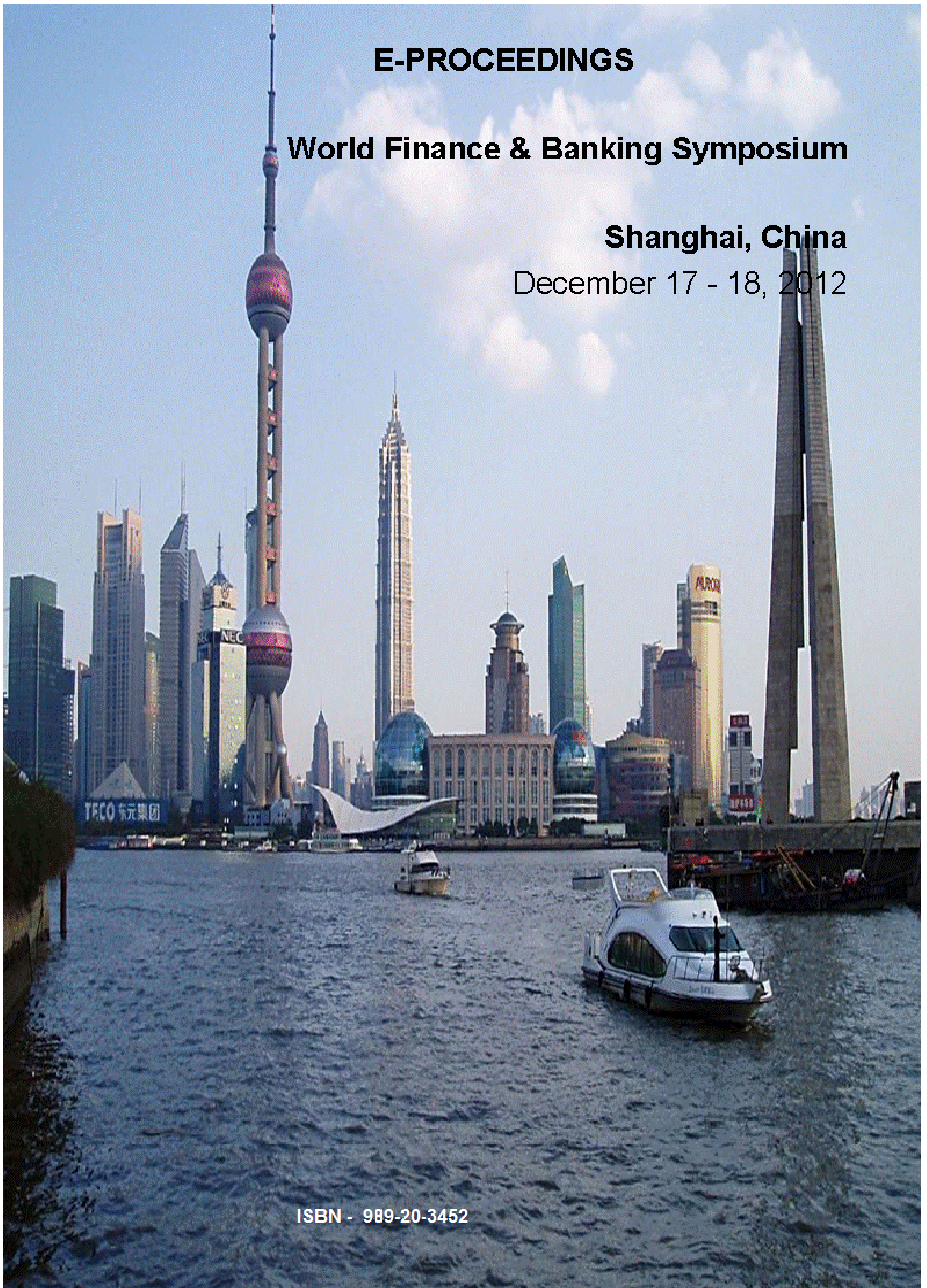
E-PROCEEDINGS
World Finance & Banking Symposium
Shanghai, China
December 17 - 18, 2012
ISBN - 989-20-3452

INDEX

Market States and The Role of 52-Week Highs and Lows as Reference Points: Evidence from International Equity Indexes
Yingjie Zhu - University of Queensland
Robert Bianchi - Griffith University
Michael Drew - Griffith University 14
The Nature of the Risk-free Asset: Evidence from Credit Default Swaps
Jin Xiang - Arizona State University
Zhiyi Qian - Arizona State University 15
An Empirical Analysis of Homeownership in Urban China
Christopher Gan - Lincoln University
Baiding Hu - Lincoln University
Cindy Gao - Bank of Shanghai
Betty Kao - Avon Taiwan
David Cohen - Lincoln University 16
Can US Economic Variables Predict Chinese Stock Market
Jeremy Goh - Singapore Management University
Fuwei Jiang - Singapore Management University
Jun Tu - Singapore Management University
Yucheng Wang - Singapore Management University 17
The Investor Clientele Effect, Market Conditions, and the Mutual Fund Flow-Performance Relationship
Jun Xiao - Financial management international research institute, Jiangxi University of Finance and Economics
Mingsheng Li - Bowling Green State University
Jin Shi - The Australian National University 18
Test of Intertemporal Variability of APT in a Volatile Economy
Fan Fah Cheng - Faculty of Economics and Management, University Putra Malaysia
Pooya Sabetfar - Faculty of Management and Acoounting, Islamic Azad University of Qazvin
Bany Ariffin Amin Noordin - University Putra Malaysia 19
Banks' Survival during the Financial Crisis: The Role of Regulatory Reporting Quality
Jeffrey Ng - Massachusetts Institute of Technology
Tjomme Rusticus - Northwestern University 20
Equity Premiums and International Risk Sharing
Yuming Li - California State University, Fullerton 21
The Financial Implications of Corporate Fraud
Chen Lin - Chinese University of Hong Kong
Frank Song - University of Hong Kong
Zengyuan Sun - University of Hong Kong 22
Stock market liquidity and short-termism driven CEO turnover
Y.Han (Andy) Kim - Nanyang Business School, NTU,
Min Jung Kang - Michigan State University 23
Volatility Spillover, Interdependence, Comovements across GCC, Oil and U.S. Markets and Portfolio Management Strategies in a Regime-Changing Environment

Ahmed A.A. Khalifa - King Fahd University of Petroleum and Minerals
Shawkat Hammoudeh - Lebow College of Busines, Drexel University
Edoardo Otranto - Dipartimento di Scienze Cognitive e della Formazione,University of Messina 24
Short Sell Restriction, Liquidity and Price Discovery: Evidence from Hong Kong Stock Market
Yafeng Qin - Massey University
Min Bai - Massey University 25
Options for Reforming the Financial System
Shann Turnbull - International Institute for Self-governance 26
Financial Inclusion: Gateway for Poverty and Unemployment
Masroor Ahmad Beg - University of Delhi 27
Forecasting Bond Risk Premia Using Technical Indicators
Jeremy Goh - Singapore Management University
Fuwei Jiang - Singapore Management University
Jun Tu - Singapore Management University
Guofu Zhou - Washington University 28
Could the 2008 US financial crisis be avoided with network governance?
Shann Turnbull - International Institute for Self-governance
Michael Pirson - Fordham University 29
A Note on Forecasting Emerging Market Exchange Rates - Evidence of Anti-Herding
Christian Pierdzioch - Saarland University
Jan-Christoph Rlke - WHU - Otto Beisheim School of Management
Georg Stadtmann - University of Southern Denmark and European-University Viadrina 30
Stock Market Volatility and Equity Returns: Evidence from a Two-State Markov-Switching Model With Regressors
Xinyi Liu - Standard Chartered Bank
Dimitris Margaritis - University of Auckland Business School
Peiming Wang - Auckland University of Technology 31
How Does the Market Read Information Conveyed by Accruals?
Qinghao Mao - Erasmus University, Rotterdam
K.C. John Wei - Hong Kong University of Science and Technology 32
Regional Effects of Monetary Policy in China
Xiaohui Guo - HeBei university
Tajul Ariffin Masron - Universiti Sains Malaysia 33
Market Power, Competition and the Ability of Banks to Shift Taxes to Their Customers
Gunther Capelle-Blancard - University Paris 1 Pantheon-Sorbonne
Olena Havrylchyk - CEPII 34
The Strategic Implementation of an Investment Process in a Funds Management Firm
Ron Bird - Paul Woolley Centre, UTS
Paolo Pellazzri - University of Venice
Danny Yeung - Paul Wooley Centre, UTS
Paul Woolley - Paul Woolley Centre, London Scholl of Economics 35
Pricing of Assets-Backed Dynamic Financial Products for Financing the Small and Medium-Sized Enterprises in China
Xinshi Tian - Huazhong University of Science & Technology
Zulin Pu - Huazhong University of Science & Technology
Zohaib Zaheer - Huazhong University of Science & Technology 36

Informational Effect and Market Quality Impact of Crossed Trades and Fleeting Orders on the Australian Securities Exchange
Henry Leung - The University of Sydney
Joakim Westerholm - The University of Sydney
Annica Rose - The University of Sydney 37

The Interrelations Between the Managerial Entrenchment and the Performance of the company:Evidence from the Manufacturing Companies Traded on ADX.
Neijla Elili - Abu Dhabi University 38

Eficiency and Equity in School Funding for Government Schools in Australia
Kalyan Chakraborty - Emporia State University
Vincent Blackburn - Department of Education and Commerce 39

Diaman Ratio
Ruggero Bertelli - University of Siena
Danielle Bernardi - Diaman Sim 40

The Lending Interest Rates in the Microfinance Sector: Searching for its Determinants
Pablo Cotler - Universidad Iberoamericana
\- 41

Reach the Unreached Status of Financial Inclusion in India
K.Karthikeyan Kothandaraman - Vivekananda College,Madurai 42

Effects of Differences of Opinions and Short-sale Constraints on the Dual Listed Chinese Shares
Zhenmin Fang - City University of Hong Kong
Xin Jiang - City University of Hong Kong 43

Systematic Risk and 2008 Financial Crisis: are There Different Effects on Brazilian Stock prices, depending on the Industry Classification?
Ana Paula Mussi Szabo Cherobim - Federal University of Paran
Claudio Marcelo Barros Edwards - Federal University of Paran
Jocelino Donizetti Teodoro - Universidade Federal do Paran 44

Discipline: Measuring and Linking it to the Profitability of Retail Futures Traders
Teng Yuan Cheng - National Taiwan University
Chun I Lee - Loyola Marymount University
Chao Hsien Lin - National Kaohsiung First University of Science and Technology 45

Block Trade Targets in China
Liping Dong - Kyushu University
Konari Uchida - Kyushu University
Xiaohong Hou - China University of Mining and Technology 46

Financial Inclusion Strategies in Developing countries with special reference to India
G. Mohi-ud-Din Dar - University of Kashmir Srinagar
S Javed Iqbal Kamili - Gandhi Memorial College Srinagar 47

Analysis of the Italian Banking System Efficiency. A Case of Failed Financial Integration
Cesare Imbriani - Sapienza University of Rome
Antonio Lopes - Second University of Naples
Luca Giordano - Consob, Companies and Stock Exchange Commission 48

Corporate Governance of Banks and the Banking reforms in Nigeria: the issues
Olusegun Gabriel Adegbite - Glasgow Caledonian University 50

Investor Perceptions of Risk and Return in IT Stocks: An Empirical Study
C .Vasanta Valli Chivukula - Department of Commerce , NMKRV College for Women

