICOs. We argue that the lack of (self-) discipline poses a threat to investor protections. Around 60% Whitepaper do not disclose information on the use of proceeds or management team. Around 80% ICOs do not entitle investors the rights for dividend or vote. Our findings suggest the needs of regulating ICOs.

## Military Ownership and Firm Performance

xianda liu
University of Edinburgh, United Kingdom
Xianda.liu@ed.ac.uk

Brian Main
University of Edinburgh, United Kingdom
brian.main@ed.ac.uk

wenxuan hou
University of Edinburgh, United Kingdom
wenxuan.hou@ed.ac.uk

## Abstract

Military shareholders actively participate in economic activities in many countries. In order to secure extra funding and improve welfare, some militaries are permitted to operate business in the civilian market. This paper explores the characteristics of military enterprises and examines the association between military ownership and firm performance. Unlike state shareholders, military shareholders do not divert resources towards social objectives. Meanwhile, military provide support including initial asset, technology, labour and subsidies. The results show that military firms outperform both private and state-controlled firms in terms of profitability. Presumably because of the restriction on layoff, military firms are inferior to state-controlled ones in terms of productivity.

# Test of Information Model of Market Microstructure

Sharlywest Eboigbe
University of Benin,
sharlywest.eboigbe@uniben.edu

Ifuero Osamwony
University of Benin,
ifuero.osamwonyi@uniben.edu

## Abstract

This paper attempts to determine the position of market efficiency and returns volatility as indicators of capital market perfections by testing for private and public information using the (MSCI) for capital market data for nine years period (2005-2013) selected nine countries. Using trading days at the various exchanges with two day period before close of trading and three days period after trading, the results reveal that second trading days of the week and the last trading days of the week appear to have more investor participation. Monday returns were the lowest, suggesting low market activities for each of the markets and also the effect of non-trading days before the event. Tuesday had the highest returns on average for many of the markets except for Ghana, Republic of South Africa and United Kingdom which had lower returns. For the United States of America market, the average return were surprisingly constant for each of the days of the weak, suggesting a no information effect, perhaps due to high level of e-trading empowered by service automation. From the result above, the study recommends amongst others that markets should be fully automated so as to reduce the chances of information disparities among trading parties.

# Secondary Buyouts and the Strategies if PE investors

Jens Martin
University of Amsterdam, Netherlands
J.martin@uva.nl

## Abstract

The sale of portfolio companies between private equity firms, Secondary Buyouts (SBOs), has increased dramatically over the last decade. Using a unique hand-collected dataset, this paper sheds further light on the determinants of the performance of this type of investment. We investigate in particular the impact of General Partners (GP) strategies, target firm size and investment style. We distinguish between deals in which the portfolio company is move to larger GPs in terms of target enterprise to deals in which then smaller GP takes over the portfolio company. We show that in particular these latter deals subsequently underperform. Using a sample or realized SBOs in Europe between 2002 and 2012, we find that the underperformance stems from a too high acquisition price and the inability to create additional operational value

# The Determinants of Capital Ratios in Islamic Banking

Houcem Smaoui
Qatar University, Qatar
hsmaoui@qu.edu.qa

Ines Ben Salah
Qatar University, Qatar
ibensalah@qu.edu.qa

Boubaccar Diallo
Qatar University, Qatar
boubacar.diallo@qu.edu.qa

## Abstract

We investigate the determinants of capital ratios in contemporary Islamic banking using a sample comprised of 222 Islamic banks spanning the period 2005?2014. We characterize Islamic banks? (IBs, hereafter) capital along multiple dimensions: capital adequacy ratio, Tier 1 capital ratio, and capital-to-total assets ratio. We use the system GMM estimator to tackle potential omitted variable bias, endogeneity, and simultaneity issues. The results show that IBs? capital ratios are persistent over time, revealing the existence of short-term adjustment costs. In addition, bank liquidity and protection of shareholder rights seem to exert a positive and robust effect on IBs? capital holdings, while bank size and bank competition are negatively and significantly related to IB?s capital ratios, thus confirming the ?too-big-to-fail? effect. We also show that generous deposit insurance systems are associated with lower capital ratios.

