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Climate change implications for the catastrophe bonds market: An empirical analysis

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Abstract

Since their introduction in the mid-1990s, the return per unit of risk or multiple on catastrophe (cat) bonds has steadily declined. This paper investigates whether this pattern is consistent with the historical evolution of natural disaster risk. Assessing the accuracy of cat bond pricing is important, since about 50% of outstanding risk capital in the cat bonds market is currently exposed to Atlantic hurricanes -a risk that climate change, among other disruptions, is expected to enhance- and pension and mutual funds in European and other OECD countries currently own about 30% of the market. In this respect, while our findings suggest that falling multiples are primarily related to the Fed's expansionary monetary stance and to portfolio shift effects, we do also find evidence of significant undervaluation of natural disaster risk in the cat bonds market. This finding, also in light of the unfailing appetite of institutional investors for such securities, casts doubts over the sanity of the market and over cat bonds as suitable investment products for risk averse investors.

The liquidity regulation versus the lender of last resort: a dichotomy?

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Abstract

It is stated that there is a supposed dichotomy in the field of banking regulation: the liquidity risk regulation versus lender of last resort (LOLR). Why the financial system needs both alternatives simultaneously? As a matter of fact, financial institutions need both: the argument is justifiable for a number of reasons, starting with the portfolio selection approach (Markowitz, 1952). Contextualizing with the international financial crisis and the recommendations from the Basel III agreement, we proceed with four analyses in order to reinforce the argument in face of liquidity shortage risk. First, we evaluate the American and Brazilian low risk/high liquidity assets in light of the Quantitative Easing approach and the low interest rates of American risk free assets. Second, we test a Liquidity Index ? the Brazilian Liquidity Index - and verify its relation with other financial and economic variables. Third, we examine the daily returns of assets such as currency exchanges, assets that exhibit a high daily volatile pattern that is not captured by lower frequency (monthly) databases. Forth, being complementary loans for Cash/High Liquid Assets in bank?s net worth, we simulate call options, according to the risk weighted assets (RWA) approach (Basel II/III) for credit, market and operational risks. Call options without maturity, as in Alvarez and Dixit (2014), originated from any kind of lender (not necessarily a LOLR) offer a theoretically feasible alternative/complement to capital requirements, with underlying assets modeled with Geometric Brownian motion

Value at looking back: Towards an empirical validation of the role of reflexivity in e cono-historic backtesting: Economic market prediction correct ions correlate with future ma rket performance

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Abstract

Abstract Globalization led to an intricate set of interactive relationships between individuals, organizations and states. Unprecedented global interaction possibilities have made communication more complex than ever before in history as the whole has different properties than the sum of its increasing diversified parts. With growing globalization and quickening of transfer speed, information may impose unknown systemic economic risks on a global scale. Collective interaction effects lead to hard-to-foreseeable fallacy of composition downfalls. Emergent risks imbued in interaction appear to be inherent in global economic systems. In the light of growing tendencies of globalization, the demand for an in-depth understanding of how information echoes in socio-economic correlates has gained unprecedented momentum. In seeking to shed light on implicit system failures? socio-economic consequences down the road and potentially-disastrous outcomes of cumulative actions triggering mass movements; the paper outlines unexpected dangers and insufficiently-described shadows of past market expectation corrections on future economic market performance. Overall, the following article innovatively paints a novel picture of the mass psychological underpinnings of business cycles based on information flows in order to recommend how certain communication strategies could counterweight and alleviate information failing market performance expectations that could potentially build disastrous financial market mass movements of booms and busts. This paper will study the role of information in building socially-constructed economic correlates, which promises to explain how market outcomes are developed in the social compound and can be guided by central agents? communication. Classical theories of price will be reflected in regards to market expect ations. Through the lens of the real competition paradigm, the following paper will then specifically unravel how central bank economic forecasts produce certain types of price expectations that form market patterns leading to collectively- shared economic outcomes that may echo in the real economy. An introduction to the history of economic cycles will lead to George Soros? Theory of Reflexivity and Anwar Shaikh?s formalization in order to draw inferences for the analysis of the role of information in creating economic booms and busts in the age of globalization. Empirically, based on a central European central bank?s GNP projections and backtesting corrections, a pattern of central bank corrections communication and economic market performance will be unraveled for the first time to outline that central bank market prediction corrections are positively correlated with near future market performances and negatively correlated with distant future market performances. The collective reality of prices and the irrationality of the crowds perturbating markets will be discussed. Business cycles are argued to obey some kind of natural complexity, as for being influenced by econo-historic communication trends. Recommendations how to create more stable economic systems by avoiding emergent risks in communicating market prospects more

cautiously will be given in the discussion followed by a prospective future research outlook and conclusion.

An inquiry into the nature and causes of Climate Wealth of Nations: What temperature finance gravitates towards? Sketching a climate-finance nexus and outlook on climate change-induced finance prospects

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Abstract

What is the optimal temperature finance gravitates towards? While we have empirical evidence for the optimal cardinal temperature for GDP production and international development links external climate conditions to levels of societal development, no literature exists on climate-induced-finance flows. Research on temperature-dependent financial flows holds invaluable insights in light of climate change. The connection between climate change and finance will be drawn via price mechanisms. Given the extinction potential of crops, industry and service production, price mechanism will be prospected with a hyperbolic tilt towards the end of durability and the closeness to extinction. In contrast to classical and standard approaches in economics to determine prices, the following research thereby takes into account that agents in their behavior can be constrained by shrinking timeframes for production in light of global warming. The contemporary attention to global warming and climate shocks is thereby assumed to affect the price expectations and hence actual market prices of commodities. Paying attention to supply and demand side perspectives, inflated prices surrounding scarcity will be first modelled and then back-tested on data about prices in commodities of food and beverages. Future wealth of nations will be introduced by the concept of climate flexibility defined as the range of temperature variation of a country. So far, a broad spectrum of climate zones has not been defined as asset but climate change will require territories being more flexible in terms of changing economic production. The more climate variation a nation state possesses, this paper argues, the more degrees of freedom a country has in terms of GDP production capabilities in a differing climate. These preliminary insights aid in answering what financial patterns can we expect given predictions the earth will become hotter. Already now this paper presents human capital flows and financial market inflows into areas that are winning economically from a warming globe. The degree of climate flexibility is found to be related to human migration inflow.