{Autonomous} , III Block Jayanagar,Bangalore
Eresi kalchetty - Department of Commerce ,Bangalore University ,Bangalore 51
Management of Pension Funds under Market Jump Risk
Olivier Le Courtois - EM Lyon Business School
Francesco Menoncin - University of Brescia 52
Static Hedging Under Maturity Mismatch
Natalie Packham - Frankfurt School of Finance & Management
Philipp Mayer - Graz University of Technology
Wolfgang Schmidt - Frankfurt School of Finance & Management 53
The Analysis of Relationship between Stock Prices and Exchange Rates in Iran (2007-2012)
Yadollah Dadgar - Beheshty University
Rouhollah Nazari - Audit Court 54
Multi Model Forecasts of the West Texas Intermediate Crude Oil Spot Price
Laura Ryan - Australian National University
Martin Emery - 55
Bidder Cash Reserve Effect under the Precautionary Motive: Evidence from UK
Ning Gao - University of Manchester, UK
Abdulkadir Mohamed - Liverpool University 56
Collateral and its Determinants: Evidence from Vietnam
Thanh Dinh - Maastricht Unviersity
Christa Hainz - ifo Institution for Economics Research
Stefanie Kleimeier - Maastricht University 57
Industry and Country Effects in ASEAN Stock Returns
Romora Sitorus - International University of Jakarta
Peter Hwang - International University of Jakarta 58
Credit Scoring and Loan Default
Rajdeep Sengupta - Federal Reserve Bank of St. Louis.
Geetesh Bhardwaj - SummerHaven Investment Management. 59
Unintended Consequences of Increased Asset Threshold for FDICIA Internal Controls in 2005: Evidence from US Private Banks
Justin Jin - McMaster University
Kiridaran Kanagaretnam - McMaster University
Gerald Lobo - University of Houston 60
The Option SKEW Index and the Volatility of Volatility
Zhiguang Wang - South Dakota State University
Robert Daigler - Florida International University 61
A Comparison of the Choice of Means in Portfolio Selection Models
Chin Yang - Clarion University of Pennsylvania
Matthew Brigida - Clarion University of Pennsylvania
Yifan Zhao - Clarion University of Pennsylvania
Anthony Loviscek - Seton Hall University 62
Rare Disaster Risk and the Equity Premium Puzzle
Henk Berkman - University of Auckland
Ben Jacobsen - Massey University
John Lee - University of Auckland 63

Financial Decision-Making in Corporate Crisis
Valery Shemetov - Northern Virginia Community College 64
Aggregate Earnings News and Stock Market Returns: The Good, The Bad and The State-Dependent
Leon Zolotoy - Melbourne Business School, University of Melbourne
James Frederickson - Melbourne Business School, University of Melbourne
John Lyon - Department of Accounting, University of Melbourne 65
The Impact of Events and Interventions on Hang Seng Index Volatility in 1997 Asian Financial Crisis
Ruoxi Zhang - School of Business, University of New South Wales, Canberra Campus
Satish Chand - School of Business, University of New South Wales, Canberra Campus 66
International Portfolio Selection with Exchange Risk: A Behavioural Portfolio Theory Perspective
Chonghui Jiang - University of Electronic Science and Technology of China
Yongkai Ma - University of Electronic Science and Technology of China
Yunbi An - Uinversity of Windsor 67
International Standard Financial Reports
Dionigi Gerace - University of Wollongong
Alex Frino - University of Sydney
Riccardo Palumbo - University of Pescara 68
Institutional Economics: An approach to analyze the conduct of foreign banks in India
Ashis Taru Deb - University of Delhi
K V Bhanu Murthy - University of Delhi 69
IPO Pricing : Who Does IPO Grading Help ?
K V Bhanu Murthy - University of Delhi
Amit Kumar Singh - University of Delhi 70
The Determinants of Chinese Open-end Funds Performance
Lixian Liu - University of Canberra 71
The Impact of Bilateral Tax Treaties on FDI Inflows: The Case of India
K V Bhanu Murthy - University of Delhi
Niti Bhasin - University of Delhi 72
A Cost-Benefit Analysis of Basel III: Some Evidence from the UK
Meilan Yan - Loughborough University
Maximilian Hall - Loughborough University
Paul Turner - Loughborough University 73
New Evidence on Asymmetric Co-movement between Gold Prices and Stock Markets with Mixed-copula Analysis
Cuong Nguyen - Lincoln University
Magda Komornov- Slovak University of Technology
Jozef Komorn - Comenius University
Ishaq Bhatti - La Trobe University 74
Microfinance, the Long Tail and Mission Drift
Carlos Serrano-Cinca - University of Zaragoza
Bego Gutirez-Nieto - University of Zaragoza 75
Assessing Abnormal Returns: The Case of Chinese M&A Targets
Xiaojing Song - University of East Anglia

Mark Tippett - University of Sydney, Australia and Victoria University of Wellington, New Zealand

Andrew Vivian - Loughborough University 76

Determinant of Recovery Rates
Rainer Jankowitsch - WU (Vienna University of Economics and Business
Florian Nagler - VGSF - Vienna Graduate School of Finance
Marti G. Subrahmanyam - New York University 77

Were Multinational Banks Taking Excessive Risks Before the Recent Financial Crisis?
Mohamed Azzim Gulamhussen - University Institute of Lisbon
Carlos Pinheiro - Caixa Geral de Depitos
Alberto Franco Pozzolo - Universitdegli Studi del Molise 78

Who Wants to be on CNBC? - Labor Market Impact of CEO's Media Visibility
Y.Han (Andy) Kim - Nanyang Business School
Kee Wen (Kenn) Wong - HSBC
Zhe Ren (David) Gan - United Overseas Bank 79

Chinas Banks Ownership and Performance
Xiaoxi Zhang - University of Western Sydney
Kevin Daly - University of Western Sydney 80

Momentum and Overreaction in Prices: Do They Exist and Result in Profitable Trading Strategies in the Carbon Market?
Jarrod Crossland - Origin Energy
Bin Li - Griffith University
Eduardo Roca - Griffith University 81

Corporate Governance and Private Equity Placements
Yin-Hua Yeh - National Chiao Tung University,
Pei-Gi Shu - Fu Jen Catholic University
Ming-Sun Kao - Fu Jen Catholic University 82

Accounting Conservatism and Corporate Investment Decisions: Evidence from a Structural Assessment
Karen Jingrong Lin - University of Mass Lowell / Sun Yat-Sen University
Chen Chen - The Chinese University of Hong Kong
Yi Hu - The Sun Yat-Sen University 83

Diversification and Robust Measures of Tail Risk in Mutual Funds
Francis In - Monash University
Woohwan Kim - Monash University 84

Credit Rating Changes and Leverage Adjustments: Concurrent or Continual?
Reza H. Chowdhury - University of Dubai
Min Maung - University of Saskatchewan 85

Informational Content of Option Trading on Acquirer Announcement Return
Konan Chan - National Chengchi University, The University of Hong Kong
Li Ge - The University of Hong Kong
Tse-Chun Lin - The University of Hong Kong 86

Why do Option Prices Predict Stock Returns?
Joost Driessen - Tilburg University
Tse-Chun Lin - The University of Hong Kong
Xiaolong Lu - The University of Hong Kong 87

Impact of International Financial Shocks on New Zealands Small Open Economy
Shamim Shakur - Massey University
Richard Manning - Ministry of Agriculture and Forestry 88
Financial Intermediation of Microfinance NGOs - An Alternative Role in the Credit Delivery System Towards Financial Inclusion-A Study in the Indian Context
Raja Sithanathan - Vivekananda College 89
Accounting Expertise of Chief Financial Officers
Y.Han (Andy) Kim - Nanyang Business School 90
CEO Interviews on CNBC
Y.Han (Andy) Kim - Nanyang Business School
Felix Meschke - University of Kansas 91
Financial Crisis, Control Rights and Investment-Cash Flow Sensitivity: The Chinese Perspective
Xiaoqian Zhang - Zhejiang University 92
Information Disclosure and Depositor Discipline in the Chinese Banking Sector
Yuliang Wu - Queen's University Belfast
Mike Bowe - University of Manchester 93
Dynamic Conditional Beta and Systemic Risk in Europe
Robert Engle - New York University
Eric Jondeau - University of Lausanne
Michael Rockinger - University of Lausanne 94
Multiple Financial Access and Debt Trap
Kashiram Sharma - University of Namibia
Udai Lal Paliwal - University of Namibia 95
Cost Efficiency of Kazakhstan and Russian banks: Results from Competing Panel Data Models
Subal Kumbhakar - State University of New York at Binghamton
Anatoly Peresetsky - Higher School of Economics and CEMI RAS 96
Rethinking Banking Models Using a Grounded Theory Model of Bank Intangibles
Lei Chen - University of Glasgow
John Holland - University of Glasgow
Jo Danbolt - University of Glasgow 97
Financing from Family and Friends
Samuel Lee - New York University
Petra Persson - Columbia University 98
Hong Kong Capital Flight: Determinants and Features
Christopher Gan - Lincoln University
Yingli Han - Lincoln University
Baiding Hu - Lincoln University
Zhaohua LI - Lincoln University 99
The Impacts of Leverage, Price Book Ratio, Dividend Yield and Past Performance on Stock Returns
Tristan Nguyen - WHL Graduate School of Business and Economics
Alexander Schuessler - HHL Leipzip Graduate School of Management 100
Strategic Data Management for Enhancing Financial Performance
Kayla Summerville - Alfred University
Zong Dai - Alfred University 101

Capital Structure and Financing Choices in Australia
Klaus Buhr - Department of Accounting and Finance, Unitec Institute of Technology
Roy Cross - Brook Asset Management Analyst, New Zealand
Liz Rainsbury - Department of Accounting and Finance, Unitec Institute of Technology 102
Are Bank Dividends a Signal to Informed Depositors?
Cristiano Forti - Getulio Vargas Fundation
Rafael Schiozer - Getulio Vargas Fundation 103
Government Ownership and the Cost of Debt: Evidence from Government Investments in Publicly Traded Firms
Ginka Borisova - Iowa State University
Veljko Fotak - University of Oklahoma
Kateryna Holland - University of Oklahoma
William Megginson - University of Oklahoma 104
Effect of Split-share Structure Reform on Compensation Incentive Based on firm Performance
Qing Yang - Fudan University
Lin Shi - Fudan University
B. Burcin Yurtoglu - WHU Otto Beisheim School of Management 105
Financial Development and Innovation Activity: Evidence from Selected East Asian Countries
Soo-Wah Low - National University of Malaysia
Si-Roei Kew - National University of Malaysia
Lain-Tze Tee - National University of Malaysia 106
The Centralized Ratings Based Approach (CRBA)
Rodrigo Gonzalez - Central Bank of Brazil
Jose Savoia - Universidade de Sao Paulo 107
Falling Currency Effects: An Internal Security Challenge (A case study of India)
Ajeya Gupta - DDU Gorakhpur University 108
Economic Liberation through MFIs A Model for Women Empowerment in Indian
Jayanta Kumar Parida - Utkal University
Sanjeeb Kumar Jena - Aeronautics College, Sunabeda 109
Public Information Arrival and Stock Return Volatility: Evidence from News Sentiment and Markov Regime-Switching Approach
Yanlin Shi - The Australian National University
Kin-Yip Ho - The Australian National University
Wai-Man Liu - The Australian National University 110
Home Country Determinants of Outward FDI: A Study of Select Asian Economies
Niti Bhasin - Department of Commerce, Delhi School of Economics, University of Delhi
Vandana Jain - Shri Ram College of Commerce, University of Delhi 111
Fuzzy-Logic-Based Risk Management of M&A Deals Outcome: A Case-Study a Large Russian Metallurgic Holding
Maria Polikarpova - Magnitogorsk State Technical University of G.I.Nosov 112
Risk Sharing and Stock Price Informativeness: Evidence from Stock-split Natural Experiment
Eric Chang - The University of Hong Kong
Tse-Chun Lin - The University of Hong Kong
Xiaorong Ma - The University of Hong Kong 113
Asian finance and banking implications from crisis: Malaysian commercial banks' income smoothing behaviour through loan loss provisions

