BANGKOK

# WORLD FINANCE & BANKING SYMPOSIUM

DECEMBER 14 — 15, 2017

E-PROCEEDINGS

978-989-98816-6-2

# INDEX

**Integration Contracts and Asset Complementarity: Theory and Evidence from US Data**
**Paolo Di Giannatale - Nottingham University Business School in China**
**Francesco Passarelli - University of Turin and Bocconi University** .................................. 7
**Semiparametric estimation of large conditional variance-covariance and correlation matrices with an application to ?nancial data**
**Claudio Morana - Università di Milano-Bicocca** ............................................................ 8
**Structural Reforms, Financial Acceleration, and Unconventional Monetary Policy**
**Marc Nueckles - University of Duisburg-Essen** ................................................................ 9
**Firm Characteristics and Dividend Policy in India**
**Santanu Das - International Management Institute, Bhubaneswar** .................................. 10
**Analysis of the Relationship between GDP and FDI on the Economic Growth of Laos**
**Thanet Wattanakul - Khon Kaen University, Nong Khai Campus** .................................. 11
**Impact of Formal Financial Services on Households income and employment level in India**
**Susanta Kumar Sethy - University of Hyderabad**
**Dr. Phanindra Goyari - University of Hyderabad** .......................................................... 12
**Borrower Risk In Online P2p Microcredit Lending Model: A Synthesis Analysis**
**Mohammed Jamal Uddin - University of Milano-Bicocca**
**Giuseppe Vizzari - University of Milano-Bicocca**
**Stefania Bandini - University of Milano-Bicocca**
**Mahmood Osman Imam - University of Dhaka** .............................................................. 13
**The impact of family ownership status on determinants of leverage. Empirical evidence from South East Asia**
**Nhung Le - International University_Vietnam National University, HCM** ....................... 14
**The long-term relationship between Fitch ratings and bank's market value**
**Vincent Fromentin - CEREFIGE**
**Nadège Dongmo - CEREFIGE** .............................................................................. 15
**Financing Lumpy Investment**
**Christoph Görtz - University of Birmingham**
**Plutarchos Sakellaris - Athens University of Economics and Business**
**John Tsoukalas - University of Glasgow** .................................................................. 16
**Valuation effects of cultural disparity on cross border mergers: The evidence from India**
**Pradip Banerjee - Indian Institute of Management, Indore**
**Soumen De - Menlo College**
**Manish Tewari - Menlo College** ............................................................................ 17
**Impact of Institutional Quality on Debt-Returns Relationship in Developing Countries**
**Bolaji Tunde Matemilola - Universiti Putra Malaysia**
**A.N Bany-Ariffin - Universiti Putra Malaysia**
**Md Nassir Annuar - Universiti Putra Malaysia**
**W.N.W Azman-Saini - Universiti Putra Malaysia** ........................................................ 18
**Leading-by-Example and Third-Party Punishment: Behavioral Evidence**
**Reka Heim - Danube University**
**Juergen Huber - University of Innsbruck** .................................................................. 19

**Internal Rating Model for SME Customers in Islamic Banking**
Nerma Saracevic - University in Osijek ........................................ 20
**Do Board Characteristics play a moderating role in M&A decisions of family firms? Evidence from India**
Radha Ladkani - Indian Institute of Management Indore
Mehul Raithatha - Indian Institute of Management Indore ........................................ 21
**Investor sentiment regimes and the stock price reaction to monetary policy**
Alexandros Kontonikas - Essex Business School
Haifeng Guo - Adam Smith Business School
Chi-Hsiou Hung - Adam Smith Business School ........................................ 22
**Mortgage Lending, Banking Crises and Financial Stability in Asia**
Peter Morgan - Asian Development Bank Institute
Yan Zhang - Asian Development Bank Institute ........................................ 23
**Liquidity as a factor in asset pricing: Evidence from Asia-Pacific Stock Markets**
Keith Lam - University of Macau
Sophie Chan - University of Macau
Mike Li - University of Macau
Liang Dong - University of Macau ........................................ 24
**Basel III LCR: A Regulatory Shock on a Bank and Beyond**
Yong Kyu Gam - Southwestern University in Finance and Economics ........................................ 25
**Corporate Governance in Asia -- Challenges and Prospects**
Gunter DUFEY - University of Michigan and NTU/NBS ........................................ 26
**What drives the declining wealth effect of subsequent share repurchase announcements?**
David Ding - Singapore Management University
Hardjo Koerniadi - Auckland University of Technology
Chandrasekhar Krishnamurti - University of Southern Queensland ........................................ 27
**Information Asymmetry and Corporate Acquisitions**
Takato Mitsuya - Tokyo Institute of Technology
Naoshi Ikeda - Tokyo Institute of Technology
Kotaro Inoue - Tokyo Institute of Technology ........................................ 28
**Where goes Momentum?**
Ron Bird - University of Technology Sydney & Waikato University
Xiaojun (Kevin) Gao - Westpac Bank
Danny Yeung - University of Technology Sydney ........................................ 29
**Trading Activity and Stock Returns: Evidence from Pakistan Stock Exchange**
Sana Tauseef - Institute of Business Administration (IBA), Karachi
Philippe Dupuy - Grenoble Ecole De Management ........................................ 30
**When Does the Capital Adequacy Ratio Fail to Indicate Adequacy?**
Chung-Hua Shen - Institute of Bank and Money, Nanjing Audit University
Meng-Wen Wu - National Taipei University ........................................ 31
**A Re-evaluation of the Solvency II Calibration for Property Risk**
Liliana Arias - EDHEC Business School
Philippe Foulquier - EDHEC Business School
Tristan-Pierre Maury - EDHEC Business School ........................................ 32
**An Austrian model of the market process with numerical simulation**
Ricardo Luis Chaves Feijo - University of São Paulo at Ribeirao Preto

**Fabio Barbieri - University of São Paulo at Ribeirao Preto** ........................................ 33
**Do Banks Benefit from Lending to Innovative firms?**
**Chu Chen - University of Hong Kong**
**Frank Song - University of Hong Kong**
**Zengyuan Sun - Xiamen University** ........................................ 34
**The phenomena of negative power market prices**
**Benjamin Aust - Technical University Bergakademie Freiberg** ........................................ 35
**Technological determinants of profitability of economic entities operating in the Global Business Services sector. Empirical results from Poland**
**Rafa? Szmajser - Zurich Insurance Company Ltd Poland**
**Mariusz Andrzejewski - Cracow University of Economics**
**Marcin K?dzior - Cracow University of Economics** ........................................ 36
**The Effect of the Fed's Large-Scale Asset Purchases on Inflation Expectations**
**Willem Thorbecke - RIETI** ........................................ 37
**The choice of SEO method and its consequences: Rights vs. Public Offers**
**Kyojik (Roy) Song - SKKU Business School**
**Ju Hyun Kim - SKKU Business School** ........................................ 38
**Absorbing State and Migration Risk**
**Giampaolo Gabbi - University of Siena Italy**
**Camilla Ferretti - Università Cattolica del Sacro Cuore**
**Pietro Vozzella - Università degli Studi di Siena**
**Pietro Ganugi - Università degli Studi di Parma** ........................................ 39
**Risk-taking in Defined Benefit Pension Plans**
**Tomoki Kitamura - NLI-Research Institute**
**Kozo Omori - Osaka University of Economics** ........................................ 40
**Does gender diversity within corporate management improve financial performance of companies listed on Warsaw Stock Exchange?**
**Krzysztof Kompa - CEST International Research Association & WULS-SGGW**
**Dorota Witkowska - University of Lodz** ........................................ 41
**Time-varying Equity Risk Premium over Long-run Economic Cycles**
**Katsunari Yamaguchi - Ibbotson Associates Japan, Inc.** ........................................ 42
**Country Governance and International Equity Returns**
**Ben Marshall - Massey University**
**Hung Nguyen - Monash University**
**Nhut Nguyen - Massey University**
**Nuttawat Visaltanachoti - Massey University** ........................................ 43
**An Hyperbolic Model of Optimal Cash Balances**
**John van der Burg - Nelson Marlborough Institute of Technology**
**Xiaojing Song - University of East Anglia**
**Mark Tippett - University of Sydney** ........................................ 44
**Fiscal Sustainability in Practice. The Evidence from Highly Indebted EU Economies**
**Tomasz Uryszek - University of Lodz**
**Wojciech Zato? - University of Lodz** ........................................ 45
**Corporate Financial Distress and CEO Networks**
**Harjeet Bhabra - Concordia University**
**Ahmed Eissa - Concordia University** ........................................ 46