# Experiments in Stock exchange industry regulation The Paris Bourse, 1893 - 1898

Amir Rezaee
ISG Business School, France
amir.rezaee@isg.fr

Angelo Riva
European Business School, France
angelo.riva@ebs-paris.com

Pierre-Cyrille Hautcoeur
EHESS, France
hautcoeur@pse.ens.fr

## Abstract

We study the causes and the consequences of changes in regulation affecting the degree of competition among stock exchanges. The debate on the virtues of fragmentation vs. consolidation of securities markets has recently been reopened by the Mifid directive of the European Union and NMS regulations in USA. Empirical assessments of these two options are rare because few substantial changes do occur at this level. The history of the Paris exchanges provides an interesting empirical test, since two changes in opposite directions occurred in the late 19th century, when Paris was the second financial center in the world. In 1893, the competition between the two Parisian markets was sharpened by a fiscal law eliminating the monopoly of the official market; in 1898, another law brought it back and provided fiscal tools for their enforcement which lacked before 1893. We analyze the impact of these two changes on the competition between the exchanges in terms of securities listed, traded volumes, spreads and co-integration. We find that consolidation reduced significantly transaction costs for investors without harming other dimensions of effectiveness.

# Corporate Strategy Uniqueness, Analyst Herding, and Corporate Financing

Yuan Wen
State University of New York, United States
weny@newpaltz.edu

Surinder Tikoo
State University of New York, United States

## Abstract

This study is based on the premise that security analysts face a challenging information environment for assessing the value of firms with unique corporate strategies. This difficult information environment will foster analyst herding and will be associated with increased reliance by firms on internal funds for capital expenditures. We find that corporate strategy uniqueness is positively related to analyst herding and investment-cash flow sensitivity, indicating that strategy uniqueness makes it harder for firms to obtain external financing. Additionally, we find that corporate strategy uniqueness is associated with higher cost of debt. Our findings contribute to research about the consequences of pursuing strategies that security analysts are unwilling or unable to value.

## Democracy, Dictatorship and Economic Freedom Signals in Stock Market

David A. Burnie
Western Michigan University, United States
david.burnie@wmich.edu

### Abstract

The performance of eighty-seven stock markets is examined over the period December 1995 through June 2016. The markets investigated are a range of world stock markets. The democracy /dictatorship measures are based on from Cheibub, Gandhi and Vreeland (2010) data system. Measures of economic freedom, property rights and corruption are based on the Heritage Foundation indices its inception. The data are used as first differences to capture possible market response to new information. Additional control variables are used for expected returns, geographical region and year effects. Democracy / dictatorship has a significant impact on returns, the markets react positively to the release of economic freedom index data. The adjusted change in economic freedom score and corruption has positive impact on market returns. There was no effect found for property rights. These results are somewhat logical as 'perceived risk' change returns should change. Improvements in freedom from corruption should lead to better returns to investors as cash off flow should diminish and either paid out to investor or re-invested in the firm. One key conclusion is that (perceived) changes in corruption and economic freedom are associated with market return changes during the month of announcement.

# Climate in the 21st Century: A Macroeconomic Model of Fair Global Warming Benefits Distribution to Grant Climate Justice Around the World and Over Time

Julia Puaschunder
Columbia University, The New School, Schwartz Center for Economic Policy Analysis, United States
Julia.Puaschunder@gmail.com