Mohd Yaziz Mohd Isa - University Tun Razak
Dr. Yap Voon Choong - - Multimedia University
Professor Dr. Sazali Abdul Wahab - University Malaysia Kelantan 114
Understanding Asset Correlations
Henrik Hasseltoft - University of Zurich/Swiss Finance Institute
Dominic Burkhardt - University of Zurich/Swiss Finance Institute 115
Is Momentum Really Momentum? International Evidence
Qiang Gong - Southwestern University of Finance and Economics
Ming Liu - International University of Japan
Qianqiu Liu - University of Hawaii 116
Forecasting Failure Probabilities of Hedge Funds A Survival Approach
Hee Soo Lee - University of Sydney
Max Stevenson - University of Sydney
Juan Yao - The University of Sydney 117
Does Cognitive Limitation Affect Investor Behavior and Performance? Evidence from Limit Order Clustering
Wei-yu Kuo - National Chengchi University
Tse-chun Lin - The University of Hong Kong
Jing Zhao - The University of Hong Kong 118
The Quality of Securities Firms Earnings Forecasts and Stock Recommendations: Do Informational Advantages, Reputation and Experience Matter in China?
Jan Bartholdy - Aarhus University
Tiyi Feng - Finance School, Shanghai Institute of Foreign Trade 119
Risk-Taking Behavior of Privatized Banks
Sana Mohsni - Carleton University
Isaac Otchere - Carleton University 120
Protection of Investments by Protection Against Trademark Dilution - The Legal Framework in the International Trademark Law, Trademark Law of the European Union and Trademark Law of the South East Europe Countries
Jadranka Dabovic Anastasovska - Faculty of Law "Iustinianus Primus", University "Ss. Cyril and Methodious"
Neda Zdraveva - Faculty of Law "Iustinianus Primus", University "Ss. Cyril and Methodious" 121
A New Survey of Micro-Enterprises and Their Finance
Ying Lowrey - Tsinghua University
David Liu - CreditEase Group 122
The Effects of Political Insitutions and Economic Institutions in A Transitory Economy: Evidence from the Going Public Process in China
Bill Francis - Rensselear Polytechnic Institute
Iftekhar Hasan - Fordham University
Xian Sun - Johns Hopkins University
Mingming Zhou - University of Colorado Colorado Springs 123
Credit-induced Inflation: Behavior Study of Banks
Ianping Ding - Shanghai University of Finance and Economics
Jianfang Zhou - Hangzhou Normal University
Songhua Wang - Shanghai TV University 124

An Anatomy of Fundamental Indexing
  Lieven Demoor - KULeuven and HUBrussel
  Fang Liu - Central University for Finance and Economics
  Piet Sercu - KULeuven
  Tom Vinaimont - City University of Hong Kong 125

Gross Capital Flows: Dynamics and Crises
  Fernando Broner - CREI and Universitat Pompeu Fabra
  Tatiana Didier - World Bank
  Aitor Erce - Bank of Spain
  Sergio Schmukler - World Bank 126

A Study of Sovereign Risk, Using Contigent Claims Analysis
  Moisa Altar - Romanian-American University-Bucharest
  Judita Samuel - Romanian-American University-Bucharest
  Adam Altar-Samuel - Romanian-American University-Buchares 127

Performance of Mergers and Acquisition: Indian Banking Sector
  Salimuddin Dewan - ICFAI Business School, Ahmedabad 128

Volatility Study of Indian Stock Market During Its Post Derivative Period
  Padmabati Gahan Gahan - Sambalpur University
  Jibendu Kumar Mantri Mantri - North Orissa University
  Jayant Kumar Parida Parida - Utkal University
  Pradipta K Sanyal Sanyal - Deptt of Business Management,EIILM,Kolkota 129

Multiplicative Model of Countercyclical Capital Buffer Evaluation Differentiated by Homogeneous Clusters of Countries
  Fuad Aleskerov - National Research University Higher School of Economics
  Henry Penikas - National Research University Higher School of Economics
  Azamat Keskinbayev - National Research University Higher School of Economics 130

Stock Market Liquidity and Bond Risk Premia
  Kees Bouwman - Erasmus University
  Elvira Sojli - Erasmus University
  Wing Wah Tham - Erasmus University 131

An Empirical Bond Portfolio Study:Evidence from the Asian Emerging Bond Market
  Jinghua Wang - Illinois Institute of Technology
  John Bilson - Illinois Institute of Technology 132

Commodity Price and Exchange Rate Dynamics: Australia and New Zealand Evidences
  Xiaoming Li - Massey University, Albany Campus
  Liping zou - Massey University, Albany Campus
  Hao Zhu - Massey University, Albnay Campus 133

Tunneling or Alignment? The Interaction between Shareholding Ratios, Control Shareholders Behavior and Firm Performance in a Transitional Economy - Evidence from China
  Crystal Xiaobei Chen - Northeastern Illinois University
  Shanmin Li - Sun Yat-sen University
  Chloe Wenting Chen - Sun Yat-sen University 134

Do Firms Replenish Executives' Incentives After Equity Sales?
  Tomislav Ladika - Brown University 135

The Use of Warrants in Non-Underwritten IPOs
  Arif Khurshed - Manchester Business School

Dimitris Kostas - Manchester Business School
Brahim Saadouni - Manchester Business School 136
Inflation-linked bonds and China's pension reform
Peng Huang - Boston University 137
The Acquirer Characteristics, Information Asymmetry and their Influences of Method of Payment of Chinese Domestic Acquirers
Agyenim Boateng - University of Nottingham, China
Xiaogang Bi - University of Nottingham, China 138
The General Equilibrium Framework with Default and Collateral
Ricardo Luis Chaves Feij- University of Sao Paulo, Ribeirao Preto 139
Accounting Disclosure Quality, Cost of Capital and Interrelated Firm Effects
Weiyi Cynthia Cai - Monash University 140
Financial Dependence, Capital Markets Concentration and Economic Growth in Emerging Economies
Tatiana Didier - World Bank
Andres Schneider - World Bank 141
An Analysis of Efficiency in the Jordanian Banking Sector
Rami Zeitun - Qatar University 142
Corporate Governance and Seasoned Equity Offerings: Offer Methods and Flotation Costs
Hardjo Koerniadi - AUT University
Chandrasekhar Krishnamurti - University of Southern Queensland
Lau Sie Ting - Nanyang Technological University
Ting Yang - AUT University
Alireza Tourani-Rad - AUT University 143
Power Struggles, Tunneling Incentives, and Investment Efficiency in Diversified Business Groups
V. Ravi Anshuman - Indian Institute of Management Bangalore
Nivedita Sinha - Indian Institute of Management Bangalore 144
Investor Sentiment and the Fragility of Liquidity
Chunmei Lin - National University of Singapore 145
Liquidity Variation and the Cross-Section of Stock Returns
FANGJIAN FU - SINGAPORE MANAGEMENT UNIVERSITY
Wenjin Kang - National University of Singapore
Yuping Shao - National University of Singapore 146
Diversification in a small market: some evidence from Namibia
Udai Lal Paliwal - University of Namibia 147
Does 2008 Global Financial Crisis Contagious?
Niyazi Berk - Bahcesehir
Dina Cakmur Yildirtan - Marmara University
Ayse Gul Bolukbasi - Marmara University 148
VC Participation and the Performance of Chinese IPOs
Isaac Otchere - Carleton University
Anna Vong - University of Macau, Hong Kong 149
Idiosyncratic Volatility and Cross-sectional Returns in the Chinese Stock Market
Gilbert Nartea - Lincoln University
Ji Wu - Lincoln University
Lee Yao - Loyola University New Orleans 150

An Empirical Analysis of the Volatile Stock Behavior at the event of Dividend Announcement: Evidence from Indian Capital Market (National Stock Exchange of India)
Kanwal Anil - School of Business Public Policy & Social Entrepreneurship ,Ambedkar University Delhi.
Rahul Grover - LBSIM
Sudeep Sahu - LBSIM 151
Half a Nation! - Financial inclusion lessons for India
Nazuk Kumar - Indian Institute of Technology, Delhi 152

Market States and The Role of 52-Week Highs and Lows as Reference Points: Evidence from International Equity Indexes

Yingjie Zhu
University of Queensland, Australia
r.zhu@business.uq.edu.au

Robert Bianchi
Griffith University, Australia

Michael Drew
Griffith University, Australia

Abstract

George and Hwang (2004) documents investor behavioral biases at the 52-week high price level. Our study examines both the 52-week high and low price levels of fifteen international stock indexes over forty years. By separating the markets into two states using the 52-week high and low, we provide evidence to show that past price extremes have important investor psychological effects as reference points. The study demonstrates statistically significant differences in the behavior of stock markets after reaching the psychological 52-week high or low reference points. Overall, the findings support the behavioral theory that investors tend to be risk averse when they have made prior losses and they become less risk averse when they have made prior gains.

The Nature of the Risk-free Asset: Evidence from Credit Default Swaps

Jin Xiang
Arizona State University, United States
jxiang2@asu.edu

Zhiyi Qian
Arizona State University, United States
Zhiyi.Qian@asu.edu

Abstract

US sovereign debt is widely regarded as risk-free on nominal terms. However, between January 2008 and September 2010, US sovereign credit default swaps (CDS) traded at premium to a sample of US corporate CDSs. The implied default probabilities from CDS premiums show that the US government is more likely to default than these firms. We find no evidence that changes in fundamental default risk are responsible for this premium difference. Traditional explanations such as differences in recovery rates, counterparty risk and cheapest-to-deliver options also cannot explain it. Changes in comovement "factors" that represent spillover effects from the default risk of European countries, and liquidity, appear to drive the observed premium difference.

An Empirical Analysis of Homeownership in Urban China

Christopher Gan
Lincoln University, New Zealand
Christopher.Gan@Lincoln.ac.nz

Baiding Hu
Lincoln University, New Zealand
Baiding.Hu@Lincoln.ac.nz

Cindy Gao
Bank of Shanghai, China
gaoxia2216@hotmail.com

Betty Kao
Avon Taiwan, Taiwan
thk530@gmail.com

David Cohen
Lincoln University, New Zealand
David.Cohen@Lincoln.ac.nz

Abstract

A number of studies have examined housing affordability in urban China, focussing on topics such as the determinants of house prices with respect to changes in economic fundamentals and housing policies. However, there are few studies that have addressed the socio-economic factors influencing consumers' home purchase decisions and accessibility to loans that might significantly affect the rate of home ownership in urban China. This paper investigates the impact of socioeconomic factors of homebuyers such as gender, age, marital status, education, economic status and race on home ownership and loan decisions in urban China. Our findings document that male respondents who are non-minorities and have higher levels of education are more likely to purchase a house. The results also show that race, educational attainment, size of household and credit card ownership are significantly related to rejection for a housing loan.

Can US Economic Variables Predict Chinese Stock Market

Jeremy Goh
Singapore Management University, Singapore
jeremygoh@smu.edu.sg

Fuwei Jiang
Singapore Management University, Singapore
fwjiang.2010@pbs.smu.edu.sg

Jun Tu
Singapore Management University, Singapore
tujun@smu.edu.sg

Yucheng Wang
Singapore Management University, Singapore
judywych@gmail.com

Abstract

Given that the impact of the world economy on the China economy and its stock market may have increased substantially in the last few decades, we examine whether US economic variables can predict the Chinese stock market. We find that although before China joined World Trade Organization (WTO) in the end of 2001, the US economic variables generally do not show significant predictive power on the Chinese stock market, they do provide significant predictive power after 2001. Moreover, we show that the US economic variables can be used in conjunction with China economic variables to achieve better return forecasts for the Chinese stock market, which turn out to be economically important from an investment perspective.

The Investor Clientele Effect, Market Conditions, and the Mutual Fund Flow-Performance Relationship

Jun Xiao
Financial management international research institute, Jiangxi University of Finance and Economics, China
xiao_jun913@163.com

Mingsheng Li
Bowling Green State University, United States
mli@bgsu.edu

Jin Shi
The Australian National University, Australia
jing.shi@anu.edu.au

Abstract

We analyze the relationship between mutual fund flows and performance focusing on the impact of stock market conditions and the investor clientele effect. Consistent with existing literature, we find that the net flow to funds is positively related to past fund performance. Contrary to previous studies on U.S. mutual funds, our results do not exhibit an asymmetric flow-performance relationship, nor do we find any significant star effect. These results imply that the flow-performance relationship is sample-specific. Furthermore, we find that the flow-performance relationship varies significantly with market conditions, and a positive relationship is more pronounced during bull markets. The asymmetric flow-performance relationship observed under different market conditions is consistent with Thaler and Johnson’s (1990) house money effect and the overconfidence hypothesis proposed by Gervais and Odean (2001).