A performance evaluation of weight-constrained conditioned portfolio optimization

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Abstract

The present paper applies an optimal control formulation previously proposed to solve weight-constrained versions of the conditioned portfolio optimisation problem as originally studied in Ferson and Siegel (2001). We compare classical optimisation performance to that of strategies resulting from conditioned optimisation and using several possible indicators for signalling purposes. In particular, we report on both ex ante improvements to the accessible e cient frontier as measured through the typical associated metrics such as the Sharpe ratio, and ex post results a ected, most notably, by speci cation errors regarding the relationship between signal and returns. We also discuss the impact of different problem parameters on overall strategy performance.

A non-linear heterogeneous-agent dynamic model of futures oil pricing during a bubble.

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Abstract

We analyze short-term futures oil pricing over the 2003-2016 time-period in order to analyze the bubble-like dynamics, which characterizes the 2007-2009 years according to a large body of recent literature. Our investigation, based on a flexible three-agent model (hedgers, fundamentalist speculators and chartists), confirms the presence of a bubble price pattern, which we attribute to the strong destabilizing behaviour of fundamentalist speculators (e.g. hedge funds). The inclusion of the 2009-2016 sub-period, in spite of sharp and unexpected fluctuations in oil prices and a significant increase in the influence of geopolitical factors, fails to invalidate our financial interpretation.

Internationalization, Foreign Complexity and Systemic Risk: Evidence from European Banks

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Abstract

We evaluate the impact of the international organization structure and the geographic expansion of 105 European listed banks that have foreign affiliates around the world on bank level measures of systemic risk during the 2005?2013 period. We investigate how the peak of the global financial crisis of 2008?2009 and the height of the European sovereign debt crisis of 2010?2011 might have affected such measures. We find that internationalization and foreign complexity are important drivers of bank systemic risk, particularly during the 2008?2013 financial stress years. Our findings contribute to the ongoing debate on the merits of imposing systemic risk-based and organizational complexity capital surcharges (as in Basel III requirements), and carry various policy implications for too-complex and systemically important banks.

Is there a Wage Premium or a Wage Penalty for Part-Time Contracts? New Evidence from Italy

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Abstract

This paper investigates the full-time/part-time wage gap using matched employer-employee data on the entire population of workers and firms in Italy over a 32-year period. Relying on regression models that control for worker, firm, and job match effects, we find that part-time work has historically attracted significant (and large) wage premia compared to full-time work for both females and males. Over the last three decades, these wage premia have significantly reduced for both sexes, remaining positive for females up to year 2015. These fkindings appear to be compatible with both structural changes in the demand and supply of part-time work as well as developments in wage bargaining institutions. Coupled with the detrimental effect of part-time work on firrm productivity that we document elsewhere, the findings of this paper contribute to explain why firms are often unwilling to concede part-time positions to employees asking for them.

The Impact of Reporting of Dollar Amount of Mutual Fund Fees on Fee Levels

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Abstract

In 2004 the SEC began requiring mutual funds to include the dollar amount of fund fees in shareholders reports. Before that, funds reported returns net of fees and didn?t disclose fees separately. This natural experiment allows me to study the impact of separate reporting of fees on the level of fund fees. I find that average retail fund fees decreased by 27 basis points during the five-year period after the change in this rule, compared to the five-year period before the change. This reduction in fees was much higher for funds with higher fees and more volatile returns. I also find that fund investment became more sensitive to fund fees after 2004. These findings support the narrative that reporting of mutual fund fees separately in dollars made fund fees more salient and helped increase fee awareness among the investors, which, in turn, forced mutual funds to decrease fees.

The Future of STOs

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Abstract

In this article, we study how cryptotoken issuance, also referred to as initial coin offerings (ICOs) and security token offerings (STOs), may disrupt funding markets such as venture capital, crowdfunding, and private equity. We discuss the necessary infrastructure to support this new asset class. We analyze the market evolution in terms of volatility, global reach, news events, and types of industries that are issuing or considering to issue tokens. We discuss some specific token offerings to highlight lessons learned. We summarize the regulatory landscape and challenges going forward. This market crashed in terms of market capitalization at the end of 2018. However, this new asset class along with the underlying technology hold great promise to disrupt various types of intermediaries if adequate financial and regulatory infrastructures are developed.

Dollar dominance in world economy and a need of reformed financial system in 21st century

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Abstract

Dollar dominance in world economy and a need of reformed financial system in 21st century.

Investor?s Protection, Legal Origin, Economic Development and the Time -Varying Predictors of Corporate Cash Holdings ? A Cross-country Study

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Abstract

We examine the role of investor?s protection, country-law, and the state of economic development of a country, about the predictableness of corporate cash holdings (CCH) in a cross-country setting, amid the economic state of stability and turbulence. We report that Australian and Chinese firms show the highest cash ratios whereas Mexican and Argentine firms exhibit the most volatile cash ratios. The cash holding of firms in Civil German-law countries overshadows their peers from the Civil French and the Common-law countries. Firms from emerging economies, and from countries with strong investor?s protection, hold more cash than the peers do and the same holds true for the non-dividend-paying firms across. In consistency with precautionary motive, firms around the world hold higher cash during the crisis, except for firms in countries with poor investor?s rights. Interestingly, cash ratio exhibit a U-shaped pattern for quintiles based on the firm?s size, profitability and growth, implying non-linear linkages of CCH with these variables. Our regression estimates reveal that most antecedents are inconsistent in their magnitude about the predictability of CCH, across homogenous sub-sample based analysis.