## Abstract

Climate justice accounts for the most challenging global governance goal. In the current post-COP21 Paris agreement climate change mitigation and adaptation efforts, the financialization of the ambitious goals has leveraged into a blatant demand. In the weighting of the burden of global warming, the benefits of a warming earth have been neglected since recently. Following the introduction of the gains from climate change (Puaschunder, 2017), this article proposes a model to distribute the benefits of a warming earth in a fair way based on which countries are losing and which countries are winning from a warming earth until 2100. A macroeconomic cost-benefit analysis thereby aids to find the optimum solution on how to distribute climate change benefits and burden within society. When unidimensionally focusing on estimated GDP growth given a warmer temperature, over all calculated models assuming linear, prospect or hyperbolic gains and losses, the world will be gaining more than losing until 2100. Based on the WL index of 188 countries of the world, less countries (n=78) will gain more from global warming until 2100 than more countries (n=111) will lose from a warming earth. Based on the overall WLTT index factored by GDP per inhabitant, global warming benefits are demanded to be redistributed in a fair way to offset climate change loser countries for climate change mitigation and adaptation efforts and to instigate a transition into renewable energy. Adding onto contemporary climate fund raising strategies ranging from emissions trading schemes (ETS) and carbon tax policies as well as financing climate justice through bonds as viable mitigation and adaptation strategies, climate justice is introduced to comprise of fairness within a country but also among different nation states in a unique and unprecedented tax-and-bonds climate change gains and losses distribution. Thereby, climate change winning countries should be using taxation to raise revenues to offset the losses incurred by climate change. Climate change losers could raise revenues by issuing bonds that have to be paid back by taxing future generations. Regarding taxation, within the winning countries, foremost the gaining GDP sectors should be taxed. Climate justice within a country should also pay tribute to the fact that low- and high-income households share the same burden proportional to their dispensable income, for instance enabled through a progressive carbon taxation. Those who caused climate change could be regulated to bear a higher cost through carbon tax in combination with retroactive billing through inheritance tax. Deriving respective policy recommendations for the wider climate change community in the discussion of the results is aimed at ensuring to share the burden but also the benefits of climate change within society in an economically efficient, legally equitable and practically feasible way.

# Access to finance of small and medium-sized firms: Who is discouraged?

Reto Wernli
University of Zurich & University of Applied Sciences Lucerne, Switzerland
reto.wernli@hslu.ch

Andreas Dietrich
University of Applied Sciences Lucerne, Switzerland
andreas.dietrich@hslu.ch

## Abstract

Using representative survey data from small and medium sized enterprises, we show that discouraged firms are the dominant group of financially constrained firms in Switzerland. Applying a sample selection model, we first identify factors associated with firms needing external financing. Second, we examine what prevents those firms from applying for credit. We call this group "discouraged". Besides export orientation, firm size, regional and industry specific differences, we show that significant differences across bank types are prevalent. Firm-bank relationship factors are only partially relevant. But what seems to discourage firms more is the awareness of their financing situation, as opposed to those who lack knowledge thereof.

# The Impact of Labor Rights on Equity Market Returns: A Cross-Country Analysis

Robin Lieb
University at Albany - SUNY, United States
rlieb@albany.edu

Rita Biswas
University at Albany - SUNY, United States
rbiswas@albany.edu

## Abstract

There is ample evidence that financial market development leads to economic growth. If improving labor rights can be shown to positively influence equity markets, then that, in turn, will lead to economic growth. The finance literature has examined the impact of a broader metric, namely, the Economic Freedom Index, on equity returns worldwide and the evidence is mixed. This study focuses on one dimension of economic freedom: labor rights. Specifically, the study analyzes the impact of labor rights on national equity market indexes, using the Labor Rights Index developed by the Organization for Economic Co-operation and Development (OECD) and the Fraser Institute (FI). Using panel regression analysis for 49 countries (for the OECD Index) and 76 countries (for the FI Index) over the period 1985 through 2014, the study finds that changes in labor rights have a statistically significant positive impact on equity returns, after controlling for business-cycle effects and time fixed effects. The study also finds significant differences in the Labor-Rights-Equity Returns relationship between developed and less developed economies.

# Oil and Equity Index Return Predictability: The Importance of Dissecting Oil Price Changes

Haibo Jiang
Tulane University, United States
hjiang9@tulane.edu

Georgios Skoulakis
University of British Columbia, Canada
georgios.skoulakis@sauder.ubc.ca

Jinming Xue
University of Maryland, United States
jinming.xue@rhsmith.umd.edu

## Abstract

Using data until 2015, we document that oil price changes no longer predict G7 country equity index returns, in contrast to evidence based on earlier samples. Using a structural VAR approach, we decompose oil price changes into oil supply shocks, global demand shocks, and oil-specific demand shocks. The conjecture that oil supply shocks and oil-specific demand shocks (global demand shocks) predict equity returns with a negative (positive) slope is supported by the empirical evidence over the 1986-2015 period. The results are statistically and economically significant and do not appear to be consistent with time-varying risk premia.