Test of Intertemporal Variability of APT in a Volatile Economy

Fan Fah Cheng
Faculty of Economics and Management, University Putra Malaysia, Malaysia
chengfanfah@yahoo.com

Pooya Sabetfar
Faculty of Management and Acoounting, Islamic Azad University of Qazvin, Iran
psabetfar@yahoo.com

Bany Ariffin Amin Noordin
University Putra Malaysia, Malaysia
banymn@yahoo.com

Abstract

The Arbitrage Pricing theory (APT) treat the systematic risk of securities as invariant in the end, also, they expose theoretical and empirical evidence that the rate of return of a security changes over time. Therefore, this study attempts to test the intertemporal variability of APT in a volatile economy. The main objective of this study provides test of APT for Tehran stock market and also attempt to find the relevant factors that price the stock returns over time. Tests conducted using the principal component analysis and canonical correlation model showed that at least one to three factors that can explain the cross-section of expected returns in this market. In full sample test, the evidence identifies 22 factors in sample and only 13 are priced. Again, in second sub period, there are 24 common factors from the smallest to largest samples and only 15 are priced. This study discovers that the sources of systematic risk are dissimilar due to the different periods in TSE. In full period the sources of risk are export of crude oil and interest rate proxy. In second sub periods money supply (M2), money supply (M1), consumer price index and GDP are sources of risk. So, the sources of systematic risks in TSE are dissimilar and not quantified. The important macroeconomic variables that could have affected stock returns changes over times. Therefore, it is hard to identify exactly which is the source of risk in TSE. Which macroeconomic variables are most important in Iran? These findings also suggest that different strategies are required to invest successfully in Iran because the risk factors changes over time.

Banks' Survival during the Financial Crisis: The Role of Regulatory Reporting Quality

Jeffrey Ng
Massachusetts Institute of Technology, United States
jeffreyng@smu.edu.sg

Tjomme Rusticus
Northwestern University, United States
t-rusticus@northwestern.edu

Abstract

In this paper, we investigate the relation between the quality of bank regulatory reporting prior to and bank stability during the financial crisis that erupted in 2008. Using a large sample of private and public commercial banks in the United States, we find that reporting quality is positively associated with stability. We use the incidence of accounting restatements as a proxy for the overall quality of the reporting system. We show that lower reporting quality before the crisis is associated with higher non-performing loans and lower profitability at the onset of the crisis. We document that banks with lower reporting quality are more likely to experience regulatory intervention through enforcement actions and bank failures during the crisis. We also find some evidence that higher reporting quality is associated with more effective regulatory enforcement actions.

Equity Premiums and International Risk Sharing

Yuming Li
California State University, Fullerton, United States
yli@fullerton.edu

Abstract

I examine equity premiums and international risk sharing simultaneously. I study the effect of idiosyncratic risks by differentiating shareholders' portfolios in each country from the world or local market portfolio. I also investigate the role of limited asset market participation by deriving shareholders' consumption in each country from the country's aggregate consumption and labor income. A model that incorporates idiosyncratic risks and limited participation fits equity premiums with reasonable risk aversion coefficients and bridges the gaps between consumption and asset-based risk sharing for multiple countries. While limited participation help explain the equity premium puzzle, idiosyncratic, country-specific risks are crucial for explaining both equity premiums and international risk sharing.

The Financial Implications of Corporate Fraud

Chen Lin
Chinese University of Hong Kong, Hong Kong
chenlin@baf.msmail.cuhk.edu.hk

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

Zengyuan Sun
University of Hong Kong, Hong Kong
zengyuansun@gmail.com

Abstract

This paper explores the financial implications of corporate fraud by examining the impact of corporate fraud on fraudulent firms' external financing cost and corporate cash holdings. Using a sample consist of 184 fraudulent firms that experience material litigation in securities class action, we find that firms' cost of debt significantly increases associated with corporate fraud incident. In line with the costly external financing evidence, fraudulent firms accumulate more cash to keep liquidity and avoid underinvestment issues. Consistent with the precautionary motive argument, the value of cash increases after corporate fraud. In addition, corporate fraud contributes to financial constrains in the sense that fraudulent firms display a positive cash flow sensitivity of cash after corporate fraud. Our result indicates that corporate fraud can have a real impact on corporate outcomes by affecting the external financing cost and internal cash holdings.

Stock market liquidity and short-termism driven CEO turnover

Y.Han (Andy) Kim
Nanyang Business School, NTU,, Singapore
yhkim@ntu.edu.sg

Min Jung Kang
Michigan State University, United States
kangm@bus.msu.edu

Abstract

Does an improvement in stock market liquidity make the hareholders more short-term oriented in firing the CEO? An improvement in stock market liquidity could have two opposing effects on short-termism: (1) the market could become more efficient and encourage shareholders to allow more long-term R&D investments; or (2) transient institutional investors (Bushee, 1998)could have increased flexibility to unwind their position, making the company more short-term oriented. Using data on CEO turnover of Execucomp firms from 1993 to 2009, we find that shareholders, in general, became more tolerant of long-term R&D investments in firing the CEOs after decimalization, an exogenous increase in liquidity. However, for firms with high ownership by transient institutions, the change was significantly smaller. Moreover, after decimalization, firms that dismiss their CEOs under pressure of transient institutions are more likely to reduce their R&D investments after the replacement. Our event study reveals that stock market investors see through and respond negatively to short-termism-driven CEO turnover.

Volatility Spillover, Interdependence, Comovements across GCC, Oil and U.S. Markets and Portfolio Management Strategies in a Regime-Changing Environment

Ahmed A.A. Khalifa
King Fahd University of Petroleum and Minerals, Saudi Arabia
aliabdel@kfupm.edu.sa

Shawkat Hammoudeh
Lebow College of Busines, Drexel University, United States
shawkat.hammoudeh@yahoo.com

Edoardo Otranto
Dipartimento di Scienze Cognitive e della Formazione,University of Messina, Italy
eotranto@unime.it

Abstract

This study examines the volatility transmissions across the Gulf Arab states (GCC) stock markets and the linkages between these markets and the United States stock and oil markets, using the Multi-chain Markov Switching model. This apporach enables the distinction between different transmission types including volatility spillover, interdependence, comovements and independence. The results demonstrate the presence of different transmissions between the markets and that the type of transmission is highly sensitive to the state of the economy characterized by turbulence or tranquility. They support strong interdependence between the oil price, the U.S. S&P 500 index, Saudi Arabia and Abu Dhabi. There is also a strong spillover from the U.S. S&P 500 index to Oman and Kuwait, but interdependence with Dubai. There are also different diversification opportunities between the GCC markets. Policy implications on portfolio strategies under different states are also discussed

Short Sell Restriction, Liquidity and Price Discovery: Evidence from Hong Kong Stock Market

Yafeng Qin
Massey University, New Zealand
y.qin@massey.ac.nz

Min Bai
Massey University, New Zealand
m.bai@massey.ac.nz

Abstract

This study investigates the impact of short sale constraint change on liquidity at individual stock level in Hong Kong stock market. We find that such impact is heterogeneous across individual stocks. Furthermore, such heterogeneity is also reflected in the price discovery process. When stocks are allowed to be sold short from being banned to do so, stocks whose liquidity deteriorates or trading volume decreases during the process will drop significantly in prices; while stocks whose liquidity improves or trading volume increases, do not drop significantly in price, or even increase. When stocks are banned for short selling from being allowed to do so, prices rise significantly only for stocks whose liquidity improves, or trading volume increases; while for stocks whose liquidity deteriorates and trading volume decreases, prices actually drop. The heterogeneous liquidity shock also affects the relationship between stock overvaluation and dispersion of investor opinion. When stocks are allowed to be sold short, such relationship is stronger for liquidity deteriorating firms, and trading volume decreasing firms. When stocks are banned to be sold short, such relationship only exists among liquidity improving, and trading volume increasing firms.

Options for Reforming the Financial System

Shann Turnbull
International Institute for Self-governance, Australia
sturnbull@mba1963.hbs.edu

Abstract

This paper outlines four non-exclusive options for reforming the financial system. Three options are based on the re-introduction of cost carrying money supported by Gesell (1916), Fisher (1933) and Keynes (1936), but in electronic form. One variant is a government issue redeemable into official money as proposed by the US Bankhead-Pettengill Bill of 1933. A second option is to allow private issues redeemable into official money as occurred during the Great Depression. The third option involves private issues convertible into specified commodities as occurred in Europe in the 1920's. The redemption of a currency into Kilo- Watt-Hours of electricity generated from renewable resources provides a way to create "green" dollars with a stable unit of local value. Green cost carrying money could make renewable energy cheaper than burning carbon. The fourth option involves using existing fiat money to reduce: (i) the cost of seigniorage, (ii) interest on government debt; (iii) size of organisations considered too big to fail; (iv) tax incentives to favour equity rather than debt; (v) the different types of risks accepted by financial institutions, and (vi) ability of banks and "shadow" banks to create credit to finance derivatives many times greater than the GDP of the global economy.

Financial Inclusion: Gateway for Poverty and Unemployment

Masroor Ahmad Beg
University of Delhi, India
drmabegits@yahoo.com

Abstract

Financial inclusion is alternatively known as inclusive financing which attempts to deliver financial services at affordable costs to the common man so that large sections of society can be served. The concern of the government among the developing nations for more financial inclusion gained momentum only around the beginning of the new millennium. Since then, miniscule fraction of financial inclusion has trickled down to the teeming population at the bottom of the pyramid. With this view, an attempt is being made to highlight the present scenario of some of the selected countries concerning to their financial inclusion and to find out the relationship between financial inclusion and the extent of poverty and unemployment. The study has revealed that there exists significant relationship between financial inclusion and pervasive poverty. Financial inclusion and unemployment are also found to be correlated. Along with various poverty eradication and employment generation programmes, focus should also be on the financial inclusion policies as a means of ameliorating interwoven case of poverty and unemployment.

Forecasting Bond Risk Premia Using Technical Indicators

Jeremy Goh
Singapore Management University, Singapore
Jeremygoh@smu.edu.sg

Fuwei Jiang
Singapore Management University, Singapore
fwjiang.2010@pbs.smu.edu.sg

Jun Tu
Singapore Management University, Singapore
tujun@smu.edu.sg

Guofu Zhou
Washington University, United States
zhou@wustl.edu

Abstract

While economic variables have been used extensively to forecast the U.S. bond risk premia, little attention has been paid to the use of technical indicators which are widely employed by practitioners. In this paper, we fill this gap by studying the predictive ability of using a variety of technical indicators vis-a-vis the economic variables. We find that the technical indicators have statistically and economically significant in- and out-of-sample forecasting power. Moreover, we find that utilizing information from both technical indicators and economic variables substantially increases the forecasting performances relative to using just economic variables.

Could the 2008 US financial crisis be avoided with network governance?

Shann Turnbull
International Institute for Self-governance, Australia
sturnbull@mba1963.hbs.edu

Michael Pirson
Fordham University, United States
pirson@fordham.edu

Abstract

Banks failed in 2008 because individuals with knowledge of risks were not connected to individuals who had the incentive and power to take corrective action. Evidence of this problem is provided by reports from the Lehman liquidator and The Financial Crisis Inquiry Commission. Improved communications and control within and between banks, their regulators, and stakeholders can be achieved with network governance. Lawmakers and/or regulators can introduce network governance by requiring bank shareholders to amend corporate constitutions to introduce a division of power with checks and balances with stakeholders, who can take on the role of supplementary and/or co-regulators. Such decentralized regulatory architecture is how simple living creatures sustain their existence in complex, dynamic and unpredictable environments without suffering communication errors and/or overload. The natural science of control and communication identified in 1948 by Wiener explains why centralized control and communication systems are not found in nature. This science of regulatory systems explains why regulators and large firms fail to reliably manage, regulate or govern complexity. Examples of large network governed firms provide evidence that they obtain sustainable operating advantages over business cycles. This indicates how natural systems provide design criteria to enhance the efficacy of business operations, governance and regulation.