Impact of Macroeconomic Variables on the Performance of Mutual Funds

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Abstract

For a long time, mutual fund investment has played an important role in the financial market and its popularity has increased dramatically over the past decade. Mutual funds are managed pools of financial assets that can be invested in by retail or institutional investors. Recent years have witnessed phenomenal growth in both the number and size of diversified equity mutual funds in India. The market associated with mutual fund is always subjected to market risk. In such circumstances it is very hard for the investor to maintain his investment portfolio. Normally the performance of equity diversified mutual fund depends upon the stock market performance. But performance of mutual fund in India has been volatile because of several macro-economic factors. The purpose of this study is to examine the impact of economic events on the risk-adjusted returns/performance of mutual funds in India. The study sought to establish the effect of macroeconomic variables on financial performance of selected mutual funds in India. For the calculation of impact, researcher has selected four equity mutual funds comprising of Aditya Birla Sun Life Equity Fund, Axis Long Term Equity Fund, ICICI Prudential Long Term Equity Fund and HDFC Equity Fund. The research concludes that for ICICI Prudential Long Term Equity Fund, the influence of macroeconomic variables is about 52.222%, highest among all.

Forecasting Conditional Covariance Matrices in High-Dimensional Time Series: a General Dynamic Factor Approach

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Abstract

Based on a General Dynamic Factor Model with infinite-dimensional factor space, we develop a new estimation and forecasting procedures for conditional covariance matrices in high-dimensional time series. The performance of our approach is evaluated via Monte Carlo experiments, outperforming many alternative methods. The new procedure is used to construct minimum variance portfolios for a high-dimensional panel of assets. The results are shown to achieve better out-of-sample portfolio performance than alternative existing procedures.

Monetary Policy and Corporate Financing Structure: An Empirical Evidence from India

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Abstract

The macroeconomic policies of a nation have a major bearing on the financial performance of the companies and their potential sustainability and growth. Over the decades, it is commonly realized that the empirical analysis of outcomes of monetary policy has canned the entire monetary transmission structure itself as a ?black-box?. This study investigates the impact of monetary policy on the corporate financial structure, using a sample of 422 manufacturing firms in India for the period 2011-2017, against the backdrop of numerous economic reforms coming up in India in the past few years; where the corporate financial structure is proxied using different debt ratios of the firms under study and monetary policy using various monetary policy indicators (MPI) such as money market interest rate (364-day T-bill yield). The study examines in detail the monetary policy effects on corporate behavior in India through microscopic monetary policy transmission channels, mainly the interest rate and credit channels. It also takes into account the firm-level evidence so as to investigate the company level impact. The findings suggest that a contractionary monetary policy cuts down overall corporate debt and that there is an increase in long-term borrowings of listed firms after monetary tightening. The study has critical policy implications as the balance sheet situation of corporates is a crucial factor in the financial stability of the economy. Monetary regulatory bodies need to pay close attention to firms with elevated levels of leverage, particularly during weak monetary policies to uncover financing intricacies.

The Effects of Numeracy, Overconfidence and Risk Aversion on Portfolio Choice of the Aged in Japan

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Abstract

Using a new comprehensive internet survey of aged male and female respondents in Japan, we consider the relationship of numeracy, risk aversion and risk asset investment. Numeracy decreases with age over 60 years old. Numeracy affects absolute risk aversion. Individuals with higher numeracy and higher education tend to have more risk assets in their household portfolio. Individuals with more risk aversion tend to have no or less risk assets in their portfolio. Interestingly, overconfidence has significant negative effects on risk aversion and positive effects on risk investment. Since numeracy decreases with ages over 60 years old, it is not desirable to encourage risk asset investment of the aged by preferred tax treatment in Japan.

Financing Chinese Family Firms: Whence the Advantage?

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Abstract

Using a sample of Chinese small and medium-sized firms, we compare financing availability, sources and costs for family and nonfamily firms. We find that family firms enjoy relatively lower average financing costs through mitigating agency problems, the provision of more collateral, and the greater reliance on cheaper internal finance. Family firms also make use of their advantage in the pledged assets of family members, thereby making them less subject to financing constraints. Lastly, we reconcile the apparent inconsistency between the diminished willingness and increased likeliness of family firms to rely on internal finance largely reflects the financial constraints of smaller firms, rather than their status as family firms.

THE EFFICIENCY OF AUSTRALIAN PRIVATE HEALTH INSURERS AND THE IMPACT OF INTENSE GOVERNMENT REGULATION

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Abstract

Private health insurance plays a key role in the Australian healthcare system, and improving the efficiency of the industry is an important goal of its existing regulation. We examine the technical and scale efficiency of 30 private health insurers during the period 2010?2017 using data envelopment analysis (DEA). We calculate industry input-orientated pure technical efficiency of 0.916 and scale efficiency of 0.951 across insurers and time, suggesting we could reduce inputs by 8.4% and 4.9% of their current level through adopting best practice, respectively. In an extension, we employ a two-stage DEA truncated bootstrapped regression to model efficiency on fund and policy factors. The results show that government regulation like premium restrictions and risk-equalization policies, and fund characteristics like size, but not for-profit/not-for-profit status, market share and leverage, exert significant effects. The findings suggest substantial scope for regulatory reform and structural change in the Australian private health insurance industry.