**Infrastructure financing and its Socio-economic impact in Kerala**
Rajeeve Lekshmanan Pillai - Kerala State Electricity Board Ltd.
Prof. (Dr) C.Ganesh Menon - University of Kerala ........ 47
**An uncertainty thermometer to measure the macro-financial risk of Latin America countries: under the perspective of a financial integration.**
Marcela Guachamin - University of Lyon, UJM Saint-Etienne ........ 48
**A Dividend-Based Model to Explain the Cross Section of Equity Returns for both Financial and Non-Financial Stocks**
James Foye - University of Ljubljana
Aljosa Valentincic - University of Ljubljana ........ 49
**Going public through mergers with SPACs**
Hyunseok Kim - SKK Business School
Jayoung Ko - SKK Business School
Kyojik "Roy" Song - SKK Business School ........ 50
**The Impact of Working Capital Management and Profitability: Case Study of Pharmaceutical and Chemical Firms Listed on Karachi Stock Exchange**
Arif Muhammad - Shaheed Benazir Bhutto University, Shaheed Benazirabad
Bab Shah - Shaheed Benazir Bhutto University, Shaheed Benazirabad ........ 51
**Using the Shapley Value of Optimal Portfolios for Systematic Risk**
Haim Shalit - Ben Gurion University ........ 52
**Credit Risk Contagion in Asia: Is It Country-Specific or Region-Wide?**
Nongnuch Tantisantiwong - University of Southampton
David Power - University of Dundee
Yiling Zha - University of Dundee ........ 53
**Predictability in Russian Stock Market**
Ilya Dergunov - Goethe University Frankfurt and SAFE ........ 54
**The Effects of the Irruption of Blockchain Technology into Financial Markets**
Marta Felis - Universidad Autonoma de Madrid
Simon Olsen - Lykke Corp ........ 55
**Credit Market Spillovers: Evidence from a Syndicated Loan Market Network**
Abhimanyu Guptay - University of Essex
Sotirios Kokas - University of Essex
Alexander Michaelides - Imperial College London ........ 56
**Bond Market Indicator**
Andreas Thomann - University of Zurich ........ 57
**Mood and Herding in International Stock Markets**
Azizah Abu Bakar - Coventry University
Evangelos Vagenas-Nanos - University of Glasgow ........ 58
**Market Demand and Default Risk in Small Business Finance: Evidence from the Financial Crisis**
Patrick Behr - Brazilian School of Public and Business Administration (EBAPE
Andreas Madestam - Stockholm University ........ 59
**European Banks and Tax Havens**
Vincent Bouvatier - University Paris Nanterre
Gunther Capelle-Blancard - University Paris 1 Panthéon-Sorbonne, Labex Réfi
Anne-Laure Delatte - Cepii ........ 60

**Technical analysis rules: New evidence for the Chilean stock market**
alejandro bayas - universidad de chile
arturo rodriguez - universidad de chile ........ 61
**Economic and Political Effects on Currency Clustering Dynamics**
Marcel Wollschlaeger - University of Duisburg-Essen
Alexander P. Becker - Boston University
Irena Vodenska - Boston University
Rudi Schaefer - University of Duisburg-Essen ........ 62
**On Reaching for Yield and the Coexistence of Bubbles and Negative Bubbles**
Viral Acharya - NYU Stern and RBI
Hassan Naqvi - SKK GSB ........ 63
**Does Air Pollution Affect Local Stock Returns in China?**
Mengmeng Guo - Southwestern University of Finance and Economics
Tao Yang - Southwestern University of Finance and Economics
Xiaoya Ding - University of San Francisco
Ligang Zhong - University of Windsor ........ 64
**Run for home': SME Lending and the Head Quarters bias**
Tianshu Zhao - Birmingham Business School, University of Birmingham
Kul Luintel - Cardiff Business School, Cardiff University
Kent Matthews - Cardiff Business School, Cardiff University ........ 65
**Board Size, Board Composition, Board Activity and Performance: Empirical Evidence from the Indian Banking Sector**
Manas Mayur - Goa Institute of Management
Palanisamy Saravanan - Indian Institute of Management ........ 66
**(Ab)Normal Returns in an Emerging Stock Market: International Investor Perspective**
Paulina Roszkowska - Hult International Business School
Lukasz K. Langer - Haas School of Business, UC Berkeley ........ 67
**Impact of a Symbiotic Relationship on the Performance of MSMEs: Applying the Monte Carlo Method**
Ploypailin Kijkasiwat - The University of Waikato
Stuart Locke - The University of Waikato
Nirosha Hewa Wellalage - The University of Waikato ........ 68
**Bank enforcement actions and the terms of lending**
Yota Deli - University of Glasgow
Manthos Delis - Montpellier Business School
Iftekhar Hasan - Fordham Business School
Liuling Liu - Bowling Green State University ........ 69
**Effect Momentum Evidence from Advance Emerging Market**
Blazej Podgorski - Kozminski University ........ 70

# Integration Contracts and Asset Complementarity: Theory and Evidence from US Data

Paolo Di Giannatale
Nottingham University Business School in China, China
Paolo.Di-Giannatale@nottingham.edu.cn

Francesco Passarelli
University of Turin and Bocconi University, Italy
francesco.passarelli@unito.it

## Abstract

Firms sign integration contracts to increase profits from trade and competition with third parties. An integration contract can improve complementarity among partners (productivity effect) and increase their power in the marketplace (strategic effect). We investigate three bilateral contracts: M&A, Minority Stake purchase, and Joint Venture. Using a cooperative game approach, we characterize quite general profitability conditions. To estimate them, we adopt a novel complementarity index. It shows that for any kind of contract, a significant share of the integration profits is due to the "strategic" effect of increased market power. In most cases productivity gains are relatively less important.

# Semiparametric estimation of large conditional variance-covariance and correlation matrices with an application to ?nancial data

Claudio Morana
Università di Milano-Bicocca, Italy
claudio.morana@unimib.it

## Abstract

The paper yields further insights on the semipametric dynamic conditional correlation model of Morana (2015), with particular reference to its QML estimation and a comparative application to risk analysis.

# Structural Reforms, Financial Acceleration, and Unconventional Monetary Policy

Marc Nueckles
University of Duisburg-Essen, Germany
marc.nueckles@uni-due.de

## Abstract

I study how structural reforms in the periphery of the European Monetary Union affect economic activity during a financial crisis. The main contribution of the paper is that it considers three key characteristics of the recent financial crisis that are potentially relevant for policy analysis: First, the crisis was triggered in the financial sector; second, there were spillovers from the financial to the real sector due to credit rationing; third, governments actively intervened in the credit market during the crisis. I construct a dynamic general equilibrium model with financial frictions to address these issues. The model allows insights into how asset prices, credit spreads, and credit intermediation respond to reforms. I show that permanent structural reforms have positive effects on aggregate output in both the long and the short run. They affect the capital market positively and stimulate credit intermediation. Moreover, structural reforms are not in conflict with credit market interventions.

# Firm Characteristics and Dividend Policy in India

Santanu Das
International Management Institute, Bhubaneswar, India
santanu@imibh.edu.in

## Abstract

I study the determinants and evolution of dividends of BSE 500 companies in India over a period from 2001 to 2015. I find that although these firms have been paying dividends but they are not consistent. Dividends in India are more determined by the availability of profits and liquidity. The speed of adjustment coefficients which is estimated using the Lintner model, are found to be high and statistically significant over the sample period. We also study the impact of leverage and size on the dividend decision. I report that although leverage is an important determinant of dividend, size is not. In our study, we also pose two important research questions arising out of this study regarding studying quality of earnings and the reluctance to adopt and predictable dividend policy.

# Analysis of the Relationship between GDP and FDI on the Economic Growth of Laos

Thanet Wattanakul
Khon Kaen University, Nong Khai Campus, Thailand
thanetwat@hotmail.com

## Abstract

In the current globalization stream, the foreign investment is important role not only for developed country but at all especially the least developing country as Laos. This study aims to examine the relationship between the GDP and FDI on economic growth of Laos by using data from 1985 to 2014. The long run relationship was analyzed by Johansen co-integration test and estimates the speed of adjustment by Vector Error Correction approach. Estimated results indicated that there was long run relationship running from FDI to GDP and the relation would return to the equilibrium in about 19 when it was occurred. This study suggest that policy maker should be improved the other factor for motivated FDI and accelerate Lao economy.

# Impact of Formal Financial Services on Households income and employment level in India

Susanta Kumar Sethy
University of Hyderabad, India
susanthu2010@gmail.com

Dr. Phanindra Goyari
University of Hyderabad, India
phanin12@gmail.com

## Abstract

This paper highlights the multiplier effect of financial inclusion implies that current status of supply side and demand side financial inclusion dimensions, region wise banking penetration and performance of Self Help Groups-Bank linkage programme in region wise in India. This study also examines the impact of formal financial services (or Financial Inclusion) on household's income and labour employment in both organized and unorganized sector in India. The empirical results confirm the positive and significant impact of formal financial services like ATMs per 1 lakh adults (supply side financial inclusion indicators), Self-Help groups and proportion of households having life insurance funds (demand side financial inclusion indicators) on households income. Further, the empirical results reveals that the coefficients of unorganized labour is statistically significant and positive impact on per capita income, which may be the result of enhancing financial inclusion. But the coefficient of organized labour is statistically insignificant implying that the role of this sector is unimportant in the per capita income. This findings is not surprising as the unorganized sector dominate in labour employment in India because in this study, the trend line revealed that the structure of employment in India is broadly unorganized around 94 percent of the total employment depends on unorganized sector.