A Note on Forecasting Emerging Market Exchange Rates - Evidence of Anti-Herding

Christian Pierdzioch
Saarland University, Germany
c.pierdzioch@mx.uni-saarland.de

Jan-Christoph Rülke
WHU - Otto Beisheim School of Management, Germany
jan-c.ruelke@whu.edu

Georg Stadtmann
University of Southern Denmark and European-University Viadrina, Germany
Stadtmann@europa-uni.de

Abstract

Using survey forecasts of a large number of Asian, European,and South American emerging market exchange rates, we studied empirically whether evidence of herding or anti-herding behavior of exchange-rate forecasters can be detected in the cross-section of forecasts. Emerging market exchange-rate forecasts are consistent with herding (anti-herding) if forecasts are biased towards (away from) the consensus forecast. Our empirical ndings provide strong evidence of anti-herding of emerging market exchange-rate forecasters.

Stock Market Volatility and Equity Returns: Evidence from a Two-State Markov-Switching Model With Regressors

Xinyi Liu
Standard Chartered Bank, Singapore
xinyilau@gmail.com

Dimitris Margaritis
University of Auckland Business School, New Zealand
d.margaritis@auckland.ac.nz

Peiming Wang
Auckland University of Technology, New Zealand
peiming.wang@aut.ac.nz

Abstract

This paper proposes a two-state Markov-switching model for stock market returns in which the state-dependent expected returns, their variance and associated regime-switching dynamics are allowed to respond to market information. More specifically, we apply this model to examine the explanatory and predictive power of price range and trading volume for return volatility. Our findings indicate that a negative relation between equity market returns and volatility prevails even after having controlled for the time-varying determinants of conditional volatility within each regime. We also find an asymmetry in the effect of price range on intra- and inter-regime return volatility. While price range has a stronger effect in the high volatility state, it appears to significantly affect only the transition probabilities when the stock market is in the low volatility state but not in the high volatility state. Finally, we provide evidence consistent with the 'rebound' model of asset returns proposed by Samuelson (1991), suggesting that long-horizon investors are expected to invest more in risky assets than short-horizon investors.

How Does the Market Read Information Conveyed by Accruals?

Qinghao Mao
Erasmus University, Rotterdam, Netherlands
mao@ese.eur.nl

K.C. John Wei
Hong Kong University of Science and Technology, Hong Kong
johnwei@ust.hk

Abstract

We show that the underperformance of high-accrual stocks mainly comes from the underperformance in the cash flow news component of returns with the effect being stronger for stocks of low accruals quality. In addition, stocks with high discretionary accruals experience lower total returns and cash flow news returns both before and after portfolio formation. No such pattern is observed for stock portfolios sorted by nondiscretionary accruals. At the aggregate level, innovations in aggregate accruals are negatively associated with contemporaneous returns through the discount rate news. Higher aggregate accruals predict higher expected market returns and higher discount rate news returns. Overall, the results lend support to the earnings fixation hypothesis, the agency theory of earnings management, and Hirshleifer, Hou and Teoh's (2009) conjecture that aggregate accruals contain information about market discount rates.

Regional Effects of Monetary Policy in China

Xiaohui Guo
HeBei university, China
nlmh6@126.com

Tajul Ariffin Masron
Universiti Sains Malaysia, Malaysia
tams@usm.my

Abstract

This paper uses the structural vector autoregressive (SVAR) method to measure the differential effects of monetary policy in China during 1978-2010. The results provide evidence of different regional responses of real variables on monetary policy shocks. The timing is more or less the same while the magnitudes are very different. Alternative identification schemes show that our results are robust. This paper can introduce the influence of world GDP on China and accounts for the feedback effects among regions, therefore, it can descripe the regional effects of monetary policy betterly.

Market Power, Competition and the Ability of Banks to Shift Taxes to Their Customers

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

Olena Havrylchyk
CEPII, France
olena.havrylchyk@cepii.fr

Abstract

In the context of the financial crisis of 2007-2010, many projects of bank taxation have emerged. However, there is very little empirical evidence on the incidence of such bank levies. In this paper, we investigate the ability of banks to shift taxes to clients and we show that it depends crucially on the level of market competition and banks' market power. To measure competition we rely on a large number of indicators, such as banks' market share, the Herfindhal index, the Lerner index and the Panzar and Rosse h-statistic. Our sample is based on approximately one thousand banks which operated in the European Union over the period 1995-2009. Whereas our results show that an average bank shifts 41% of the tax burden to its customers in the long run, we argue that in markets where banks enjoy market power, a bank tax can be shifted to clients to a much larger extend than in competitive markets. To illustrate this point, one should compare two banks that stand at the 25th and the 75th percentiles in terms of market power (measured by Lerner index): in the long run, the difference in net interest margins of these two banks amounts to 66 percentage points. Hence, to ensure that bank taxation does not increase the costs of financial intermediation, its implementation should be accompanied with measures to foster competition.

The Strategic Implementation of an Investment Process in a Funds Management Firm

Ron Bird
Paul Woolley Centre, UTS, Australia
ron.bird@uts.edu.au

Paolo Pellazzri
University of Venice, Italy
paolop@unive.it

Danny Yeung
Paul Wooley Centre, UTS, Australia
danny.yeung-1@uts.edu.au

Paul Woolley
Paul Woolley Centre, London Scholl of Economics, United Kingdom
P.K.Woolley@lse.ac.uk

Abstract

One of several important strategic decisions that have to be made by an active funds management organization is how aggressively it implements its investment process. In this paper we model this decision on the assumption that the organization's objective is to maximise the present value of its future fee income. We then develop the model using numerical methods in order to demonstrate the impact of several endogenous and exogenous factors on this optimum active position. In particular we highlight that the most aggressive funds are likely to be embryonic funds that have the greatest potential to add value. We also establish that in the event that such funds increase their funds under management; it will be optimum for them to become more index-like. We also show how the extent to which the implementation decision for the active process is a function of a number of factors including the alpha and risk characteristics of the active component of the portfolio, the risk tolerance of the promoting organization and the relationship between performance and future fund flows. Our findings have extensive implications ranging from the choice of investment managers by investors to the functioning of capital markets

Pricing of Assets-Backed Dynamic Financial Products for Financing the Small and Medium-Sized Enterprises in China

Xinshi Tian
Huazhong University of Science & Technology, China
xshtian@mail.hust.edu.cn

Zulin Pu
Huazhong University of Science & Technology, China
pzl165@163.com

Zohaib Zaheer
Huazhong University of Science & Technology, China
zohaibzaheer@hotmail.com

Abstract

It is an imperative and difficult task for financing the Small and Medium-Sized Enterprises (SMEs) in an economy still under the influence of financial crisis in China. The primary objective of this paper, from the perspective of financial product innovation, referenced by securitizing bank loans and diversifying the credit risk among market investors, is to structure a financial product by credit asset backed securitization. Through Mote Carlo simulation based on jump diffusion model along with joint default events we find that such an instrument works well with regulation feasibility, internal risk granularity, pledged reimbursement, and high liquidity. The structure allows a dynamic issuing of the products and sharing of the risk for all tranches when default reaches the threshold level. Its sensitivity analysis shows that the products can not only meet the increasing market demand for the products with stable return and high liquidity, but also provide a reliable channel of longer term financing for the SMEs. It will create an adequate financing environment for the development of SMEs in the long run.

Informational Effect and Market Quality Impact of Crossed Trades and Fleeting Orders on the Australian Securities Exchange

Henry Leung
The University of Sydney, Australia
henry.leung@sydney.edu.au

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

Annica Rose
The University of Sydney, Australia
aros2773@uni.sydney.edu.au

Abstract

We investigate the distribution of trades between the limit order book (LOB), off market crossings, and algorithmic order execution facilities on the Australian Securities Exchange (ASX). We aim to determine the distribution of liquidity driven trades vs. information driven trades within these three market segments. We find that permanent price impact is significantly greater in the central limit order book (LOB) than in the crossing market, which indicates that liquidity driven institutional trades are routed upstairs as the theory predicts. We also find that more crossing market activity is associated with lower transaction cost, higher volatility and larger trade size on the ASX. Finally we find the difference in the informational effect and market quality impact between the crossing market and the LOB to be more pronounced when we introduce a third market segment, trades induced by fleeting orders. This confirms that execution algorithms, which leave a trace of fleeting orders, create a new market segment with more liquidity driven trades than the LOB.

The Interrelations Between the Managerial Entrenchment and the Performance of the company:Evidence from the Manufacturing Companies Traded on ADX.

Neijla Elili
Abu Dhabi University, United Arab Emirates
nejla.ellili@adu.ac.ae

Abstract

The separation between the ownership and the control of the firm (Berle and Means, 1932) creates conflicts of interests between the shareholders and the managers who could pursue other goals different from the shareholders' wealth maximization. These conflicts have been the subject of many studies in the corporate governance literature (Jensen and Meckling, 1976, Fama, 1980, Morck, Shleifer and Vishny, 1988, Short and Keasy, 1999). The concept of the corporate governance is related to the influence of strategic decisions on the firm's value, since the general policy of the firm is mainly determined by its manager and the value maximization is included under his/her responsibility. The role assigned to the corporate governance is determining the mechanisms of control which are able to align the managerial behavior on the shareholder's wealth maximization objective. This topic has been studied by many theories and mainly by the agency theory, the costs of transaction theory and then by the theory of the managerial entrenchment. The agency theory is largely developed by Jensen and Meckling (1976) who define the agency relationship as being a contract by which one or several people (the principal) engages another person (the agent) to act on his/her behalf and for his/her benefit. The cost of transaction theory is interested in the contracts between agents (Williamson, 1985). These contracts are qualified by incomplete since they define the general framework of the exchange without specifying the actions required by the different contractors. This incompleteness offers the opportunity to each contractor to injure his/her partner by not respecting his/her engagements. The managerial entrenchment theory is integrated in the corporate governance. The entrenchment strategies are developed by the managers to increase their discretionary space, the dependence of the shareholders on their human capital and the resources that they control in the objective to neutralize the control. This article will be interested in studying the interrelationship between the performance of the firm and the managerial entrenchment by using a system of simultaneous equations. In the literature, there is a consensus that the impact of the managerial entrenchment on the performance of the company is primary negative but remains to identify the percentage of ownership from which the manager becomes entrenched. Our analysis will include the companies traded on Abu Dhabi Exchange Market (ADX) using data over 2007, 2008 and 2009. The data has been hand collected and the choice of the companies has been based on the availability of data. The number of companies included in our analysis is 33. The banks and the financial institutions have been excluded from our sample because of their specific financial activities and their supervision under the central bank.

Eficiency and Equity in School Funding for Government Schools in Australia

Kalyan Chakraborty
Emporia State University, United States
kchakrab@emporia.edu

Vincent Blackburn
Department of Education and Commerce, Australia
vincent.blackburn@det.nsw.au

Abstract

This study measures cost inefficiency for government school in New South Wales, Australia using a two-stage data envelopment analysis (TSDEA) model and the inefficiency-effects model (Battese and Coelli, 1995) applied to a three-year panel data. The study found overall primary schools are 75 percent and secondary schools are 89 percent cost efficient. However, cost efficiency for primary schools has decreased and for secondary schools has increased marginally over the study period. The study found that social disadvantage in primary schools exerts a strong negative impact on students' achievement scores causing inefficient use of resources. For secondary schools no such conclusive relationship is observed.

Diaman Ratio

Ruggero Bertelli
University of Siena, Italy
ruggero.bertelli@unisi.it

Danielle Bernardi
Diaman Sim, Italy
daniele.bernardi@diaman.it

Abstract

The statistical indicators for the evaluation of the e ciency of a nancial instrument are almost all based on the ratio between mean and variance or are, in any case, linked to the assumption that distribution of returns is normal. In most cases, the e ective time- based sequence of the returns (hypothesis of independence) is not taken into consideration. In this work, after recalling the limits of the mean variance approach for the purposes of fund selection, a new indicator is proposed to measure the risk-adjusted performance. The DIAMAN Ratio considers the sequence of returns and is based on a de nition of risk that is consistent with some well-established results from behavioural nance. The DIAMAN Ratio can be interpreted as an indicator of the persistence of returns: it analyses the strength of the trend (expected return) and the ability of the nancial instrument to move around its own trend (risk).