Product market competition and labor investment efficiency

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Abstract

This study examines the link between firms? product market competition and labor investment efficiency. We find that competitive pressure distorts the efficiency of labor investments by creating an underinvestment problem. Our finding stands up to a battery of robustness checks and remains unchanged after accounting for endogeneity concerns. Our additional analysis shows that the relation between competition and labor investment efficiency is stronger for firms facing higher competitive threats, greater financial constraints, and higher labor adjustment costs. Overall, these results suggest that, since competition increases bankruptcy risk, it leads managers to under-invest in labor to avoid incurring labor-related costs.

IMPLEMENTATION OF DERIVATIVE ACCOUNTING TO ESTIMATE THE CREDIT RISK BY USING OF OPTION PRICING MODEL ? CASE STUDY OF COLOMBIAN FINANCIAL INSTITUTIONS

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Abstract

?Derivative Accounting? has always been a conscientious issue for accounting bodies across the globe. Regulatory provisions in this regard have been few and far between. However, with the advancement in financial markets, both in terms of trading technologies and the spectrum of tradeable products, standardized norms relating to accounting and reporting of complex financial products are mandated to minimize financial debacles (of which there have been many in the last two decades). International financial reporting standards (IFRS) is an internationally accepted reporting standard for registering financial transactions & reporting. Colombia has fully adopted the IFRS guidelines and they are now in full effect for all Colombian companies, meaning that we need to ensure that your accountants are registering all transactions according to both IFRS and Col GAAP. The main objective of this paper to Implementation of Derivative Accounting to Estimate the Credit Risk by Using of Option Pricing Model ? Case Study of Colombian Financial Institution. The main goal of this study if fivefold: 1) brief history and back ground Colombian derivative market. 2) Then we revise the standard option market. 3) Then, we construct the stochastic option pricing 0model with example of Colombian foreign currency derivatives. 4) Finally, construct different way to find out the credit risk model for Domestic and foreign financial institution by option pricing. In addition, this chapter end with conclusion.

Is the Effect of Oil Price Shock Asymmetric on the Indian Stock Market? Firm-Level Evidence from Energy-Intensive Companies.

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Abstract

The oil price could exert an impact on the stock market at the firm level. Does the stock market bust with the oil price increase and not boom when the oil price falls? To answer this multiscale puzzle, we use the generalized methods of moments (GMM) and panel structural vector auto regression (SVAR) on Indian data for the period from 1990 to 2016. We consider stock returns, Fama- French factors, inflation and various linear and nonlinear measures of oil price shock to examine the asymmetric impact of the oil price increase and decrease on stock returns at the firm level. This paper finds evidence that in the presence of inflation, shock due to net oil price increase and decrease has an asymmetric effect on the stock. Further, impulse response function reveals that the various dimensions of oil price shock lead to volatility in the response variables and it can also be observed that negative oil price shock has a radical impact on stock returns. Overall, based on the direction of influence of shock due to net oil price increase and decrease deserves attention from the investors and policymakers.

A CONTRIBUTION ON RELATIONSHIP BANKING. ECONOMIC, ANTHROPOLOGICAL AND MATHEMATICAL REASONING, EMPIRICAL EVIDENCE FROM ITALY

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Abstract

This research concerns the tightness of the economy and demonstrates the need for procedural reforms between banks and companies for more relational and infra-cooperative structures. Among these corrections, we suggest that banks and companies be considered as unicum bank-enterprises and monetary-financial and productive activity as two faces of the same coin, rather than distinct functions of separate entities. With the rapid and increasingly ?liquid? evolution?to put it in the Bauman (2000) context?of financial intermediation in large groups and fintech, it is with a certain audacity that we propose more ?solid? action. Following an anthropological and economic-behavioral survey on the inherent human qualities of cooperation and relationality, we situate these two qualities in economic actions and particularly in the relationship between financing institutions and producers. This heterodox notion is supported by an analysis of Italian performance data on financing trends, bank non-performing loans and the number of companies in the production sector, which reflects the progressive deterioration of the economy. From there, we apply a mathematical model to finalize our hypothetical reform. We finally recommend a strategy for the gradual implementation of our conclusions, based on an examination of existing cooperative banking intermediation practices.

Macro Stress Testing: an analysis of Risk Management and Resilience of Indian Banking

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Abstract

The present case study is motivated by the existing situation in the Indian banking industry where state run banks are being affected by the piling of bad assets and shortage of capital funds. Government and regulatory body of banks are in discussion for finding out efficient banks for possible mergers and consolidation with the less efficient banks. Apart from the internal management, the macroeconomic situation of a country determines the health of bank business. Risk is an inevitable part of banking and the banks which are able to manage the risk efficiently are better placed at the time of crisis. The stress testing is an integral part of risk management exercise where the strength of banks is judged by a hypothetical condition in which artificial stress situations are assumed through which selected banks undergo to test their resilience. In our study, individual banks across different group of banks operating in India is examined, that how it is able to sustain and maintain minimum required regulatory capital at the time of stress situations with the capital reserve it has in its balance sheet. The non repayment of loans due to unwarranted macroeconomic situation leads to increase in nonperforming assets, further the risk weighted assets, hence fall in capital adequacy for banks. The stress testing exercise is undertaken to evaluate the impact of probable changes in macro parameters like GDP growth rate, interest rate, exchange rate, priority sector loans percentage, return on assets, wage expenditure to total expenditure, on the nonperforming loans. The panel data models have been used to establish the econometric relations between the NPAs and discussed macro parameters. Further, the three stress scenarios like baseline, medium and severe have been assumed where the macro variables behave poorly in comparison to normal situations for checking the resilience of banks operating in India. It was observed in India, the impact of these stress testing is substantial for the public sector banks as compared to private and foreign banks. Except the few banks, all other public sector banks are not able to sustain the macro stress scenarios and became insolvent. In opposite to this, all the foreign banks are able to sustain all the stress scenarios. The private banks are also able to withstand the assumed crisis, except few banks failed to do so.