# Growth, Leverage and Stock Returns: Evidence from Indian Market

Shabir Hakim
Effat University Jeddah, Saudi Arabia
shhakim@effatuniversity.edu.sa

## Abstract

Leverage besides exposing firms to bankruptcy risk, limits the investment options of high growth firms and disciplines the investment decisions of low growth firms. This study examines the role of leverage in explaining stock returns and also investigates the impact of growth on the relationship between leverage and stock returns. A four-factor model that is an extended version of Fama and French three-factor model is employed on ten-year monthly data of non-financial firms listed on Indian stock exchanges. Generalize method of moments is used to test the model. The findings of the study reveal that leverage is pervasive in stock prices in and growth influences the relationship between leverage and stock return but not exactly in the manner anticipated by theory.

# Volatility Relation between Credit Default Swap and Stock Market: New Empirical Tests

Miroslav Mateev
American University in the Emirates (AUE), United Arab Emirates
miroslav.mateev@aue.ae

Elena Marinova
EM Capital Consult Ltd, Bulgaria
elena.p.marinova@gmail.com

## Abstract

This paper investigates the relation between volatility of CDS and stock prices using a sample of 109 European investment-grade companies, during the period January 2012 – January 2016. We analyse the type of volatility relation between CDS and stock prices, and its persistence, using the Dynamic Conditional Correlation (DCC) model. In addition, we use the BEKK-GARCH model to study the volatility spillover between CDS and stock prices, and the direction of the spillover effect. We find strong evidence in support of the hypothesis that the volatility of CDS and stock prices across European investment-grade companies can be modelled under dynamic conditional correlation assumption. When we split the volatility into two components, namely, ARCH-effect (that is, short-run persistence of shocks) and GARCH-effect (that is, long-run persistence), we find that, in most cases, the persistence of correlation is statistically significant, while the impact of innovations (shocks) on correlation is not. Our tests of volatility spillover hypothesis provide new evidence that the volatility spillover is bi-directional, with the predominant leadership of the European CDS market over the stock market.

# Managerial Pay Disparity, Firm Risk and Productivity: New Insights from the Bond Market

chinmoy ghosh
University of Connecticut, United States
chinmoy.ghosh@uconn.edu

Di Huang
Alma College, Michigan, USA, United States
yellowdi81@gmail.com

Hieu Phan
University of Massachusetts Lowell, United States
Hieu_Phan@uml.edu

## Abstract

Prior literature suggests three alternative explanations for CEO pay gap: tournament incentives, CEO productivity, and managerial agency problems. In this study, we examine the relation between CEO pay gap and a firm's default risk and its implications for debt contracting. We find negative relations between CEO pay gap and default risk, cost of debt, and the number of restrictive debt covenants, but a positive relation between CEO pay gap and debt maturity. Additional analysis indicates that these results are concentrated in firms with highly productive CEOs. Collectively, our findings are consistent with the CEO productivity explanation for CEO pay gap.

# Are the World Real Net Interest Rates Zero?

Roy Martelanc
FEA/USP, Brazil
rmartela@usp.br

## Abstract

Many scholars and governments consider that interest rates are abnormally low, especially after the 2008 to 2012 crises. These low interest rates pose new problems to monetary policy and bank risk management. However, real interest rates, net of taxes, have not been systematically different from zero for the last 17 years and possibly not so for the last 7 decades. Actually, zero interest rates seem to be the norm rather than the exception.

# Carry and Consequence: Understanding the Recent Resilience of Emerging Market Currencies.

Nico Katzke
Stellenbosch University, South Africa
nfkatzke@gmail.com

Daniel Polakow
University of Cape Town, South Africa
Daniel.Polakow@uct.ac.za

## Abstract

This research paper is intended to place the strong performance of emerging market currencies of late into global context. While our analysis includes a global set of currencies, our case study will be on the South African rand. The rand's recent appreciation came despite the local economy being plagued by political uncertainty and low growth, worrying state capture allegations and the unceremonious ?ring of two esteemed ?nance ministers. Ultimately, this also culminated in a series of costly credit rating downgrades. Despite this, the currency displayed unexpectedly high levels of resilience and continued strength. In this paper we explore the fortuitous timing of both a global risk-on sentiment and attractive carry prospects for the rand during this turbulent time, and argue that it helped to ensure its value were kept a?oat. Our study extends to EM currencies as a whole, across the development spectrum, where our ?ndings suggest that global risk appetite and carry trade played an unexpectedly sizeable role in determining Emerging Market (EM) currency movements, globally, and that individual country idiosyncracies were far outweighed by these factors. This challenges traditional thinking surrounding the role and core importance of local fundamentals in determining spot rates, with the latter having e?ectively been rendered the rabbit in a horse and rabbit stew. The ultimate implication of this, however, holds a particularly worrying message in store for the future of currencies like the rand - while it has bene?tted from positive carry trade forces of late, the build-up of these positions might well have created underlying currency fragility. If current calm global conditions with high yield di?erentials were to change in the near future, we might see an opposite e?ect through an unwinding of carry positions which would arguably have a far greater bearing on the currency than local political or economic developments in coming months.