The Lending Interest Rates in the Microfinance Sector: Searching for its Determinants

Pablo Cotler
Universidad Iberoamericana, Mexico
pablo.cotler@uia.mx

,

Abstract

Using data of 1,299 microfinance institutions in 84 countries and following different approaches, we find that the lending interest rate is determined by the funding cost, the loan size and the efficiency level of microfinance institutions. Regarding competition, results are mixed. Is only in Asia where a negative correlation between competition and lending interest rates can be detected. For other subsamples, we find that competition is more likely to be negatively correlated with the size of loans.

Effects of Differences of Opinions and Short-sale Constraints on the Dual Listed Chinese Shares

Zhenmin Fang
City University of Hong Kong, Hong Kong
efjimmy@cityu.edu.hk

Xin Jiang
City University of Hong Kong, Hong Kong
xinjiang2@cityu.edu.hk

Abstract

This paper studies the effects of short-sale constraints and differences of opinions on the price premiums of dual listed Chinese A-H shares. The idiosyncratic monthly return volatilities, monthly turnover rates and forecast dispersions are used as proxies of differences of opinions. Our study shows that the high level of A-share differences of opinions will lead to the high price premiums of A-share portfolios with the short-sale constraints in the A-share markets. However, the high level of H-share differences of opinions has no effects on the price premiums of H-share portfolios and has also positively contributed to the A-share price premiums. The price premiums of shorted A-share portfolios are declined more significantly than those of non-shorted portfolios after the relaxation of short-sale constraints in the A-share markets.

Systematic Risk and 2008 Financial Crisis: are There Different Effects on Brazilian Stock prices, depending on the Industry Classification?

Ana Paula Mussi Szabo Cherobim
Federal University of Paraná, Brazil
anapaulamussi@ufpr.br

Claudio Marcelo Barros Edwards
Federal University of Paraná, Brazil
claudiomedwards@hotmail.com

Jocelino Donizetti Teodoro
Universidade Federal do Paraná, Brazil
jocelinoteodoro@yahoo.com.br

Abstract

This study aims to evaluate the intensity of 2008 international financial crisis on the market value of companies listed on São Paulo Stock Exchange. For this purpose it measures the impact on stock prices and evaluate whether there are significant differences among companies from different industry classification. The methodological approach is quantitative. The selected sample consists of 67 companies representing 10 industries. The observation variable for the exploitation of the study's objectives was the industry average beta, measured quarterly, from the arithmetic mean of companies' individual betas that comprise each industry. To verify the industry most impacted by the crisis was applied nonparametric Wilcoxon test for difference in medians. Data analysis indicates that the sectors represented in the sample, the consumer cyclical, financial and utilities suffered significant impacts. It was observed that after the crisis, the period represented by the four quarters following the fourth quarter of 2008, none of the industries showed statistically significant improvements observed from the industry average betas.

Discipline: Measuring and Linking it to the Profitability of Retail Futures Traders

Teng Yuan Cheng
National Taiwan University, Taiwan
tybrian@gmail.com

Chun I Lee
Loyola Marymount University, United States
clee@lmu.edu

Chao Hsien Lin
National Kaohsiung First University of Science and Technology, Taiwan
anting_lin@ccms.nkfust.edu.tw

Abstract

We propose a pair of straightforward and easy-to-implement measures of trading discipline. Going beyond merely recognizing the need for discipline by cutting losses short and letting profit runs, we construct these measures based on the principle that discipline can be achieved by steadfastly losing small and winning big. Applying these measures to the trade-by-trade transactions of retail futures traders, we demonstrate the efficacy of these measures by examining their relationship with profitability. We show that the more disciplined traders are, the more profitable they are. We further show that many traders lack consistency in trading discipline between periods. As a result, their profitability is affected accordingly depending on whether or not discipline is maintained or improved in the subsequent period.

Block Trade Targets in China

Liping Dong
Kyushu University, Japan
liping@en.kyushu-u.ac.jp

Konari Uchida
Kyushu University, Japan
kuchida@en.kyushu-u.ac.jp

Xiaohong Hou
China University of Mining and Technology, China
hxh9306@163.com

Abstract

This paper investigates factors associated with the probability of Chinese companies being a block trade target. We find that the probability decreases once a company completed its split-share structure reform and thereby substantially decreased non-publicly tradable shares. The block trade cost substantially increases after the reform. Firms with less concentrated (or well-balanced) ownership structures are more likely to be a block trade target. Bidders pay low costs to obtain control rights of those companies. Finally, bidders tend to target small companies with low directors' ownership. These results suggest bidders are likely to target companies that provide new controlling shareholders with a low cost opportunity to extract private benefits.

Financial Inclusion Strategies in Developing countries with special reference to India

G. Mohi-ud-Din Dar
University of Kashmir Srinagar, India
sangmi2k@gmail.com

S Javed Iqbal Kamili
Gandhi Memorial College Srinagar, India
nuzhat1javed@yahoo.co.in

Abstract

Day in and day out, the gap between the haves and have-nots is widening, not only at the inter-country level but also at the intra – country level. In this process, a large chunk of population does not have access to the formal financial markets, institutions and instruments. It is estimated that as many as eighty seven percent of marginal households in the world lack access to formal finance , and to fulfill their credit needs, they are resorting to the means of informal and unregulated finance, through money lenders, who charge them as much as hundred percent rate of interest. Thus, this stratum of population, in midst of financial exclusion, has been pushed to the vicious circle of poverty and, therefore, remain outside the growth parameters always. However, recently, the governments in about one hundred and forty two countries have become serious to overcome this menace and decided to design strategies to make formal finance available to the un-bankable at cheaper (price) interest. In this way, Financial Inclusion became a buzzword of these strategies. Financial inclusion, as a pre-condition to inclusive development, refers to the process of ensuring the accessibility, availability and usage of formal financial system for all members of an economy. In this paper, an attempt has been made to examine the financial inclusion efforts made at the global level and highlight the progress made on the subject in SAARC countries, and what strategies were designed and implemented in the fast developing economy like India in the past two decades have been discussed in detail.

Analysis of the Italian Banking System Efficiency. A Case of Failed Financial Integration

Cesare Imbriani
"Sapienza" University of Rome, Italy
cesare.imbriani@uniroma1.it

Antonio Lopes
Second University of Naples, Italy
antonio.lopes@unina2.it

Luca Giordano
Consob, Companies and Stock Exchange Commission, Italy
l.giordano@consob.it

Abstract

The nineties was a particularly intense decade for the Italian banking system, in which a reform of the credit market was launched aimed to promote competition among intermediaries through a substantial review of the old 1936 banking law and a deep re-organization of the banking system in terms of both ownership and legal structures of credit companies. The privatisation of the banking system and the liberalization of the credit market have increased the competition which individual intermediaries are subjected to, facilitating this by rationalizing the use of resources and by a thorough review of banking management. Moreover, the Italian banking industry is characterized by another dimension of territorial nature, which has no equivalent in the other European countries. It cannot be ignored that the restructuring process of the banking system has been far from uniform in terms of territorial structure of intermediaries' activity and in terms of financing of productive activity in the weak areas of the country, with relatively less satisfying results concerning operational efficiency. If the outcome of these processes is a strengthening of the banking system as a whole and improved performance in terms of productive and allocative efficiency, it is natural to ask after almost twenty years, if these goals have been achieved. The aim of this paper concerns, thus, the analysis of the Italian banking system efficiency. The analysis of the proposed efficiency relies on an estimated stochastic frontier of cost and profit, taking into account the dimensional profile, the legal-organisational structure (Limited company Banks, Mutual Banks), and the territorial implications Northern and Southern Banks). Nevertheless, the work towards a modernized system is still far to be completed and problematic elements still occur which need further examination. The drive towards a rationalization of the use of inputs, aimed at reducing costs, has not occurred in the terms desired by the Italian regulators (Bank of Italy) and the convergence process towards increased allocative efficiency among the various components of the banking system does not seem to have occurred yet. One aspect that emerges more clearly is the superiority of the Mutual banks, in terms of cost and profit efficiency, compared to the rest of the system. These results highlight also a substantial efficiency gap to the detriment of larger banks. In this regard, it can be pointed out that the traditional bank has not lost its importance: in particular, smaller banks can expand their market shares and profit

opportunities. Regarding the Southern banks, the massive ownership changes through their acquisition by the other Italian banks occurred at the end of the nineties, at least in terms of modernization of Southern banking system, have not achieved the expected results; we have observed a persistent gap unfavorable to Southern banks with respect to the rest of the other Italian banks particularly evident until 2005. Since 2006 we note a gap reduction, but this result is mainly due to a sharply reduction in the overall efficiency levels in all the Italian banking system worsened in the last years.

Corporate Governance of Banks and the Banking reforms in Nigeria: the issues

Olusegun Gabriel Adegbite
Glasgow Caledonian University, United Kingdom
Gabriel.Adegbite@gcu.ac.uk

Abstract

The role of banks is integral to the development of any nation due to their multiplier effects on the economy at large. This is particularly true of Nigeria where banks have an overwhelmingly dominant position in the financial system. More so, the effects of the global financial crisis on many emerging economies such as Nigeria which have re-echoed the importance of corporate governance have compelled the financial and non-financial regulators such as the central bank of Nigeria and the Securities and Exchange Commission to revise their codes of best practices for the banks and other public companies. This paper makes a contribution to the existing literature on the state of corporate governance development in the Nigerian banking sector, the impacts of the banking regulations and the efforts put in place at ensuring that the banks are well governed. It also addresses the issue on whether the banking reforms carried out by the central bank of Nigeria in relation to governance are enough or adequate for the survival of the Nigerian financial sector in the face of the global challenges. It argues that while standards and codes are being enacted and revised by the CBN and the SEC, there is need for the Nigerian internal and external environments (be it socio-cultural, political, economic, legal, religious etc.) to support the reforms.

Investor Perceptions of Risk and Return in IT Stocks: An Empirical Study

C .Vasanta Valli Chivukula
Department of Commerce , NMKRV College for Women {Autonomous} , III Block
Jayanagar,Bangalore, India
vasantvalli@yahoo.com

Eresi kalchetty
Department of Commerce ,Bangalore University ,Bangalore, India
drkeresi@gmail.com

Abstract

India is one of the fast growing economies of the world. Its stock markets command the interest of global funds as revealed by the high correlation of over 0.80 between India's MSCI Index and the rest of the world as represented by the MSCI All-Countries World Index. The structure, functioning and profiles of the investing public have all transformed the Indian Capital Markets. Post liberalization, there has been a transfer of risks from the State to organizations and individuals. These shifts have given rise to behavioural issues as to how the Indian investor is managing in this scenario.One way to understand the perceptions and likely behaviour of investors is to empirically examine the issue and quantify their responses. It is imperative that the individual investor's reactions, expectations and evaluation criteria be examined to understand their temperament and criteria in taking stock decisions.The present paper is an outcome of a sample survey made titled " Risk Return Analysis of Bangalore – based IT Companies' stocks: A study of Investor perceptions" made between 2005 – 2007. The paper highlights the key perceptions of risk and risk tolerance of select respondent groups with reference to IT Stocks.