Estimating the Hedging Effectiveness of Equity and Currency Futures Contracts: Evidence from National Stock Exchange of India

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Abstract

Present study examines the hedging effectiveness of equity and currency futures contracts, over the period January, 2011 to December, 2018, traded at National Stock Exchange of India by using eight different methods for estimating optimal hedge ratio (i.e. Naïve, OLS, ARMA-OLS, VAR, VECM, GARCH, EGARCH and TARCH). The sample size consists of three benchmark indices of equity futures market (i.e. NIFTY50, NIFTYIT and BANKNIFTY) and four currency futures contracts (i.e. USD, EURO, YEN and GBP). Hedging effectiveness has been estimated by using two different approaches i.e. variance reduction approach and risk-return approach. The findings suggest that equity futures market is more efficient as compared to currency futures market as variance reduction is found to be more than 95% in case of equity futures contracts, whereas in case of currency futures contracts, it is found to be less than 40%. Secondly, findings of hedging effectiveness suggest that conventional optimal hedge ratio models generate superior hedging effectiveness as compared to highly sophisticated time-varying hedge ratio models.

Cyclical drivers of euro area consumption -- evidence from a model with durable goods

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Abstract

We study the cyclical dynamics of consumption in the euro area (EA) and the large EA countries by distinguishing durable from nondurable expenditures. We adopt a theoretical partial equilibrium framework to justify the identification strategy of our empirical model, a structural time varying parameter vector autoregression (TVP-SVAR). Following the main insight from the theoretical model, that liquidity constraints induce important interactions between durables and nondurables, we distinguish durable-specific demand and supply shocks, while taking into account monetary and credit conditions. Our main findings are: (i) durables react faster and more strongly than nondurables after monetary shocks in the euro area and in the largest EA countries, a confirmation of an outcome commonly reported for the US; (ii) there is a large degree of cross-country heterogeneity in how different factors (including durable-specific ones) explain consumption; (iii) the strength of spillovers from durable to nondurable consumption, as predicted by theory, is empirically correlated with how much households across countries are likely to be liquidity constrained.

Long-Short Portfolio Deleveraging Under Margin, Liquidity, and Trading Costs

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Abstract

We consider the problem of deleveraging a high net-worth fund of long-short risky assets in a short time period to position the fund favorably with respect to leverage and margin risks, given an adverse outlook on future uncertainty. In such cases, strict leverage and margin policies may be enforced when seeking an acceptable risk-return profile for the fund, and trading may be subject to significant liquidity impact. Considering price impact due to both the volume and intensity of trading, we present a generalized mean-variance optimal deleveraging model, which is computationally-tedious due to non-convexities. First, we develop an efficient solution scheme on the dual optimization, which is iteratively-employed to determine a sequence of progressively-improving feasible deleveraged portfolios. Our empirical analysis using ETF assets develops new insights on the performance sensitivity on leverage and margin policies, as well as market liquidity conditions. Such insights can guide portfolio managers in setting deleveraging policy parameters ex-ante when faced with the potential of market downturns, as witnessed during recent financial crises.

Downside Risk in the Returns of Equal- and Value-Weighed Indexes

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Abstract

Equal-weighted portfolios outperform value-weighted portfolios based on standard performance measures. Equal-weighted portfolios typically have higher volatility, kurtosis, drawdown, and downside risk. We investigate if higher downside risk is an explanation for the superior performance of equal-weighted portfolios. Is their superior performance compensation for downside risk? To accomplish this, we develop a new approach that controls for downside risk when making comparisons between active and benchmark portfolios. The active strategy consists of a portfolio of 11 sector S&P 500 equal-weighted indexes. The performance of the active strategy is compared to a benchmark portfolio, consisting of value-weighted indexes, that has the same downside risk. Using a variety of performance measures, including the Sortino ratio, we find that an equal-weighted portfolio outperforms its value-weighted cousin.

A unique nexus between Human Development and ICT: An empirical evidence from selected South Asian nations

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Abstract

In the era of the industrial revolution of the late 18th and 19th centuries, one seminal force has impacted everything. Today, the world is witnessing an even more histrionic turnaround due to the consolidation of many pervasive disruptive forces, especially in the domain of technology. Where human development has witnessed a propagation of innovation in technology-driven space in most of the eastern and westernized nations. Despite our awareness of all these alterations, most of the current studies have failed to comprehend its 2nd and 3rd order effects that might result. The indubitable realism is that technology strategy has to be made the business strategy in the era of IoT (Internet of Things) revolution. Taking this perspective, we contemplate the emergent prerequisite of the network society for human capital development in Asia due to its pervasive reach in a global society. Human intangible capital resources (being referred as an epitome of measuring ?New Wealth of Nations? by neo and contemporary economists) play a vital role to ensure the holistic economic development where per capita GDP may be a narrow indicator to map the economic well-being of any nation. Therefore, the current study focuses on how advanced information and communication technologies (ICTs) could promote human capital development with special reference to South Asian Region (SAR). The research methodology chosen is principally empirical along with descriptive analysis using fixed effects panel modeling. Where, social human capital is proxied by the Human Development Index (HDI) and the emergence of the network society is by key ICT parameters like technological readiness, mobile cellular subscriptions, and internet penetration. The same is supplemented by other key macroeconomic control variables like population growth, urbanization sprawl, etc. in order to obtain an umbrella view. The panel testing results hint towards the strong associations of (square transformations of) internet penetration, technological readiness, and (square root transformations of) mobile usage to the human development index. Furthermore, per capita GDP, birth life expectancy and school enrollment rate (components of HDI) are also tested separately in order to have an in-depth understanding of individual component level linkages of HDI with ICT and other macroeconomic demographic indicators. The overall results are found to be in sync with the key findings. Therefore, the study recommends a cohesive ecosystem that could amalgamate digital space with HDI. Additional steps shall be to nurture through skilled-human driven innovation that has the potential to generate economic value through a number of channels ? internal as well as external towards the economic business of any nation. Since information without accountability could prove to be disastrous, so the best way forward is to place personnel first and then empower them.