# Borrower Risk In Online P2p Microcredit Lending Model: A Synthesis Analysis

Mohammed Jamal Uddin
University of Milano-Bicocca, Italy
mohammed.jamaluddin@disco.unimib.it

Giuseppe Vizzari
University of Milano-Bicocca, Italy
vizzari@disco.unimib.it

Stefania Bandini
University of Milano-Bicocca, Italy
bandini@disco.unimib.it

Mahmood Osman Imam
University of Dhaka, Bangladesh
osman@du.ac.bd

## Abstract

Despite its recent fast growth in fame and money raised, Peer to Peer (P2P) lending remains understudied and growing field in academia. The paper aims to explore how borrower's risk is measured on P2P microcredit lending model so that problems in this regard can be identified and solutions can be explored. We conducted a keyword-search from September 2015 to February 2016 in Google Scholar with seven key terms associated with P2P lending and its borrowers' risk. Since the research topic is contemporary and most journals and conferences open their databases for search engines like Google Scholar, we assumed that any search bias would be limited and therefore abstained from journal search. To supplement this search bias, if any, we also searched SSRN, Science Direct and Springer for the same. The meta-analysis of literature review gives insights on how the P2P platforms got success in pro-social lending and how this platform opened the access to the borrowers to avail the loan without the affiliation of any group; which is similar to traditional small personal loan. The review finds lenders always face challenges in choosing a borrower among many candidates on such platforms, particularly for individual lenders who are not expert in lending. Moreover, lenders are provided with little information which lacks the details of the financial aspects, particularly risk assessment of the loan applicants on which making lending-decision is really a tough job. Different risk management tools are practiced in the sector but most of them are for group borrowers. Most importantly, risk rating of borrowers is not provided to the lenders on P2P platforms. This lack of risk rating of borrower being embedded to P2P is surprising since credit scoring could help the online P2P model's lenders to evaluate the loan applicants more efficiently and thereby enable lenders to match their lending risk perception with the degree of risk associated with a particular loan applicant.

# The impact of family ownership status on determinants of leverage. Empirical evidence from South East Asia

Nhung Le
International University_Vietnam National University, HCM, Vietnam
lhnhung@hcmiu.edu.vn

## Abstract

We investigate the impact of family ownership on determinants of leverage in South East Asia. We find that family firms use more debt than non-family firms and that family ownership strengthens the positive relationship between firm size and leverage. Family firms have a higher level of tangibility at a certain level of debt relative to non-family firms. On one hand, family firms with family CEOs use more debt to finance internal fund deficit relative to family firms with CEOs from outside or non-family firms. On the other hand, family firms with family CEOs have a lower level of debt corresponding to growth opportunities than others. Our results are robust to alternative estimation techniques and measurement of leverage. These findings contribute to understanding the determinants of leverage among family-controlled firms in South East Asia.

# The long-term relationship between Fitch ratings and bank's market value

Vincent Fromentin
CEREFIGE, France
vfromentin@gmail.com

Nadège Dongmo
CEREFIGE, Canada

## Abstract

Rating agencies' role in the financial sector has been expanding. One can wonder about the relationship between the value of banks and the rating. We apply a dynamic panel data to the analysis of ratings and financial ratios and we choose to focus on the banking sector because credit Ratings of this sector are different from those of the other sectors. With different models and measurements, we find that there is a long-term relationship between credit ratings and the value of banks. This relationship is more significant between Individual rating and the value than between Issuer Default Rating.

# Financing Lumpy Investment

Christoph Görtz
University of Birmingham, United Kingdom
c.g.gortz@bham.ac.uk

Plutarchos Sakellaris
Athens University of Economics and Business, Greece
plutarch@aueb.gr

John Tsoukalas
University of Glasgow, United Kingdom
john.tsoukalas@glasgow.ac.uk

## Abstract

We study how firms finance lumpy adjustment in capital, employment and inventories. We analyze U.S. firm data from Compustat covering 1971-2013. Lumpy expansion and contraction episodes in firms' productive assets are important in accounting for movements in macroeconomic and financial aggregate variables. Firms use primarily cash balances and debt in order to expand or contract capacity, but these margins are not perfect substitutes. Cash balances play a preparatory role rising (falling) temporarily prior to lumpy positive (negative) adjustment. Debt is also important as firms de-leverage (increase leverage) prior to lumpy positive (negative) adjustment and then slowly increase leverage (deleverage) often several years after the event. Small and large firms differ in their use of external equity to finance lumpy events. During lumpy adjustment profitability and leverage are positively correlated.

# Valuation effects of cultural disparity on cross border mergers: The evidence from India

Pradip Banerjee
Indian Institute of Management, Indore, India
pradip2002@gmail.com

Soumen De
Menlo College, United States
sde@menlo.edu

Manish Tewari
Menlo College, United States
manish.tewari@menlo.edu

## Abstract

We examine whether cultural proximity has affected the long run performance of 141 cross-border mergers and acquisitions (M&As) undertaken by Indian firms between 1995 and 2015 as it has been shown to affect a global samples of firms analyzed separately by Chakrabarti et al., (2009) and Ahern et al., (2015). Utilizing the traditional Hofstede measure of cultural distance and other pertinent variables that purport to measure cultural differences, we document a positive and statistically significant influence of cultural distance on Indian cross-border M&As and also corroborate some of other findings reported in prior research.

# Impact of Institutional Quality on Debt-Returns Relationship in Developing Countries

Bolaji Tunde Matemilola
Universiti Putra Malaysia, Malaysia
matemilolabt@gmail.com

A.N Bany-Ariffin
Universiti Putra Malaysia, Malaysia
bany@upm.edu.my

Md Nassir Annuar
Universiti Putra Malaysia, Malaysia
annuar@upm.edu.my

W.N.W Azman-Saini
Universiti Putra Malaysia, Malaysia
wazman@upm.edu.my

## Abstract

Most developing countries are characterized by low institutional quality which may discourage lenders to provide debt capital for fear of inadequate protections. This article examines the moderating effects of institutional quality on the debt-returns relationship, using large samples of listed firms from developing countries. Our findings reveal that institutional quality negatively moderates the book debt-returns relationship. As a robustness check, institutional quality negatively moderates the market debt-returns relationship. These results suggest that better institutional quality appears to reduce risk, resulting in investors demanding lower returns.

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

Reka Heim
Danube University, 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, pointing to in-group favoritism.

# Internal Rating Model for SME Customers in Islamic Banking

Nerma Saracevic
University in Osijek, Bosnia and Herzegovina
nermasa@bih.net.ba

## Abstract

The purpose of the doctoral research is to develop Internal rating model for the segment of small and medium-sized companies in an Islamic bank. The basis for the research is specific operations of Islamic financial institutions, within which Islamic banks operate. The specificity is reflected in interest-free financing projects and companies, as well as the types of assets- based products of Islamic banks (murabahah, istisna'a, salam, ijara) or equity-based products (musharakah, diminishing musharakah, mudharabah) through the financing from specific types of deposits. Relatively small number of research papers treated this scientific field , whereas in commercial banks is treated as one of the mandatory and important tool in risk management. The focus of research is the development of Internal ranking Model for SME customers based on the parameter probability of default (PD) and its link with the possibility of using the product of Islamic banks above.

# Do Board Characteristics play a moderating role in M&A decisions of family firms? Evidence from India

Radha Ladkani
Indian Institute of Management Indore, India
radhal@iimidr.ac.in

Mehul Raithatha
Indian Institute of Management Indore, India
mehulr@iimidr.ac.in

## Abstract

We study the effect of family ownership and board characteristics on the M&A decisions of Indian firms. We find that firms with high ownership concentration in the hands of family owners are less likely to merge. However, favourable board characteristics moderate the aversion of family firms towards mergers and acquisitions. Using a pooled data on family and non-family firms in India, we document that family firms in India with more independent and busier boards are more likely to undertake M&A transactions. Results indicate that family firms with boards that meet more frequently or have non-duality between CEO and the Chairman, are more likely to have aversion to M&A deals. Thus, board characteristics have a significant moderating effect on the likelihood of M&A transactions by family firms in India.

# Investor sentiment regimes and the stock price reaction to monetary policy

Alexandros Kontonikas
Essex Business School, United Kingdom
a.kontonikas@essex.ac.uk

Haifeng Guo
Adam Smith Business School, United Kingdom
h.guo.1@research.gla.ac.uk

Chi-Hsiou Hung
Adam Smith Business School, United Kingdom
chi-hsiou.hung@glasgow.ac.uk

## Abstract

We investigate the role of investor sentiment in the transmission of monetary policy shocks on the U.S. stock market and portfolios of stocks sorted according to size, value and past performance characteristics. We find that when beginning-of-period proxies for investor sentiment are high, or during periods of decreasing sentiment, there is a significant positive response of excess stock returns to expansionary conventional and unconventional monetary policy shocks. Generally the effect is stronger for sentiment-sensitive stocks.