Management of Pension Funds under Market Jump Risk

Olivier Le Courtois
EM Lyon Business School, France
lecourtois@em-lyon.com

Francesco Menoncin
University of Brescia, Italy
menoncin@eco.unibs.it

Abstract

We solve the optimal portfolio problem of a pension fund maximizing the expected present value of the remaining wealth at the death time of a representative subscriber.The fund can invest in a risky and a riskless asset. Both contributions and pensions are assumed to be constant, while risky asset returns are modeled by a general Lévy process. Assuming a CRRA utility function, we are able to obtain a quasi-closed-form formula for optimal weights.In order to solve fully a portfolio/pension fund problem with Lévy processes, it is necessary to switch back and forth between the stochastic differential and the standard exponential representations. We develop this procedure, and then illustrate it with two dynamics: the Variance Gamma process and a process introduced by Aït-Sahalia, Cacho-Diaz and Hurd (2009). We compute the optimal portfolio fund allocation in these two sub-settings and in the standard mean-variance framework. We show that when market stylized features (i.e. asymmetry, leptokurtosis and jumps) are suitably taken into account, the optimal portfolio share in the risky asset may be around half that obtained in the mean-variance framework.

Static Hedging Under Maturity Mismatch

Natalie Packham
Frankfurt School of Finance & Management, Germany
n.packham@fs.de

Philipp Mayer
Graz University of Technology, Austria
mayer@finanz.math.tugraz.at

Wolfgang Schmidt
Frankfurt School of Finance & Management, Germany
w.schmidt@fs.de

Abstract

Can shorter maturity European options be statically hedged with longer maturity plain vanilla options? This problem appears when analyzing options on forwards in relation to liquid options on the spot underlying. Under mild assumptions on the underlying security prices process and on the option's payoff function we show that approximate static hedges exist und provide a recipe for constructing them. Examples illustrate the power of the hedge and its sensitivity to modelling assumptions.

The Analysis of Relationship between Stock Prices and Exchange Rates in Iran (2007-2012)

Yadollah Dadgar
Beheshty University, Iran
yydadgar@gmail.com

Rouhollah Nazari
Audit Court, Iran

Abstract

In financial literature, stock market is known as a barometer of economic conditions of a given country. In this sense, the behavior of stock prices illustrates both the economic performance and political environment. Iran is one of the biggest producers and exporters of crude oil in the world and an important members of the Organization of Petroleum Exporting Countries (OPEC) and, oil exports largely determine government‘s revenues in Iran. Factors affecting the behavior of stock indices and exchange rates have attracted the attention of economists and policy makers, for a long time. This is especially meaningful since 1973 when the many countries adopted freely floating (or managed floating) exchange rate systems. The case of Iran could be an especial one, for the full-blown dominance of government on both stock market and exchange rate. This paper examines the relationship between stock prices and exchange rates in Iran. Meanwhile it is investigating the statistical relationship between stock prices and exchange rates using Granger causality and Johansen Co integration tests in Iran. The study uses monthly data for the period January 2007 to January 2012.

Multi Model Forecasts of the West Texas Intermediate Crude Oil Spot Price

Laura Ryan
Australian National University, Australia
laura.ryan@anu.edu.au

Martin Emery
, Hong Kong
martin.emery0@gmail.com

Abstract

We measure the relative out-performance of Multi Model Inference (MMI) forecasts over predictions made from a single model for crude oil prices. We seek to forecast the West Texas Intermediate (WTI) crude oil spot price using total OECD petroleum inventory levels. The global oil price is modelled using an implementation of Subset Autoregres- sion with Exogenous Variables (SARX). Coe fficient and standard error estimates obtained from SARX have traditionally been determined by conditioning on a single "best model". Estimates from a single model ignore model uncertainty and result in under-estimated standard errors and over-estimated coe cients. We find that MMI forecasts outperfom for both in and out of sample periods for a variety of statistical performance measures.

Bidder Cash Reserve Effect under the Precautionary Motive: Evidence from UK

Ning Gao
University of Manchester, UK, United Kingdom
ning.gao@mbs.ac.uk

Abdulkadir Mohamed
Liverpool University, United Kingdom

Abstract

Cash-rich bidders in UK have better announcement abnormal returns than cash-poor ones during 1984–2007, contrasting findings in the US. The positive cash reserve effect is from bidders of high long-run growth and those with nontrivial institutional holdings. Cash-richer bidders also have better post-acquisition operating performance when their long-term growth is high and institutional holdings nontrivial. We argue that the precautionary motive drives UK bidders' announcement cash reserve effects. Specifically, cash reserves facilitate bidder post-acquisition growth. Our results also suggest strong shareholder power is necessary to ensure cash reserved for shareholders' interests.

Collateral and its Determinants: Evidence from Vietnam

Thanh Dinh
Maastricht Unviersity, Netherlands
t.dinh@maastrichtuniversity.nl

Christa Hainz
ifo Institution for Economics Research, Germany
hainz@ifo.de

Stefanie Kleimeier
Maastricht University, Netherlands
s.kleimeier@maastrichtuniversity.nl

Abstract

This paper analyses the determinants of collateral in loans granted to entrepreneurs and consumers. We use cross-sectional data on more than 39,000 bank loans raised by Vietnamese borrowers between 2006 and 2009. Our data set is unique because it contains information about the bank's assessment of the borrower's ex ante risk and the borrowers' wealth including pledged as well as unpledged assets. We find that observationally riskier borrowers, as measured by the bank through the ex-ante risk score, are more likely to pledge collateral. At the same time, wealthier borrowers are more likely to pledge collateral in order to benefit from a reduction in their interest costs. Most interestingly, we find both the presence as well as the value of the collateral increases as the crisis approaches. We also present evidence on other determinants of collateral such as borrower-lender relationship, credit market competition, and institutions.

Industry and Country Effects in ASEAN Stock Returns

Romora Sitorus
International University of Jakarta, Indonesia
romora.edward@ssb.ac.id

Peter Hwang
International University of Jakarta, Indonesia
peter.hwang@ssb.ac.id

Abstract

This paper estimates a factor model that explains the cross-sectional differences in stock return variation across ASEAN countries. Using ASEAN country data (5 countries and 10 industry classifications), we decompose both country and industrial sources of stock return variation. We find that little of the variation in ASEAN country index returns can be explained by their industrial composition. We confirm that the variances of pure country effects are on average much larger than the variances of pure industry effects, and therefore are likely to be a more important determinant in explaining ASEAN firm stock return variation. These results have an economic implication in regard to ASEAN portfolio diversification: cross-country diversification is a more effective tool for achieving risk reduction than cross-industry diversification.

Credit Scoring and Loan Default

Rajdeep Sengupta
Federal Reserve Bank of St. Louis., United States
rajdeep.sengupta@stls.frb.org

Geetesh Bhardwaj
SummerHaven Investment Management., United States
geetesh.bhardwaj@gmail.com

Abstract

A metric of credit score performance is developed to study the usage and performance of credit scoring in the loan origination process. We undertake a broad investigation at understanding the usage and performance of credit scoring using the subprime mortgage market as our example. Parametric and nonparametric measures of credit score performance reveal different trends, especially on originations with low credit scores. The data suggest a trend of increased reliance on credit scores accompanying a trend of increased riskiness in other origination attributes. Over time, this increased reliance on credit scoring coincided with deterioration in loan performance rates largely due to the fact that higher credit score originations of later cohorts were more likely to have riskier attributes. However, controlling for other attributes on originations and changes in economic conditions, we find that, as measures of borrower ranking, the performance of credit scoring remains reliable.

Unintended Consequences of Increased Asset Threshold for FDICIA Internal Controls in 2005: Evidence from US Private Banks

Justin Jin
McMaster University, Canada
jinjus@mcmaster.ca

Kiridaran Kanagaretnam
McMaster University, Canada
giri@mcmaster.ca

Gerald Lobo
University of Houston, United States
gjlobo@uh.edu

Abstract

We examine the unintended Consequences of increased asset threshold for FDICIA internal controls in 2005 for subsample of US private banks. FDIC's decision to increase the asset threshold for internal control reporting requirements were partly motivated by the exemption for small firms from SOX Section 404 internal control reporting requirements and partly to grant relief from the higher burden of compliance for smaller banks. We find that our test sample of banks had large growth by taking on highly risky loans during the pre-crisis period. During the crisis period, we document that the test sample of banks had higher likelihood of failure. They also had a higher likelihood of financial trouble during crisis period, as reflected in large losses (adverse performance), large loan loss provisions (lower asset quality), and low capital (low balance sheet strength). Interestingly, auditor reputation (i.e., whether the bank had a Big 4 auditor) had a moderating effect on the likelihood of bank failure and bank trouble for the test sample of banks.

The Option SKEW Index and the Volatility of Volatility

Zhiguang Wang
South Dakota State University, United States
zhiguang.wang@sdstate.edu

Robert Daigler
Florida International University, United States
daiglerr@fiu.edu

Abstract

The new CBOE "skew" index measures the perceived market tail risk based on the S&P500 options. We examine the characteristics of this skew index and its relation to volatility and the volatility of volatility (vol of vol) measures during the Fall 2008 financial crisis, including of the volatility of the cash VIX and the VIX of VIX options. Such measures can be interpreted as estimates of potential "black swan" events, complements to the basic VIX fear index, or as alternative measures of the implied volatility skew of the SPX and VIX option series. The SKEW index for the SPX options is above 100, which is associated with negative skewness. Conversely, the VIX options SKEW index is below 100, showing positive skewness for the implied volatility for VIX options. Both SKEW indexes jumped significantly from September to October 2008, from 111.42 to 116.26 and from 90.29 to 96.23 for the SKEW of the SPX and the VIX options, respectively. We also find that the VIX of the VIX options is highly correlated to, but larger than, the VIX. Both the VIX and the VIX of the VIX (or the volatility of volatility in general) increased significantly during the financial crisis. The change in the skew of the SPX leads the change in the VIX, which in turn leads the VIX of VIX and the skew of the VIX.

A Comparison of the Choice of Means in Portfolio Selection Models

Chin Yang
Clarion University of Pennsylvania, United States
yang@clarion.edu

Matthew Brigida
Clarion University of Pennsylvania, United States

Yifan Zhao
Clarion University of Pennsylvania, United States

Anthony Loviscek
Seton Hall University, United States

Abstract

In this paper, we calculate four different kinds of means- Arithmetic (AM); Geometric(GM); Harmonic (HM); and Golden (GDM)- to investigate the risk-return contour using Markowitz risk minimization and Sharpe?s angle maximization models. For a given k value (target portfolio return), the rank order of risk or variance-covariance (?) can change. In the vertical segment of an efficient frontier curve, we observed ?(GDM) > ?(HM) > ?(GM) > ?(AM). At higher k values, the rank changes to ?(GDM) > ?(HM) > ?(AM) > ?(GM). That is to say, ranking a portfolio using different kinds of means may well give different rankings depending on what k value one is evaluating. It is also shown the harmonic mean should not be used in the case of a small negative growth rate in stock prices.

Rare Disaster Risk and the Equity Premium Puzzle

Henk Berkman
University of Auckland, New Zealand
h.berkman@auckland.ac.nz

Ben Jacobsen
Massey University, New Zealand
b.jacobsen@massey.ac.nz

John Lee
University of Auckland, New Zealand
byong.lee@auckland.ac.nz

Abstract

The possibility of rare disasters helps to explain the longstanding equity premium puzzle. Global political instability, our proxy for rare disaster risk, is a significant determinant of the expected market risk premium proxied by Value Line analysts' expected stock returns. Consistent with long run risk models, uncertainty about expected GDP growth and expected consumption growth are also significantly positively related to the expected market risk premium. We obtain similar results when we use the earnings-price ratio and the dividend-price ratio as proxies for the expected market risk premium.

Financial Decision-Making in Corporate Crisis

Valery Shemetov
Northern Virginia Community College, United States
drshemetov@gmail.com

Abstract

A corporate crisis decreasing the company's return on assets (ROA) over time and threatening the company with a default and the effectiveness of recovery programs are considered. For a recovery program characterized with its delay in implementation relative to the crisis onset and the expected rate of ROA increase, the probability of corporate default and the maximum tolerable delay for launching the program are estimated. A condition for a steady corporate progress at a random market is given. These estimates help selecting the program maximizing the corporation's probability of survival over a set of available recovery programs (JEL C44).