Consequently, the creation of social intangible capital could only be realized fully with the skill development and skill premiums upliftment to flag the sustainable global presence.

Gauging climatic sustainability hypothesis via a novel approach: An empirical cross-country comparison

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Abstract

In order to understand the role of sustainability in the era of development, the broader purpose of the chapter is to examine the quantitative linkages between HDI and Environmental Performance for the selected developed and developing nations from 2002 to 2017. To test if the degree of economic expansion and standard of living has a systematic relationship with the level of environmental deterioration (existence of Kuznets curve hypotheses) in a country, the study employs fixed effects panel modeling on the selected country set. Several other macroeconomic and capital flow variables are considered in the extended empirical model development in order to supplement the holistic review of the situation. In addition, the study finds its novelty by considering relevant governance indicators in order to map the umbrella view. The findings of the panel analysis discover HDI to be positively associated with EPI, depicting higher human capital accumulation leading to lower environmental damage and better environmental performance. Additionally, the results confirm the deviation from EKC hypotheses in the context of developing nations while the same is established in case of developed nations. The overall results construe crucial climatic policy implications.

Are futures in sectoral indices mispriced in India?

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Abstract

The study investigates whether the mispricing exists in sectoral indices in Indian futures market. On the basis of relevant literature, it is revealed that mispricing leads to inefficiencies and arbitrage opportunities in the derivatives market. Mispricing is computed as the difference between actual price of the futures contract and the theoretical price calculated via cost of carry model. The results demonstrate that the index futures are largely underpriced in the Indian stock market. The study also compares the mispricing among sectoral indices. On comparison of the absolute mispricing among the indices, the results state the Nifty 50 is highly mispriced and Bank Nifty and Nifty IT are less mispriced as compared to Nifty 50 for the time period 2014-2018. The year wise comparison showed that the mispricing in the indices has reduced substantially over the years. This is a positive indication that the state of the stock market is improving and moving towards efficient market. The study has implications for traders, arbitrageurs and academicians as mispricing in the futures market paves way for the arbitrage opportunities.

The role of bankruptcy regime on the banking system behaviour relative to legal protection

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Abstract

We investigate whether the bankruptcy regime matters for the relationship between the national banking system and the creditors' legal protection. Using a panel data set of 87 countries over the period 2005-2016, our study confirms the financial relevance of the bankruptcy regime. Firstly, the private credit tends to increase when creditors benefit from a strong legal protection in a pro-reorganization environment that facilitates the survival of a financial distressed debtor. However, such banking behavior is confirmed only for the post-crisis period. Secondly, foreign banks adapt their development strategy according to the legal orientation and the global financial context. The estimations show that those banks invested more in countries with a pro-reorganization regime (PRR) and with a high level of creditors' protection only before the 2007-2009 financial crisis. Following that period, a higher number of creditors? rights inhibited the size of foreign banks in countries with PRR. Their financial presence probably diminished as a result of the high legal protection granted to the foreign banks? creditors.

Do innovation and financial constraints explain the profit efficiency of European enterprises?

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Abstract

Abstract This paper aims at investigating the relationship between firms? profit efficiency, access to finance and innovation activities. We enrich our understanding on firms? performance by adopting the stochastic frontier approach (SFA), which allows us to estimate profit functions and to obtain efficiency scores for a large sample of European firms. We pioneer the use of a novel dataset that merges survey-based data derived from the ECB Survey on access to finance for enterprises (SAFE) with balance sheet information. Our evidence documents that firms perceiving difficulties in their access to finance, or firms objectively credit constrained, as well as firms that have embarked in product innovation display an incentive to improve their efficiency in order to increase profitability.

Are our girls living la vie en rose? Financial & non-financial constraints to female-run businesses in Italy

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Abstract

The term crisis has never been so used until the crisis of 2009 has not exploded, hitting most of the world economies. Italy was among the countries most affected by the crisis: the number of companies decreased, while female companies increased (65% of the total increase in 2015). We examined some crucial issues related to Italian women running their businesses. By a survey structured with both open questions and multiple choice questions, we investigated the decisions and behaviors of the Italian female entrepreneurs. We observed three topics: general information about the companies and the entrepreneurs, degree of life-satisfaction and credit access perceptions. We show that female-run businesses in Italy are facing a complex set of difficulties to achieve their goal. Constraints come both from the inefficient national welfare system and from the economic and financial environment.

Global Warming and Commodity Derivatives in India

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Abstract

This paper is an attempt to understand if there exists a relationship between climate change and trading in commodity derivatives market in India. It has analysed the impact of climate change on the liquidity in major commodity exchanges, that is, National Commodity Derivatives Exchange (NCDEX) and Multi Commodity Exchange (MCX). The study has examined the relationship by using monthly data from December 2003 to December 2014. Using Johansen?s co-integration test, it is showed that in long- run, climate change variables of interest used in the study, namely, rainfall and temperature affect the total traded value on major commodity exchanges significantly in India. The Vector Error Correction Model also confirmed the long run relationship findings as well as the speed of convergence as the error correction term was found to be statistically significant.