# Mortgage Lending, Banking Crises and Financial Stability in Asia

Peter Morgan
Asian Development Bank Institute, Japan
pmorgan@adbi.org

Yan Zhang
Asian Development Bank Institute, Japan
yanzhang@adbi.org

## Abstract

We estimated the effect of the share of mortgage lending by individual banks (together with some control variables) on two measures of financial stability—the bank Z-score and the non-performing loan ratio—for a sample of 1,889 banks in 65 advanced and emerging economies for the period 1987–2014 from the Bankscope database. We find evidence that an increased share of mortgage lending is positive for financial stability, specifically by lowering the probability of default by financial institutions and reducing the non-performing loan ratio, at least in non-crisis periods, for levels of mortgage shares up to 49%–68%. For higher levels of mortgage lending shares, the impact on financial stability turns negative. Also, the occurrence of a banking crisis reduces the diversification benefits associated with mortgage lending. Asian banks show greater financial stability during non-crisis periods, but are more negatively affected by a higher mortgage ratio during crisis periods. Finally, a higher level of regulatory quality improves both financial stability measures, but the effects of macroprudential measures are mixed.

## Liquidity as a factor in asset pricing: Evidence from Asia-Pacific Stock Markets

Keith Lam
University of Macau, Macau
keithlam@umac.mo

Sophie Chan
University of Macau, Macau
356508356@qq.com

Mike Li
University of Macau, Macau
lwhzbyz@vip.qq.com

Liang Dong
University of Macau, Macau
yb47002@umac.mo

## Abstract

This study empirically tests the impact of liquidity on expected returns in Asia-Pacific stock markets over the period from July 1997 to June 2016. We construct a new liquidity factor from ten liquidity proxies using the asymptotic principal components (APC) method (Korajczyk and Sadka, 2008). The time-series results show that the new liquidity factor can explain the pricing return in six tested asset pricing models in Asia-Pacific markets. We find that the China and U.S. markets are two important liquidity driving forces in Asia-Pacific markets. We also find that both developed and emerging Asia-Pacific markets are partially integrated financial markets, with developed markets having a higher degree of segmentation than emerging markets. Our findings suggest that international and local investors should play attention to both international and local regional liquidity risks.

# Basel III LCR: A Regulatory Shock on a Bank and Beyond

Yong Kyu Gam
Southwestern University in Finance and Economics, China
gam@swufe.edu.cn

## Abstract

This study investigates a regulatory spillover effect of the Basel III liquidity standard on the real economy. Since the Basel Committee's official endorsement of the new liquidity regulation in December 2010, banks exposed to high liquidity risk reduced loan proportion significantly. Regions with a large proportion of such banks suffered lower subsequent small business lending and GDP growth. After the introduction of the new liquidity regulation, banks with weak liquid balance sheets raised their deposit rates aggressively, generating liquidity problems in nearby banks through deposit competition and ultimately curbing an expansion of the neighboring bank's credit supply to the economy. This is an important reminder that while more stringent liquidity regulation may make banks safer, there are real costs as well.

# Corporate Governance in Asia -- Challenges and Prospects

Gunter DUFEY
University of Michigan and NTU/NBS, United States
gdufey@umich.edu

## Abstract

Paper provides background for corporate governance issues in Asia; provides relavant data and provides suggestions for improvement

# What drives the declining wealth effect of subsequent share repurchase announcements?

David Ding
Singapore Management University, Singapore
davidding@smu.edu.sg

Hardjo Koerniadi
Auckland University of Technology, New Zealand
hkoernia@aut.ac.nz

Chandrasekhar Krishnamurti
University of Southern Queensland, Australia
chandrasekhar.krishnamurti@usq.edu.au

## Abstract

In this paper, we examine open market share repurchase announcement returns during the period from 1996 to September 2014. We find that the average announcement return is much lower than that reported in early studies in the literature. This lower return is explained by the increasing number of subsequent announcements over the years with persistently decreasing returns. Further tests suggest that the lower announcement returns of subsequent repurchase announcements are consistent with the self-attribution theory.

# Information Asymmetry and Corporate Acquisitions

Takato Mitsuya
Tokyo Institute of Technology, Japan
tkt.0127.mitsuya@gmail.com

Naoshi Ikeda
Tokyo Institute of Technology, Japan
ikeda.n.ab@m.titech.ac.jp

Kotaro Inoue
Tokyo Institute of Technology, Japan
inoue.k.aq@m.titech.ac.jp

## Abstract

In corporate acquisitions under information asymmetry between potential bidders and a target firm, selection bias should occur when transactions are realized. It is important to consider such selection bias in analyses of acquisitions. In this study, we use sample selection models to analyze the influence of information asymmetry on bidders' selection of their target firms, the means of payment and the wealth effects for bidders and targets. We find that acquisitions between two firms with a lower degree of information asymmetry are more likely to be consummated. In addition, bidders that are informed about the target firm are likely to pay for the acquisition with cash and gain greater wealth.

# Where goes Momentum?

Ron Bird
University of Technology Sydney & Waikato University, Australia
ron.bird@uts.edu.au

Xiaojun (Kevin) Gao
Westpac Bank, New Zealand
kevin_gao@westpac.co.nz

Danny Yeung
University of Technology Sydney, Australia
danny.yeung-1@uts.edu.au

## Abstract

Momentum is one of numerous market anomalies highlighted over the last 30+ years, bringing into question the efficiency of markets around the world. However, the question is left open as to whether the apparent profit opportunities offered by time-series and cross-sectional investment strategies are exploitable. With the incorporation of transaction costs and risk, the "typical" implementation of both momentum strategies yields profits in only a handful of markets. However, we demonstrate that the performance of the momentum portfolios is very much dependent on the extent to which implementation rules chosen are in synch with the periodicity of the market.

# Trading Activity and Stock Returns: Evidence from Pakistan Stock Exchange

Sana Tauseef
Institute of Business Administration (IBA), Karachi, Pakistan
sasghar@iba.edu.pk

Philippe Dupuy
Grenoble Ecole De Management, France

## Abstract

Amihud and Meldenson (1986) reported a negative relationship between liquidity and stock returns suggested that the investors get compensated for the illiquidity risk. This study investigates the existence of liquidity premium and its impact on stock returns in the emerging equity market of Pakistan. Using stock turnover as a measure of liquidity, the results confirm that liquidity explains the differences in average returns across stocks; however, the findings propose a positive relationship between liquidity and returns. This positive relationship between stock turnover and returns favors the hypothesis that the information content effect captured by the turnover is more dominating than the liquidity effect.

# When Does the Capital Adequacy Ratio Fail to Indicate Adequacy?

Chung-Hua Shen
Institute of Bank and Money, Nanjing Audit University, China
chshen01@ntu.edu.tw

Meng-Wen Wu
National Taipei University, Taiwan
mwwu@mail.ntpu.edu.tw

## Abstract

Our study evaluates why banks with a high regulatory capital adequacy ratio (CAR) tend to be in distress and whether there are any exceptions. We propose two types of banks, one is a capital suspicious bank that has a high CAR and a low leverage ratio (LR), and the other is a capital trustable bank that has a high CAR and a high LR. We propose that capital suspicious banks take more risks than capital trustable banks. Based on this hypothesis, our results show that capital suspicious banks suffer more profit losses and have higher risks than capital trustable banks during a crisis. However, during the pre-crisis, capital suspicious banks outperform capital trustable banks in most profit measures, such as return on equity and non-interest income. Further, capital suspicious banks also have higher ex ante risks but not necessarily ex post risks.

## 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 not synchronized with the stocks, interest rate cycle and spreads cycle. 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.

# An Austrian model of the market process with numerical simulation

Ricardo Luis Chaves Feijo
University of São Paulo at Ribeirao Preto, Brazil
riccfeij@usp.br

Fabio Barbieri
University of São Paulo at Ribeirao Preto, Brazil
fbarbieri@usp.br

## Abstract

The paper starts with a revision of the pioneer study of Littlechild and Owen (1980), one of the first initiatives to model Austrian insights mathematically. Next, it offers a complement in which it examines the same basic problem not by algebraic solution, but by random generation of values in the simulation environment offered by the Matlab program. It is emphasized here the Kirzner's approach to the entrepreneur's role in discovering opportunities and how that leads to market equilibrium. In this explanation, the entrepreneurial activity is crucial to the market. The emphasis is not on the price that equilibrates supply and demand, since there is not a single price for a homogeneous commodity. A homogeneous good is negotiated with different prices in different parts of a market. This is because the market participant does not fully know the whole market and the action of the other agents. It is imagined here that entrepreneurial activity, the agent's alertness, leads to a uniform price. Then it is a question on providing an explanation of the process in terms of a formal and mathematical model, in the belief that formalization leads to a better understanding of the precise nature of the market process and the entrepreneurial role in equilibration. In the sense of criticizing and expanding the pioneer model, this paper makes an extension of the basic model by using numerical simulation technique to investigate the process of convergence of markets from the Austrian perspective. The paper also discusses the effects of the heterogeneous agents and market barriers in the market convergence process.