# Other Peoples Money: The Profit Performance of Family Dominated Banks in Bangladesh

Tasmina Mahbub
Cardiff University, United Kingdom
MahbubT1@cardiff.ac.uk

Kent Matthews
Cardiff University, United Kingdom
matthewsk@cardiff.ac.uk

Kate Barker
Manchester University, United Kingdom
BarkerK@Mancester.ac.uk

## Abstract

There is a growing consensus in the literature that family dominated ownership has a positive effect on non-financial firm performance. However, what little has been researched on the effect of family domination on the performance of banks shows no consensus. This paper examines the profit performance of family dominated banks in Bangladesh in the context of competing hypotheses of bank market structure. Using panel estimation we model profit performance of banks and show that the principal drivers are efficiency and non-performing loans. We also find that family dominated banks are less efficient and less profitable and that the source of the weaker performance is its lending practices and non-performing loan position and the practice of soft crony capitalism.

# AIP Flows Into ETFs is Smart Money

Padma Kadiyala
Pace University, United States
pkadiyala@pace.edu

## Abstract

Frazzini and Lamont (2008) study the wealth impact of reallocation decisions of mutual fund investors. They find that retail investors' flows are 'dumb' in that stocks whose mutual fund ownership increases suffer low future returns. We ask whether there is 'smart' money that buys underpriced stocks and sells overpriced stocks. We find that authorized participants (AP) in ETFs are able to exploit investor-sentiment driven mispricing in the underlying stocks. Their arbitrage trading generates cumulative excess returns of 41 basis points in the twelve month post-trading period.

# Geopolitical Risks Corporate Political Strategies and IPO Performance

Dimitrios Gounopoulos
University of Bath, United Kingdom
d.gounopoulos@bath.ac.uk

Panagiotis Loukopoulos
University of Limerick, Ireland
panayiotis.loukopulos@ul.ie

Victoria Patsika
Unievrsity of Bath,
V.D.Patsika@bath.ac.uk

## Abstract

Using the political alignment index (PAI) employed by Kim et al. (2012) as a proxy for local IPO's proximity to political power, we document a positive relation between political alignment index and IPO underpricing. Economically, firms in high PAI states are associated with an increase of 4.74% in the value of initial returns to investors. Further, our results suggest that the positive effect of PAI on the value of underpricing concentrates among small, young and non-hard-to-value firms. Additionally, our findings show that different forms of political connections have different effects on the association between political alignment index and initial aftermarket returns. Finally, our study documents that policy risks and related uncertainties are greater during pre-election years and periods surrounding the electoral cycle. The results are robust to various tests and alternative explanations.

# Small and Medium Enterprises and Working Capital Management: A Mauritian Perspective

K Seetah
University of Technology, Mauritius
kpadachi@umail.utm.ac.mu

K Padachi
University of Technology, Mauritius
kpadachi@umail.utm.ac.mu

## Abstract

Working capital is an essential component for a firm's success and therefore, firms need to ensure that their working capital is properly managed and controlled. SMEs find it more difficult to manage their working capital. This study aims at identifying the importance of working capital management for SMEs and the problems they face in managing their working capital. Data was collected through a survey of a sample of 150 SMEs owners. Factor Analysis, Independent Samples T-test and One-way-ANOVA were used to explore differences between the variables of interest. In order to test the reliability of the dimensions, the Cronbach's Alpha was used and to test for the dimensionality of scales, factor analysis was used. The results of the study showed that SMEs believed that working capital management helps to improve the liquidity and performance of a firm. The study also revealed the difficulties faced by SMEs in managing their working capital to be poor trade receivables collection period, lack of financial knowledge, high inventory management costs and stringent conditions of banks to grant loan facilities to SMEs. The results of the study made some practical recommendations to enable SMEs improve their working capital management.