IPO allotment regulations, initial returns and the winners? curse hypothesis ? An empirical examination in Indian market

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Abstract

As per SEBI (Securities & Exchange Board of India) norms, RII have to be allocated 35% pf number of shares on offer in each IPO with a maximum investment size of Rs.2,00,000/- per application. Using this provision, many non-retail investors apply within this limit to garner more shares for themselves. Since the earlier allotment system uses proportionate basis for allotment, the possibility of getting shares allotted increases with the higher number of shares applied. In an attempt to discourage this practice, SEBI, introduced new allotment rules for RIIs in August 2012, by which, each applicant, irrespective of the number of shares applied, will be allotted the minimum lot. This rule change additionally ensures wide distribution of shares to the retail investors. Additionally, Investors have different information about the fair value of the shares. While uninformed investors (mostly retail investors) subscribe to every IPO, informed investors (mostly non-retail investors) invests in good quality issues only. Hence, by deduction, the chance for RIIs to get more number of bad quality IPOs allotted to them, which leads to the classic winners? curse problem. We intend to analyse the impact of the SEBI?s new IPO allotment rules on the investment behaviour of both the retail and nonretail investors and in minimizing this problem for the retails investors.

STRESS TESTING THE CONVENTIONAL AND PARTICIPATION BANKS IN TURKEY: SEMI-PARAMETRIC QUANTILE REGRESSION APPROACH

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Abstract

Significant drop in equity prices of big banks as a result of recent turbulence in the Turkish economy has caused concerns about the vulnerability of the banking sector. Against this backdrop, we mainly investigate how sensitive conventional and participation banks operating in Turkey are to domestic and international financial or real risk shocks. In other words, we will conduct stress tests for the Turkish banking system (both for conventional and participation banks). How stable banking sector is or which type of bank is more resilient to shocks is important not only for bankers and investors but also for regulators, especially when designing effective policies. In this paper stress tests will be conducted for Turkish conventional and participation banks altogether and separately. The fact that the nonlinear relationship between dependent and independent variables may not be established is a challenge in stress testing. We employ time series semi parametric quantile regression techniques to fix it. Our sample covers the period from 2002Q1-2018Q3 and consists of 21 conventional banks and 3 participation banks operating in the Turkish banking industry.

Conclusions on recent challenges of backtesting risk measure estimates

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Abstract

This paper - probably, better to say note - is a kind of "call for attention" to the recent developments in backtesting financial risk measures. This topic is relevant in regulatory monitoring the performance of internal risk models used by banks in determining the minimum capital requirements for trading book portfolios. Backtesting is a process for checking the validity of risk estimation models. In his seminal work, Gneiting (2011) has proven that a prominent risk measure, Expected Shortfall (ES) lacks a property called elicitability. This finding has induced a huge controversy on the issue whether ES is backtestable at all. Due to the significant contribution of Acerbi and Székely (2017) among others, the above-mentioned debate can comfortingly and convincingly be closed because there is a (re)solution. In particular, one can arrive at a conclusion that building on its joint elicitability with Value-at-Risk (VaR), it is possible to introduce a so-called ridge backtest for ES. In fact, there is still an open question when and how regulation authorities will (re)act.

Wealth Effects for Bank Targets and Acquirers in the U.S.: Evidence from the Post-Dodd Frank Era

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Abstract

In the aftermath of the U.S. Subprime Loan Crisis, the U.S. Congress passed the Dodd Frank Act of 2010 to promote prudence and safety in the banking system, including greater oversight and more stringent regulations for systemically important financial institutions (SIFI) (with a threshold of having total assets over $50 billion), as well as greater regulation and higher capital requirements across the banking system. Community Banks (with a threshold of less than $10 billion in total assets) were given relief from some more stringent regulations, but were still subject to greater regulations, particularly for mortgage lending. This is the first study to examine publicly traded bank M&A activity following the enactment of the Dodd Frank Act in 2010 to 2018, when the regulations were relaxed, whether these acquisitions were value enhancing, and the motivations for acquisitions including any benefits in terms of gaining size to allow for better cost efficiency, diversification, profitability, capitalization, and risk considerations. Preliminary empirical results indicate a significant economic loss for acquirers (who are larger in size) and a larger than expected gain for targets, perhaps because less of them were available under Dodd Frank.

Borrower Ratings and Loan Contracting: Evidence from a State-owned Bank Around a Massive Economic Stimulus Programme

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Abstract

Using a proprietary loan data set, we study how a state-owned bank uses its internal borrower ratings in the loan granting decisions around China?s 2008 economic stimulus programme that relies on bank credit for financing. We find that there is little change in the rating process of the bank, and internal ratings remain a valid but weaker predictor of loan interest rates in the stimulus period. Weakened rating-interest rate relation is more pronounced for borrowers from the industries that the stimulus programme focuses on and for state-owned enterprises (SOEs), or when the credit rater and loan officer have frequently cooperated before. We also find that interest rates remain a valid predictor of ex-post loan outcomes in the stimulus period. Importantly, the minor deviations from the usual loan granting practice only last about two years and disappear after the stimulus programme ends, suggesting that these deviations are only temporary. Overall, there is no evidence that bank loan decisions and asset quality are severely compromised in the economic stimulus period as speculated by some media. By showing how a state-owned bank maneuvers between supporting government stimulus initiative and maintain market-based lending, we contribute to the limited literature on the roles of internal ratings in loan granting decisions, and add to the debate over the roles of state-owned banks.

Stakeholder influence on the CSR spending and disclosure of firms

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Abstract

Do stakeholders influence the CSR spending and disclosures for all firms positively? The paper analyses the influence of stakeholder on the CSR spending behavior of firms. Using data from the comply-or-explain CSR Regulation in India, I find that stakeholders positively affect compliance and spending on CSR. However, a higher stakeholder influence leads to lower quality of disclosures for the firms not complying with the regulation. CSR spending and quality of disclosures positively affect firm performance and firm value. The lower quality of explanations for non-compliance affects the effectiveness of the CSR regulation in India.