# Do Banks Benefit from Lending to Innovative firms?

Chu Chen
University of Hong Kong, Hong Kong
true0316@connect.hku.hk

Frank Song
University of Hong Kong, Hong Kong
fmsong@hku.hk

Zengyuan Sun
Xiamen University, China
zengyuansun@xmu.edu.cn

## Abstract

Combing a number of datasets from the U.S. for the period of 1986 to 2011, we examine whether banks benefit from lending to innovative firms. We find that banks with innovation-lending expertise can benefit from lending to innovation-competitive firms by lowering default risk or increasing the probabilities of future business. Additionally, we show that banks gain expertise by continuous lending to innovative firms. Furthermore, a firm's innovation efficiency matters more to a lender than the number of patents the firm holds. We contribute to the literature by elucidating the mechanisms by which banks value borrower innovation.

# The phenomena of negative power market prices

Benjamin Aust
Technical University Bergakademie Freiberg, Germany
benjamin.aust@bwl.tu-freiberg.de

## Abstract

While Germany reflects the largest energy exchange in Europe, the occurrence of negative market prices represents an unusual and serious phenomenon for traders. In this paper, drivers of negative energy prices in Germany are investigated. After discussing reasons for their existence, I then emphasize on estimating these extreme price scenarios. Running multiple regressions for examining negative price indicators, a sample period of hourly based data (2012-2016) will be applied. Finally, I empirically prove the impossibility of forecasting negative day-ahead prices, whereas interestingly, the estimation of the associating trading volumes supports the underlying negative price factors.

# Technological determinants of profitability of economic entities operating in the Global Business Services sector. Empirical results from Poland

Rafa? Szmajser
Zurich Insurance Company Ltd Poland, Poland
rszmajser@gmail.com

Mariusz Andrzejewski
Cracow University of Economics, Poland
mariusz.andrzejewski@uek.krakow.pl

Marcin K?dzior
Cracow University of Economics, Poland
kedziorm@uek.krakow.pl

## Abstract

This paper presents technological factors of profitability which were analysed for the outsourcing enterprises in the financial service sector in Poland. The paper describes and presents a discussion of the crucial technological factors determining the profitability of the outsourcing enterprises. The analysis was focused on the following factors: the applications and services available via “cloud”, automation and robotization, interactive applications and social media, tools and applications for processing a large volume of data and the artificial intelligence solutions. In view of the empirical verification, the crucial technological factors included robotization and automation, the applications available via “ cloud” as well as the tools and applications for processing a large volume of data. The results were verified for a two or three year timeframe. The factors were analysed from the perspective of the positions the respondents held, the line of business of an enterprise and its location. The data were collected on the basis of tailored questionnaires. The statistical results were verified by the ANOVA variance analysis.

# The Effect of the Fed's Large-Scale Asset Purchases on Inflation Expectations

Willem Thorbecke
RIETI, Japan
willem-thorbecke@rieti.go.jp

## Abstract

In 2008 aggregate demand collapsed and the U.S. experienced deflation. The Fed employed large-scale asset purchases (LSAP) to fight deflation. This paper investigates how announcements of LSAP affected inflationary perceptions. If investors believed that LSAP would raise inflation, they would purchase inflation hedges and sell assets exposed to inflation. This would raise the prices of assets that benefit from inflation and lower the prices of assets that are harmed by inflation. Examining the relationship between price changes and asset sensitivities for a cross section of assets can thus shed light on how markets processed news of LSAP. The results indicate that initially LSAP announcements lowered inflationary expectations. Only when the economy was recovering and inflation returning did LSAP events raise expected inflation.

# The choice of SEO method and its consequences: Rights vs. Public Offers

Kyojik (Roy) Song
SKKU Business School, South Korea
roysong@skku.edu

Ju Hyun Kim
SKKU Business School, South Korea
kimjh79@skku.edu

## Abstract

Unlike most markets in which one type of SEO method dominates, South Korea provides a rare environment in which many types co-exist. This allows investigation into the factors that affect the choice of SEO method and the consequences. We focus on rights issues and public offers in this paper, as private placements are often the result of regulatory requirements and thus involuntary. We find that rights issuing firms are in better financial health than public offering firms, and all SEO firms show deterioration in long-run performance, public offering firms more so than rights offering firms. Contrary to extant literature, we find that the market reacts more negatively to announcement of rights offers than to public offers. We explain this phenomenon with the local regulatory environment, which allows freedom of discount for rights issues.

# Absorbing State and Migration Risk

Giampaolo Gabbi
University of Siena Italy, Italy
giampaolo.gabbi@unisi.it

Camilla Ferretti
Università Cattolica del Sacro Cuore, Italy

Pietro Vozzella
Università degli Studi di Siena, Italy

Pietro Ganugi
Università degli Studi di Parma, Italy

## Abstract

The estimation of rating transition probabilities may lead banks to lend money incoherently with borrowers' lifetime rating trajectory, causing both a deterioration in asset quality and higher system distress. Applying a Mover-Stayer model to determine the migration risk of small and medium enterprises, we find that banks are over-estimating their credit risk resulting in excessive regulatory capital. This has important macroeconomic implications due to the fact that holding a large capital buffer is costly for banks and this in turn influences their ability to lend in the wider economy. This conclusion is particularly true during economic downturns with the consequence of exacerbating the cyclicality in risk capital that therefore acts to aggravate economic conditions further. We also explain part of the misevaluation of borrowers and the actual relevant weight of non-performing loans within banking portfolios: prudential prescriptions cannot be considered as effective as expected by regulators who have designed the "new" regulation in response to the most recent crisis. The Mover-Stayers approach helps to reduce calculation inaccuracy when analyzing the historical movements of borrowers' ratings and, consequently improves the efficacy of the resource allocation process and banking industry stability.

## Risk-taking in Defined Benefit Pension Plans

Tomoki Kitamura
NLI-Research Institute, Japan
PXL03406@nifty.ne.jp

Kozo Omori
Osaka University of Economics, Japan
kozo.omori@gmail.com

## Abstract

With regard to the risk-taking decision problem of defined benefit pension plans from the viewpoint of equity holders, the literature has found that a boundary solution such as 0% or 100% stock is optimal to maximize the value of equity. However, pension plans in real economies have middle-range asset allocations, such as 60/40 equity–bond weights, contradicting the theory in the literature. Therefore, we conduct a theoretical examination of the risk-taking decision of defined benefit plan in terms of maximizing equity holders' value. We consider the equity holders' position represented by two put options: a pension liability guarantee option, and a default option. In the former case, the company has to pay for the deficit of the pension benefit. In the latter case, the company can default on the liability if it does not have sufficient assets. We find that the optimal solution for risk-taking is in the middle range, which is consistent with the behavior of pension investments in real economies. The default option has time value for a wide range of value of underlying assets, which is the sum of pension assets and business assets. The value of the default option has a diversification effect, where the change in its value is relatively insensitive to fluctuations in the value of the underlying assets. As a result, the change in the value of the default option with respect to risk-taking is slower than that of the pension liability guarantee option. This mechanism results in the internal solution of pension risk-taking.

# Does gender diversity within corporate management improve financial performance of companies listed on Warsaw Stock Exchange?

Krzysztof Kompa
CEST International Research Association & WULS-SGGW, Poland
krzysztof.kompa@gmail.com

Dorota Witkowska
University of Lodz, Poland
prof.witkowska@gmail.com

## Abstract

Gender diversity in the boardrooms became the "hot topic" in recent years. The literature reports examples of research proving all possible effects (i.e. both positive and negative together with lack of influence) of gender diversity among top managers influence on the company performance. Therefore, the aim of our research is to find out the women share on boards of companies listed on the Warsaw Stock Exchange in the years 2010-2016, and how the changes in the gender structure of the management boards influence the company performance. In our investigation we use data provided by Norotia Serwis, and apply taxonomic measures together with dynamic and correlation analysis. Our results show that it would be impossible to obtain the 40% parity level on boards till 2020 since increasing tendency of women representation in upper management is rather slow. There is no significant positive correlation between changes in the women share on boards and financial performance of companies, we observe only negative significant relations.

# Time-varying Equity Risk Premium over Long-run Economic Cycles

Katsunari Yamaguchi
Ibbotson Associates Japan, Inc., Japan
yamaguchi@ibbotson.co.jp

## Abstract

This paper estimates monthly time-varying equity risk premium (ERP) in U.S. and Japanese markets over 60 years from 1956 to 2015. We attempt to estimate forward-looking (ex-ante)ERP by a unique way of conversion from historical (ex-post) equity excess return over bond. Equity is regarded as quasi-perpetual bond without maturity but with variable cash flow. Applying relationship in monthly changes between perpetual bond yield and price, we estimated market implied ERP over time and also derived implied equity duration and "real" expected return of equity over the sample period. Comparing U.S. and Japanese results, both markets have seen similar level of historical mean ERP but variation patterns have been different, reflecting different economic cycles.

## Country Governance and International Equity Returns

Ben Marshall
Massey University, New Zealand
b.mashall@massey.ac.nz

Hung Nguyen
Monash University, Australia
the.nguyen@monash.edu

Nhut Nguyen
Massey University, New Zealand
n.h.nguyen@massey.ac.nz

Nuttawat Visaltanachoti
Massey University, New Zealand
n.visaltanachoti@massey.ac.nz

## Abstract

Monthly equity returns in countries with strong governance lead monthly equity returns in countries with weak governance. This predictability is robust to alternative ways of measuring country governance, and holds in and out-of-sample at both the group and individual country levels. Strong governance country equities react more quickly to global innovations, which contain value-relevant information for all countries. Information gradually diffuses from strong to weak governance countries, with the predictability being stronger when there is higher information asymmetry and opacity in weak governance countries. Other factors such as market segmentation, short-selling constraints, and trade linkages do not explain the predictability.

# An Hyperbolic Model of Optimal Cash Balances

John van der Burg
Nelson Marlborough Institute of Technology, New Zealand
John.Vanderburg@nmit.ac.nz

Xiaojing Song
University of East Anglia, United Kingdom
xiaojing.song@uea.ac.uk

Mark Tippett
University of Sydney, Australia
m.tippett@lboro.ac.uk

## Abstract

An hyperbolic model is developed under which cash balances evolve in terms of the Pearson Type IV probability density. Since the moments for the Pearson Type IV are in general undefined and maximum likelihood parameter estimation procedures are compromised by the transcendental nature of the Pearson Type IV normalising constant, parameter estimation is implemented using the minimum method. Empirical analysis shows that the Pearson Type IV probability density is strongly compatible with the quarterly cash flow data of a randomly selected sample of 35 large U.S. corporations. In contrast, around half of the 35 corporations return Jarque-Bera test statistics which are inconsistent with the Gaussian probability density. Numerical procedures for determining the upper and lower cash balance control limits which minimise the expected average annual cost of maintaining a firm's investment in cash are also developed.

# Fiscal Sustainability in Practice. The Evidence from Highly Indebted EU Economies

Tomasz Uryszek
University of Lodz, Poland
tomasz.uryszek@uni.lodz.pl

Wojciech Zato?
University of Lodz, Poland
zaton@uni.lodz.pl

## Abstract

The main goal of the article is to test and assess the level of actual fiscal sustainability in the highly indebted EU economies from different viewpoints. This goal is accompanied by the following hypotheses: (1) the large primary net borrowings recorded in the investigated countries prevent stabilization of the public debt volume; (2) the level of public revenues in those economies is insufficient to stabilize current public debt volume; and (3) there is no long-run stable relationship between government expenditures and revenues. In accordance with this set of hypotheses, a threefold research approach was applied. The research period covered the years 1988–2016. The data were taken from the International Monetary Fund and the World Bank. The results of the study prove the hypotheses to be correct for most of the examined economies.

# Corporate Financial Distress and CEO Networks

Harjeet Bhabra
Concordia University, Canada
harjeet.bhabra@concordia.ca

Ahmed Eissa
Concordia University, Canada
ahmed.eissa@concordia.ca

## Abstract

We study if positional embeddedness, specifically local degree and eigenvector centrality for CEOs, has an impact on the likelihood of the firm experiencing financial distress. Examining the impact three, two and one year prior to the event we conclude that an increase in CEO degree and eigenvector centrality ranking increases the likelihood of financial distress. Additionally, we find that this effect could be mitigated for CEOs with a longer tenure in the firm prior to attaining the position of CEO. Using measures of attribute based centrality, we find that appointed CEOs with more within-group connections face lower likelihood of financial distress for firms with specialty knowledge. Finally, we find that less homophilous board members with respect to educational achievements increases the likelihood of financial distress.

# Infrastructure financing and its Socio-economic impact in Kerala

Rajeeve Lekshmanan Pillai
Kerala State Electricity Board Ltd., India
rajeeve_lp@yahoo.com

Prof. (Dr) C.Ganesh Menon
University of Kerala, India
ganesh_menon@yahoo.co.in

## Abstract

Generating sufficient public infrastructure funds remains an issue for Kerala, and academic inquiry is necessary to give some direction to the policymakers. This research identifies the key financing mechanism with its characteristics and subsequently proposes a consistent and efficient framework for selecting appropriate financing mechanism. A sample of 10 major infrastructure projects that were financed through various mechanisms in the state was subjected to a detailed study. The total risk associated with each case was analyzed using a number of criteria. The most efficient financing mechanism is the one that diversifies and allocates the risks of a project to the parties that are best able to absorb them. The formulation of the framework has been based on the nature of financing mechanisms used in the state and the parameters generally used for analysing the projects considering the socioeconomic conditions and regulatory considerations.

# An uncertainty thermometer to measure the macro-financial risk of Latin America countries: under the perspective of a financial integration.

Marcela Guachamin
University of Lyon, UJM Saint-Etienne, France
marcela.guachamin@univ-st-etienne.fr

## Abstract

This paper proposes a macro-financial vulnerability thermometer from identify the systemic uncertainty of 10 Latin American countries in the period 1978- 2014 through the construction of the vulnerabilities sub- indicators: economic vulnerability (economic growth and development) and financial vulnerability (liquidity, solvency and market) using a Structural Equation Modeling (SEM). In addition, we quantified the uncertainty level (high-low) by the Z-score value obtained by Discriminant Function Analysis (DFA) as a mechanism of early systemic monitoring. The results are robust and consistent and provides evidence that Macro-financial vulnerability indicators have a similar behavior to the Latin America business cycle, since that, the Latin American countries present periods of high uncertainty in economic growth, solvency, liquidity and market in 1980s, 1990s and 2000s. Chile presents a low- moderate macro-financial vulnerability in the most periods. In 2014, Ecuador shows a high-manageable vulnerability but Brazil, Argentina and Venezuela present a high-intolerable macro-financial vulnerability.

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

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

Aljosa Valentincic
University of Ljubljana, Slovenia

## Abstract

Estimates of expected returns based upon the Fama-French and Carhart models typically exclude financial firms, including the latest FF five-factor model (Fama & French, 2016, 2015) or Gregory et al. (2013) for the UK. The presumed reason for this is that the book-to-price-based HML factor is not comparable between non-financial (predominantly historic-cost accounting) and financial firms (predominantly fair-value accounting). However, this approach excludes about 20% of FTSE100 market capitalization. This paper proposes an alternative model of expected returns that can be applied to both sets of firms. To do this, we replace the HML factor with a dividend-yield-based factor which works around the accounting issue present in the HML factor. We construct the factor based on dividend yield sorts in the same way as Fama-French calculate the HML factor based on book-to-price sorts. Empirically, we base our analyses on the UK market because a large proportion of firms there pay out dividends (as opposed to, say, the US market). We find that: i) replacing HML with PMR (payers-minus-retainers) produces equivalent results for non-financial firms; ii) the PMR factor is able to explain returns for portfolios of financial services stocks; iii) the model can be used to combine financial and non-financial firms in the same sample in analyses that require the calculation of expected returns.

## Going public through mergers with SPACs

Hyunseok Kim
SKK Business School, South Korea
khs8319@naver.com

Jayoung Ko
SKK Business School, South Korea
wkdud5@skku.edu

Kyojik "Roy" Song
SKK Business School, South Korea
roysong@skku.edu

## Abstract

In this study, we investigate the unique structure of Korean special purpose acquisition companies (SPACs) comparing to US counterparts, underpricing, and post-merger performance to explain their successful factors. We find that private operating firms with smaller size, less tangible assets, and smaller controlling shareholders' ownership tend to merge with SPACs rather than take the conventional IPO route. We also document that private operating firms merging with SPACs to obtain the public status do not incur the indirect cost of underpricing, and the merged firms do not show any difference in stock and operating performance over the long run compared to the conventional IPO firms. These results suggest that the firms taking a route of merger with SPACs are not inferior, and can save the time and cost from the traditional IPO process.

# The Impact of Working Capital Management and Profitability: Case Study of Pharmaceutical and Chemical Firms Listed on Karachi Stock Exchange

Arif Muhammad
Shaheed Benazir Bhutto University, Shaheed Benazirabad, Pakistan
arif.cbian@gmail.com

Bab Shah
Shaheed Benazir Bhutto University, Shaheed Benazirabad, Pakistan
babshah75@gmail.com

## Abstract

This study empirically investigates the impact of the working capital management on profitability as well as relationship connected between the working capital and company's profitability. Working capital components Cash Conversion Cycle, Days Sales Outstanding, Days Inventory Outstanding, Days Payable Outstandingand Operating Cycle and profitability measured by Return on Assetsand Return on Equity, for a sample of 25 Chemical and Pharmaceutical companies from 2009-2014 listed on Karachi Stock Exchange of Pakistan. Study used secondary data analyzed through descriptive, correlation and Between Effect Model regression analyses.The main contribution of this study is that, this study is going to explainedoperating cycle with ROA and ROE for analysis the impact of working capital which was not found in literature especially in context of Pakistani chemical and pharmaceutical companies.The key findings of analysis show that CCC, DIO, DPOwere positively as well as significantly related with ROA expect DSO which is negatively and insignificantly related. OC has significant P-value but insignificant negative coefficient. Furthermore, in case of ROE, regression analysis shows that all variable have insignificant positive except DIO has insignificant negative impact on profitability (ROE). F-test shows that ROA and ROE both variables are significant at 10%.