Effect of the U.S. quantitative easing policy on institutional investor flows of an emerging country

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Abstract

In this paper, we investigate the impact of an unconventional monetary policy of the U.S. on the institutional investor flows of an emerging economy. Using U.S. quantitative easing (QE) policy as a natural experiment, we examine the relationship between institutional investment flows and market returns in India. We find a bi-directional causality between domestic institutional investor flows and market returns in the pre QE period. However, the post QE period shows a bi-directional causality between foreign institutional investor flows and market returns. This indicates that the power to influence market returns in India has shifted from the domestic institutional investors to foreign institutional investors during the QE period. Thus, we find evidence for a change in the market dynamics of an emerging country due to spillover effects of an unconventional monetary policy of a foreign country.

How Do CFOs Matter? Evidence From Mergers and Acquisitions

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Abstract

This paper examines the role of Chief Financial Officers (CFOs) in mergers and acquisitions (M\&A). We construct an index that attempts to capture the ability of the CFO to influence a firm's acquisition behavior and performance. This index, which is based on a set of CFO-specific attributes such as level of financial expertise, outside board experience, compensation, age, tenure, and educational background, enables us to distinguish between strong (or more influential) and weak (or less influential) CFOs. We find that the firms with strong CFOs are more likely to make acquisitions and, when they do, these are mainly financed with cash. These findings are robust to the inclusion of several governance characteristics, firm and CEO fixed effects; as well as to tests addressing endogeneity concerns. We also provide evidence supporting the view that strong CFO firms exhibit better post-acquisition operating performance. Overall, our results suggest that strong CFOs enhance the firm's ability to identify suitable targets and, hence, generate greater synergy in the long run.

Volatility and the dynamic conditional correlation between Bitcoin and major asset classes

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Abstract

We investigate the impact of conditional volatility of stocks, bonds, commodities and Bitcoin on the dynamic conditional correlation of Bitcoin with these traditional asset classes, namely S&P 500 index, MSCI All County World Index, Oil, Gold and Bonds. Using Engle?s (2002) Multivariate Dynamic Conditional Correlation model, we estimate the conditional correlations of Bitcoin with the three asset classes. Our findings show that volatility of Bitcoin along with the volatility of other asset classes are significant determinants of dynamic correlations of Bitcoin with other traditional asset classes. We also find that the correlation of Bitcoin with stocks are positively skewed and correlation of Bitcoin with bonds and Bitcoin with commodities are negatively skewed.

Investor Sentiment Augmented Multi-Factor Models: Evidence From India

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Abstract

We develop an investor sentiment index that captures the investor behavior and analyzes its suitability in explaining asset prices after augmenting it in multi-factor asset pricing models. Seven different proxies including Sensex P/E ratio, dividend premium, modified advances to decline ratio, number of new equity issues, ratio of total equity issues to total equity and debt issues, turnover of BSE, and volatility premium have been utilized. The investor sentiment index, thus created, mimics the movements of Sensex. investor sentiment finds significance in explaining the returns for most of the portfolios under different multi-factor models. .Fama- French three factor model again lags in explaining the portfolio returns while Carhart four factor model and residual momentum factor model match in performance for explaining stock returns.

Analysing the Presence of Volatility Clustering and Impact of Macro-Economic Variables on Sustainability Indices in India: Using GARCH (1,1) model and ARDL

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Abstract

Increasing environmental consciousness among various stakeholders of financial markets has led to the introduction of GREENEX and CARBONEX indices by Bombay Stock Exchange (BSE). This study is an attempt to analyse the impact of macro-economic variables namely growth rate (GDP), inflation (WPI) and exchange rate (FOREX) on both the sustainability indices. The paper also attempts to find the presence of volatility clustering in the sustainability indices of India. The cointegration amongst the macro-economic variables and sustainability indices is tested through Auto-Regressive Distributive Lag (ARDL) Approach and significant results are achieved for both the indices. The volatility clustering for GREENEX and CARBONEX is tested through GARCH (1,1) model and significant volatility clustering is established for both the indices. These significant relationships highlight that the macro-economic variables have a significant and crucial impact on sustainability of Indian economy. Any measure taken to improve the growth rate or exchange rate or inflation shall significantly facilitate the sustainability in Indian economy further reducing the volatility in the stock market and economy.

Simulating the Indian Tax System: Overlapping Generations Lifecycle (OLG) model approach

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Abstract

Tax policies across nations have been widely analysed using economic models which can precisely predict on how the changes in the tax code can potentially affect the economic behavior and financial conduct of the tax payers. Economic models are essential for policymakers to minimize the distortionary effect of taxes on the revenue and economic growth. We reviewed the economic impact of taxes using the Overlapping Generations Lifecycle (OLG) models. The OLG model assumes that representative agents within a population are able to utilize perfect foresight in making their economic decisions wherein they are able to optimize their utility from today?s consumption and tomorrow?s consumption within a set of certain budget constraint. We provided an analytical analysis of this standard framework of OLG, and found that the results from the micro-simulations influence the macro-economic variables significantly due to inter-generational differences which affect the demographic and socio-economic parameters of the model.

Debt Heterogeneity & Firm Life Cycle: An Empirical Study on Indian Firms

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Abstract

Most of the capital structure studies have ignored the fact that different debt types have different characteristics and thus debt structure is heterogeneous. Literature suggests agency problem and information asymmetry as reasons for debt heterogeneity. The same forces are found to be affected by life cycle stages of the firms. In this context, it is important to examine whether there is any relationship between life stage of a firm and the debt heterogeneity? In this study, we examine how debt heterogeneity changes with various life cycle stages. In the study, the objective is three-fold: 1) to explore the debt heterogeneity patterns of Indian firms, 2) to analyse the causes of level of debt heterogeneity in firms and how it changes along the life cycle stages of the firm, and 3) to examine the impact of debt heterogeneity on firm performance. We do our analysis on Indian listed firms from 2001-2018 and data is sourced from CMIE (Centre for Monitoring Indian Economy) Prowess IQ database. We also contribute to debt heterogeneity literature by examining the impact of business group affiliation on debt heterogeneity.