## Using the Shapley Value of Optimal Portfolios for Systematic Risk

Haim Shalit
Ben Gurion University, Israel
shalit@bgu.ac.il

## Abstract

Systematic risk as expressed by the relative covariance of stock returns to market returns is an essential measure in pricing risky securities. Although very much in use, the concept has become marginalized in recent years because of the difficulties valuing beta. As an alternative I propose the Shapley value from game theory to quantify the relative risk of a security in an optimal portfolio. The idea is that portfolios can be viewed as cooperative games played by the assets for the purpose of minimizing risk. Thus, investors can calculate the exact and true contribution of each asset to the joint payoff. For an hypothetical portfolios of three stocks, I explain the Shapley value and consider that total risk is minimized regardless of portfolio return. Then, the Shapley value is computed for stocks and market indices for frontier portfolios using daily stock market returns for 2016. The results are the risk attributed to securities in an optimal mean-variance portfolio. Shapley values are analyzed and compared with the standard beta estimates to determine the ranking of assets with respect to relevant risk and return.

## Credit Risk Contagion in Asia: Is It Country-Specific or Region-Wide?

Nongnuch Tantisantiwong
University of Southampton, United Kingdom
n.tantisantiwong@soton.ac.uk

David Power
University of Dundee, United Kingdom
D.M.Power@dundee.ac.uk

Yiling Zha
University of Dundee, United Kingdom
Y.L.Zha@dundee.ac.uk

## Abstract

This paper analyses domestic and regional credit risk spillovers among sovereigns and firms in China, Japan, Malaysia, Singapore and South Korea after the 2008 global financial crisis employing a bivariate GARCH-BEKK model. Evidence indicates that domestic spillovers and co-movements between CDS spreads in the financial sector are greater than in the non-financial sector for Singapore and South Korea while the opposite result is uncovered for China and Malaysia. However, volatility spillovers among financial institutions are more prominent than the linkages among the non-financial firms in all countries with the exception of South Korea where there are large family conglomerates within the non-financial sector. We find that the credit risks of firms and the domestic sovereign entity are positively correlated in all countries except for Singapore. Regarding cross-country spillovers, the Japanese sovereign and non-financial sectors and the South Korean financial sector play important roles in the spillover of credit risk within the sector and across sectors. Further, the Malaysian non-financial sector is relatively more sensitive to external shocks than other sectors in the region. Our findings indicate that credit risk information from abroad is as important as domestic information.

# Predictability in Russian Stock Market

Ilya Dergunov
Goethe University Frankfurt and SAFE, Germany
dergunov@safe.uni-frankfurt.de

## Abstract

This paper aims to analyze the return predictability for the Russian stock market based on two different layers. First, at the domestic level, the analysis includes the aggregate market portfolio and the components of the aggregate market such as portfolios sorted on size, book-to-market and industry sectors. I consider a variety of potential economic predictors proposed by recent study of Welch and Goyal (2008) and other variables which may have additional signi ficance for the Russian stock market (e.g. oil prices, foreign exchange rate USD/ RUB, Economic Policy Uncertainty index for Russia). Both in-sample and out-ofsample tests assess the signifi cance of predictability in the aggregate and across different component portfolios. In the end I explore the economic explanations for component predictability by conditional CAPM. Second, at the international level, I study the lead-lag relationships among monthly stock returns in Russia and groups of other countries (subset of 10 developed countries, BRICS countries and East European countries). The research question here (a) whether industrialized countries stock returns lead the returns in Russian stock market better than country's own economic variables; (b) what is the lead-lag relationship in the BRICS countries, if any, and (c) whether Russian stock market,being the largest in Eastern Europe, can signi cantly predict the countries in this region. I also consider different economic rationale for the findings.

# The Effects of the Irruption of Blockchain Technology into Financial Markets

Marta Felis
Universidad Autonoma de Madrid, Spain
marta.felis@uam.es

Simon Olsen
Lykke Corp, Switzerland
simonfolsen@gmail.com

## Abstract

We evaluate the effect of the irruption of the blockchain technology in the financial markets. We argue that it has changed the structure of the market. Using a large database on financial transactions we analyze the new characteristics of the market for firms seeking fundraising. We find that the behavior of both firms and investors is changing with respect to traditional IPOs. We control for the time span of the analysis and for the size of the market.

# Credit Market Spillovers: Evidence from a Syndicated Loan Market Network

Abhimanyu Guptay
University of Essex, United Kingdom
a.gupta@essex.ac.uk

Sotirios Kokas
University of Essex, United Kingdom
skokas@essex.ac.uk

Alexander Michaelides
Imperial College London, United Kingdom
a.michaelides@imperial.ac.uk

## Abstract

use the syndicated loan market to construct a dynamic loan network that measures proximity in terms of sectoral investment exposure between individual banks, and characterize quantitatively the network's evolution over time. Using a spatial autoregressive model that allows for direct network interactions, we nd strong spillovers from the nancial network to lending rates and quantities. These spillovers are economically large, time-varying and can switch sign after major economic shocks. Moreover, we nd that empirically network complexity and uncertainty rise after a large negative shock. Counterfactual experiments con rm the quantitative importance of spillovers and network structure on lending rates and quantities and can be used to isolate the e ects arising from spillovers versus network structure evolution.

# Bond Market Indicator

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

## Abstract

This paper develops a bond market indicator for Germany, USA, Japan,UK, and Switzerland which can be used as a tool for guiding and framingthe debate on duration. The output of our bond market indicator can be used to guide the tactical interest rate market views as well as cross-market calls. Using an equally-weighted indicator based on four factors, we are able to outperform the static buy-and-hold strategy in terms of Sharpe ratio, annualized return and maximum drawdown

## Mood and Herding in International Stock Markets

Azizah Abu Bakar
Coventry University, United Kingdom
ac4191@coventry.ac.uk

Evangelos Vagenas-Nanos
University of Glasgow, United Kingdom
evangelos.vagenas-nanos@glasgow.ac.uk

## Abstract

This study examines the relation between mood and herding behaviour in international stock markets. The influence of mood on herding behaviour has been proposed, yet empirical evidence is lacking. Thisstudy poses these questions: Does herding exist during days with extreme mood, and if so, does mood relates with herding? Using the method pioneered by Christie and Huang (1995), and a direct, daily mood proxy via the Facebook GNH Index, herding exists during extreme mood days, and more so during extreme upper, rather than lower mood.Mood is negatively related with stock returns dispersion, indicating herding when mood is higher.

# Market Demand and Default Risk in Small Business Finance: Evidence from the Financial Crisis

Patrick Behr
Brazilian School of Public and Business Administration (EBAPE, Brazil
patrick.behr@fgv.br

Andreas Madestam
Stockholm University, Sweden
paetschboy@gmail.com

## Abstract

We analyze the effect of an exogenous shock to demand in product markets on the default risk of small businesses. Using the 2007-2008 financial crisis as exogeneous variation, we explore the fact that firms from export intense sectors were hit differently by the shock than firms from less export dependent sectors. We find that the shock to market demand increased the default risk of firms from the more affected production sector by 30 percent relative to the overall sample average default risk. This effect is particularly pronounced in areas with fiercer bank competition. Higher default risk of firms may explain the more restrictive credit supply by lenders generally witnessed during a financial crisis and is consistent with firms' changed investment and financing policies as a consequence of such a crisis.

# European Banks and Tax Havens

Vincent Bouvatier
University Paris Nanterre, France

Gunther Capelle-Blancard
University Paris 1 Panthéon-Sorbonne, Labex Réfi, France
gunther.capelle-blancard@univ-paris1.fr

Anne-Laure Delatte
Cepii, France

## Abstract

Since the financial crisis, several scandals have pointed out the involvement of the banking system in tax havens. Consequently, the European Union have imposed to the bank a country-by-country disclosure. This paper precisely exploits newly published individual data to provide the first quantitative assessment of the weight of tax havens in international banking activity. Our empirical estimation uncover several new findings: 1) Ignoring tax havens implies misspecification in a standard gravity model explaining the commercial presence of banks affiliates abroad; tax havens attract extra banking activity beyond the standard gravity factors; 2) Luxembourg, Isle of Man and Guernsey rank at the top of the foreign affiliates presence not explained by standard factors; the presence of foreign banks affiliates in Luxembourg is 8.5 times higher than predictions based on a standard gravity model; 3) Combining low tax rates and high governance quality is not sufficient to explain extra banking activity in tax havens.

# Technical analysis rules: New evidence for the Chilean stock market

alejandro bayas
universidad de chile, Chile
abayasf@googlemail.com

arturo rodriguez
universidad de chile, Chile
arodriguez@unegocios.cl

## Abstract

This paper analyzes the performance of technical analysis for the Chilean stock market between 2001 and 2012, using length moving average, fixed length moving average, relative strength index, and trading range break-out. In line with previous research, our results support the use of technical analysis. We also discuss the impact of commissions on the obtained results.

## Economic and Political Effects on Currency Clustering Dynamics

Marcel Wollschlaeger
University of Duisburg-Essen, Germany

Alexander P. Becker
Boston University, United States
apbecker@bu.edu

Irena Vodenska
Boston University, United States
vodenska@bu.edu

Rudi Schaefer
University of Duisburg-Essen, Germany

## Abstract

We propose a new measure that we call the symbolic performance to better understand the structure of foreign exchange markets. Instead of considering currency pairs, we isolate a time series for each currency which describes its position in the market, independent of base currency. We apply the k-means clustering algorithm to analyze how the roles of currencies change over time, from reference status or average appreciations and depreciations with respect to other currencies to large appreciations and depreciations. We show how different central bank interventions and political and economic developments, such as the cap enforced by the Swiss National Bank or the Brexit vote, affect the position of a currency in the currency network.

## On Reaching for Yield and the Coexistence of Bubbles and Negative Bubbles

Viral Acharya
NYU Stern and RBI, United States
vacharya@stern.nyu.edu

Hassan Naqvi
SKK GSB, South Korea
naqvi@skku.edu

## Abstract

We develop a model of financial intermediation characterized by an inside agency problem such that asset managers, when they have access to high enough liquidity, "reach for yield" by overinvesting in risky assets and concurrently underinvesting in safer or medium-risk assets. The managers follow a pecking order whereby their first preference is to invest in risky assets; their second preference is to hoard liquid assets so as to provide a buffer against runs; and their last preference is to invest in medium-risk assets. This reaching-for-yield behavior of managers is conducive to the formation of bubbles in the market for risky assets and concurrently "negative bubbles" in the market for medium-risk assets. We show that loose monetary policy, by reducing the cost of liquidity shortfalls suffered by financial intermediaries, induces further "reach for yield" and amplifies the magnitude of bubbles and negative bubbles.

# Does Air Pollution Affect Local Stock Returns in China?

Mengmeng Guo
Southwestern University of Finance and Economics, China
gmm@swufe.edu.cn

Tao Yang
Southwestern University of Finance and Economics, China
18428375741@163.com

Xiaoya Ding
University of San Francisco, United States
sding2@usfca.edu

Ligang Zhong
University of Windsor, Canada
LZhong@UWindsor.ca

## Abstract

Air pollution has become a major concern in China. The existing literature mainly focuses on firms that directly cause pollution. The impact of air pollution on non-polluter firms has received little attention. We investigate the impact of air pollution on the stock returns of firms located in polluted areas. We find that air pollution, as measured by both raw air pollution level and perceived air pollution level, has a negative impact on the stock returns of local firms. Our study provides evidence that air pollution has a detrimental impact on the value of firms located in polluted areas.

# Run for home': SME Lending and the Head Quarters bias

Tianshu Zhao
Birmingham Business School, University of Birmingham, United Kingdom
T.Zhao@bham.ac.uk

Kul Luintel
Cardiff Business School, Cardiff University, United Kingdom
LuintelK@cardiff.ac.uk

Kent Matthews
Cardiff Business School, Cardiff University, United Kingdom
MatthewsK@cardiff.ac.uk

## Abstract

This paper is aimed at two strands of the empirical literature in banking. First, it tests for the geographical dimension in SME lending as a rebuttal of Petersen and Rajan (2002) on the relevance of relationship banking for SME lending. Second, it tests for the Stein (2002)'s view that large institutions with complex organisational structures are more able to filter 'hard' information than 'soft' information. Using data on individual bank lending to SMEs and mortgage lending by postcode area for 120 localities in Great Britain for the period 2013(2)-2014(4), we estimate a panel model on 8393 data points. We conjecture that as the same bank makes SME loans and mortgages to the specific postcode area, it would utilise the informational technology of its common organisational structure. Our results show that functional distance between bank headquarters and branches is strongly negatively related to the change in SME lending but has no impact on mortgage lending. We interpret these results as strong support for the geographical dimension and a vindication of the conventional view that SME lending requires the transmission of 'soft' information through the intermediation of a Relationship Manager who has been largely removed from the banking organization.

# Board Size, Board Composition, Board Activity and Performance: Empirical Evidence from the Indian Banking Sector

Manas Mayur
Goa Institute of Management, India
manasmayur@gmail.com

Palanisamy Saravanan
Indian Institute of Management, India
ps@gim.ac.in

## Abstract

The purpose of this paper is to examine the performance implications of board size, composition and frequency of board meetings on the performance of banks. The performance of banks is assessed on various parameters such as return on assets (ROA), Tobin's Q, nonperforming asset ratio (NPA ratio) and the net write-off ratio (NWO ratio). The effects of changes in board size and composition and frequency of meetings on the performance of banks are investigated using Feasible Generalized Least Square (FGLS) estimation of panel data covering a timespan of five years concerning the 40 banks incorporated in India. Frequency of board meetings is taken as a proxy for board activity and involvement. We have also tested for endogeneity issues in the model. A curvilinear relationship was found between board size and performance of banks. We have modelled a cubic form of the relationship for Indian banks. Our findings indicate that an increase in board size is associated with better bank performance within both low and high board size ranges. Alternatively, increased board size is negatively associated with bank performance in the intermediate board size range. The study did not find any significant relationship between performance and frequency of board meetings and board composition.

# (Ab)Normal Returns in an Emerging Stock Market: International Investor Perspective

Paulina Roszkowska
Hult International Business School, United States
paulina.roszkowska@faculty.hult.edu

Lukasz K. Langer
Haas School of Business, UC Berkeley, United States
lklanger@gmail.com

## Abstract

This paper studies the comparative attractiveness of public equity investments in the Polish (emerging) and in the U.S. (advanced) stock markets in the years 2000–2013. Through an original implementation strategy based on one- and multi-factor asset pricing models, we find that the potential for abnormal profits is higher in the Polish stock market, specifically related to size and profitability anomalies. Fama–French five-factor model fares best in an international setting and yields additional monthly abnormal returns of 0.19 pp. An international investor should apply local, rather than global, risk factors to properly assess relative abnormal investment opportunities between markets.

# Impact of a Symbiotic Relationship on the Performance of MSMEs: Applying the Monte Carlo Method

Ploypailin Kijkasiwat
The University of Waikato, New Zealand
pk80@students.waikato.ac.nz

Stuart Locke
The University of Waikato, New Zealand

Nirosha Hewa Wellalage
The University of Waikato, New Zealand

## Abstract

This paper explores the application of the Monte Carlo method in estimating the potential net profit of businesses operating in the coffee lounge, backpackers and hostels, and gift, specialty/ novelty industries, then outlines a scenario of their performance, industry by industry. Presenting a histogram of potential net profit for the three industries, we demonstrated the importance for running simulations of obtaining the correct data, specifically the probability distribution and the range of input parameters which affect the net profit scenarios. This paper also reviews the literature discussing the effect of a symbiotic relationship on business performance, particularly in terms of risk and return for micro, small, and medium enterprises (MSMEs). We then formulated two assumptions, which were used to evaluate corporate net profit by adopting the Monte Carlo approach. A symbiotic relationship among entrepreneurs, in the form of cooperation and connections, invites careful investigation since various studies argue that such relationships can sustain both MSMEs and the wider society in the long run. From the literature, it is clear that a symbiotic relationship has a positive influence on the element of return but a negative one on the component of risk, particularly the cost of goods sold and corporate expenses. MRC data from the New Zealand Business Survey was used to specify the range of parameters presented in the accounting format. @ Risk computer software was used to determine the fitting distributions and to run simulations. The results indicate that the potential net profit varies, depending on both probability distribution and the range of the specifying factors affecting firm performance. To gain a deeper understanding of the impact of symbiotic relationships among MSMEs and to enhance accuracy in forecasting business performance, field study data will be useful for the study's contribution to research.

## Bank enforcement actions and the terms of lending

Yota Deli
University of Glasgow, United Kingdom
yota.deli@glasgow.ac.uk

Manthos Delis
Montpellier Business School, France
m.delis@montpellier-bs.com

Iftekhar Hasan
Fordham Business School, United States
ihasan@fordham.edu

Liuling Liu
Bowling Green State University, United States
liulinl@bgsu.edu

## Abstract

Formal enforcement actions issued against banks for violations of laws and regulations related to safety and soundness can theoretically have both positive and negative effects on the terms of lending. Using data on such enforcement actions issued against U.S. banks, we show that they have a strong negative effect on price terms (loan spreads and fees) for corporate loans and a positive one on non-price terms (loan maturity, size, covenants, and collateral). The results also indicate that in the absence of enforcement actions, the cost of borrowing during the subprime crisis would have been much higher, while punished banks intensify use of collateral.

# Effect Momentum Evidence from Advance Emerging Market

Blazej Podgorski
Kozminski University, Poland
bpodgorski@alk.edu.pl

## Abstract

The momentum effect (Czekaj and others., 2014) is one of the most recognizable anomalies on the capital market. Based on the observed effect it is recommended to invest in shares that in the medium term (from 3 to 12 months) were characterized by the high growth of prices and it is worth to sell discount securities. In the presented paper author try to examine that the anomaly exist on Warsaw Stock Exchange (WSE), the biggest emerging markets of European Union. In many research WSE is classified as advance emerging market.