Aggregate Earnings News and Stock Market Returns: The Good, The Bad and The State-Dependent

Leon Zolotoy
Melbourne Business School, University of Melbourne, Australia
l.zolotoy@mbs.edu

James Frederickson
Melbourne Business School, University of Melbourne, Australia
j.frederickson@mbs.edu

John Lyon
Department of Accounting, University of Melbourne, Australia
lyonj@unimelb.edu.au

Abstract

In this study we examine the stock market's reaction to aggregate earnings news. Prior research shows that, in contrast to individual-firm earnings, a) stock markets' response to aggregate earnings surprise is negative, consistent with aggregate earnings news being predominantly informative about discount-rate rather than cash-flows and b) stock market returns are unrelated to past earnings, thus, finding no evidence of the post-earnings announcement drift. We show that the information content of aggregate earnings news is state-dependent. Using Markov switching mixture of distributions framework we find that the effect of aggregate earnings news on stock market can be either positive or negative, depending on the state of the economy. In one state aggregate earnings surprise is positively related to the innovations in discount-rate, while in other it is positively (inversely) related to the cash-flow (discount-rate) news. After controlling for the state of the economy we do find evidence of the post-earnings announcement drift. The probability of economy being in the "pure" discount-rate state is higher following positive shocks to the term-spread and aggregate money supply, as well as during the periods of high interest rates and high market P/E multiples. Finally, we document significant cross-sectional variation in the response of size and book-to market sorted portfolios to the aggregate earnings news in both economic states. Overall, our results suggest that to understand the stock market's reaction to aggregate earnings news one must take into account its state-dependent nature.

The Impact of Events and Interventions on Hang Seng Index Volatility in 1997 Asian Financial Crisis

Ruoxi Zhang
School of Business, University of New South Wales, Canberra Campus, Australia
ruoxi.zhang@student.adfa.edu.au

Satish Chand
School of Business, University of New South Wales, Canberra Campus, Australia
satish.chand@adfa.edu.au

Abstract

In the 1997 Asian financial crisis, international speculators attacked financial markets of a number of countries. The consequent depreciation led to stock market slumps. Hong Kong, however, was something of an exception. This study aims to examine the external events and interventions that caused changes in the variance of the Hang Seng Index during the crisis, and to find the reasons for its quick recovery. Using the Iterated Cumulative Sums of Squares (ICSS) algorithm, we first identify sudden change/break points in volatility, and then combine the change points with GARCH modeling to check the volatility persistence and magnitude of these change points. Where the ICSS algorithm fails to detect enough sudden change points, the least square technique is employed. Then we analyse the global events and local interventions leading to changes in volatility. Most events and interventions are found to be related to substantial volatility changes, positive or negative. The study applies statistical methods to Hong Kong's defensive strategies during the crisis, a subject which has so far received very little scholarly attention. Our analysis suggests that such interventions are effective responses to attacks on currencies.

International Portfolio Selection with Exchange Risk: A Behavioural Portfolio Theory Perspective

Chonghui Jiang
University of Electronic Science and Technology of China, China

Yongkai Ma
University of Electronic Science and Technology of China, China

Yunbi An
Uinversity of Windsor, Canada
yunbi@uwindsor.ca

Abstract

This paper analyzes international portfolio selection with exchange risk based on behavioural portfolio theory (BPT). We characterize the conditions under which the BPT problem with a single foreign market has an optimal solution, and show that the optimal portfolio contains the traditional mean-variance efficient portfolio without consideration of exchange risk, and an uncorrelated component constructed to hedge against exchange risk. We illustrate that the optimal portfolio must be mean-variance efficient with exchange risk, while the same is not true from the perspective of local investors unless certain conditions are satisfied. We further establish that international portfolio selection in the BPT with multiple foreign markets consists of two sequential decisions. Investors first select the optimal BPT portfolio in each market, overlooking covariances among markets, and then allocate funds across markets according to a specific rule to achieve mean-variance efficiency or to minimize the loss in efficiency.

International Standard Financial Reports

Dionigi Gerace
University of Wollongong, Australia
dionigi@uow.edu.au

Alex Frino
University of Sydney, Australia
a.frino@cmcrc.com

Riccardo Palumbo
University of Pescara, Italy
r.palumbo@unich.it

Abstract

This paper examines the effect of increased corporate information disclosure on stock liquidity. Using the adoption of International Financial Reporting Standards (IFRS) in Italy as a natural experiment we extend previous work examining the effect on one measure of liquidity - bid ask spreads – to others, specifically depth and the price impact of transactions (or effective bid-ask spreads). Consistent with previous research we find that bid ask spreads of stocks decline following the introduction of IFRS, which implies that stock liquidity increases for small trades. However, we also provide evidence that depth at the best quotes also declines, which challenges the proposition that liquidity increases for large trades following an increase in disclosure. In additional tests, we find that effective bid-ask spreads of block trades also declines following the introduction of IFRS. Overall, this evidence confirms that stock liquidity for both small and large trades increases following an increase in corporate information disclosure.

Institutional Economics: An approach to analyze the conduct of foreign banks in India

Ashis Taru Deb
University of Delhi, India
ashishtaru27@gmail.com

K V Bhanu Murthy
University of Delhi, India
bhanumurthykv@yahoo.com

Abstract

This paper invokes institutional economics as an approach to understand and analyze the conduct and role of foreign banks in relations to other segments of banking industry and the regulator in India. After laying out new definition of Institutional Economics, the paper conducts statistical and econometric tests to show that the long-term behaviour of foreign banks in India clearly shows that they have become institutions unto themselves. They do not promote basic banking; they operate on the basis of financial exclusion and carry out a heavy dose of off-balance activities, in comparison to other banking segments. It was observed that foreign banks engaged in variants of carry forward trade, which went against objectives of the monetary policy. While there are occasions when they have helped the government in mobilization of resources, it is pointed out that they are fair-weather friends at best and a potential source of instability at worst. Foreign banks tend to cut down upon staff and hence have a very low branch network. To compensate they substitute branches with ATMs. The foreign banks show long-term conduct in terms of following a highly risky, and profit oriented banking. They indulge in financial exclusion. They have an urban bias. Most of all they are contributing to the digital divide. The study argues that the current regulatory regime of foreign banks in India is more favorable as compared to the international scenario. It appears that paper has produced enough evidence to suggest that development of foreign banks in India have contributed to conflicts in institutions at all the three levels: firstly between foreign banks and their domestic counterparts; secondly between foreign banks and domestic policy framework and finally between WTO and domestic policy framework.

The Determinants of Chinese Open-end Funds Performance

Lixian Liu
University of Canberra, Australia
lixian.liu@canberra.edu.au

Abstract

This study investigates the risk/return performance of 596 Chinese open-end funds to explore the determinant factors that explain the generation of excess returns of the fund portfolios. The results indicate that the risk/return performance of the funds is generally eroded by the fund size, and closely linked to the overall market performance. We analyze the interaction between expenses and load intimidation, the fund and the fund family size effect, and document that higher expenses and loads would weaken the negative fund size effects to the fund performance. This suggests the fund and fund family size effect is related to expenses and loads. Further, the examination of the interaction effects between net cash inflow and expenses suggest that higher expense would also weaken the negative relationship between net cash inflows to the fund performance.

The Impact of Bilateral Tax Treaties on FDI Inflows: The Case of India

K V Bhanu Murthy
University of Delhi, India
bhanumurthykv@yahoo.com

Niti Bhasin
University of Delhi, India
nitisury@rediffmail.com

Abstract

Foreign direct investment (FDI) inflows are driven by both home country and host country conditions. It is for the host country to provide a conducive environment to FDI. Many developing Asian economies, including India, have redesigned their tax systems to make them internationally competitive. Bilateral tax treaties are seen as an instrument of policy that makes this possible. Tax treaties alleviate the problem of international double taxation. They create an environment of fiscal and legal certainty. This paper examines the FDI inflows to India from 14 countries that are major partners. With the help of panel data for the period of 1993-2007, this paper models the role of tax treaties in promoting FDI. A fixed effects (LSDV) model is developed that captures macro-economic factors and policy factors such as openness. We have also used Principal Component Analysis to augment the model's analytical richness.The trend shows that FDI has been growing due to factors including tax treaties. The results show that FDI to India is market seeking and efficiency seeking. It is facilitated by tax treaties. In particular, Mauritius, UK, Singapore, UAE and Switzerland show acceleration in their FDI flows to India, due to the implementation of tax treaties. There is very small but significant and positive effect of tax treaties.

A Cost-Benefit Analysis of Basel III: Some Evidence from the UK

Meilan Yan
Loughborough University, United Kingdom
M.L.Yan@lboro.ac.uk

Maximilian Hall
Loughborough University, United Kingdom
M.J.Hall1@lboro.ac.uk

Paul Turner
Loughborough University, United Kingdom
P.M.Turner@lboro.ac.uk

Abstract

This paper provides a long-term cost-benefit analysis for the United Kingdom of the Basel III capital and liquidity requirements proposed by the Basel Committee on Banking Supervision (BCBS). We provide evidence that the Basel III reforms will have a significant net positive long-term effect on the United Kingdom economy. The estimated optimal tangible common equity capital ratio is 10% of risk-weighted assets, which is larger than the Basel III target of 7%. We also estimate the maximum net benefit when banks meet the Basel III long-term liquidity requirements. Our estimated permanent net benefit is larger than the average estimates of the BCBS. This significant marginal benefit suggests that UK banks need to increase their reliance on common equity in their capital base beyond the level required by Basel III as well as boosting customer deposits as a funding source.

New Evidence on Asymmetric Co-movement between Gold Prices and Stock Markets with Mixed-copula Analysis

Cuong Nguyen
Lincoln University, New Zealand
Cuong.Nguyen@lincoln.ac.nz

Magda Komorníková
Slovak University of Technology, Slovakia

Jozef Komorník
Comenius University, Slovakia

Ishaq Bhatti
La Trobe University, Australia

Abstract

The paper aims to figure out the dependence structures between different stock markets and gold prices. Different copulas are used to capture the structures of dependency, including Archimedean, Extreme value and mixed copulas. Using copula allows us to find not only the degree, but also the structure of dependence, which shows the left tail and/or right tail dependence. The results show that Malaysia stock market exhibits right tail dependence with gold prices, while Indonesia, Japan and the Philippines markets exhibit left tail dependence. These results have not been documented in the literature and are shown to be useful for risk management as well as portfolio diversification in this paper.

Microfinance, the Long Tail and Mission Drift

Carlos Serrano-Cinca
University of Zaragoza, Spain
serrano@unizar.es

Begoña Gutiérrez-Nieto
University of Zaragoza, Spain
bgn@unizar.es

Abstract

Poor people were excluded from financial services until microfinance institutions (MFIs) emerged. The mission of MFIs is to alleviate poverty, contributing to women empowerment especially in rural communities. Microcredits can be analyzed under Pareto's 80/20 Principle. Their clients are situated in the long tail of the wealth distribution function. This niche market is not very attractive, because of its high administrative costs, lack of deposits and the need for compensating low revenues with fluctuating subsidies. Some MFIs have drifted from their mission. This paper presents a model to explain microfinance and mission drift, tested with hypotheses. The results from the empirical study show a pattern of mission centered MFI: a small NGO, with labor productivity, receiving donations and obtaining a high margin. The need for reducing interest rates is concluded. According to the long tail theory, this can be done through the use of efficient technology, as the e-commerce sector has achieved.

Assessing Abnormal Returns: The Case of Chinese M&A Targets

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

Mark Tippett
University of Sydney, Australia and Victoria University of Wellington, New Zealand, Australia
M.Tippett@lboro.ac.uk

Andrew Vivian
Loughborough University, United Kingdom
A.J.Vivian@lboro.ac.uk

Abstract

The principal objective of this paper is to assess the abnormal returns earned by Chinese M&A target firms. The Chinese market has a unique institutional and legal setting for M&A activity. Further there is little prior research on Chinese M&A in comparison to the vast literature on developed market-oriented economies. This paper also introduces recently developed non-parametric techniques (Ataullah et al., 2011) to the M&A literature; this enables more robust empirical analysis to be conducted. Our empirical evidence on the returns earned by Chinese M&A targets provides four main findings: i) the return reaction is statistically significant, ii) the return reaction essentially occurs within the first three trading days after the takeover announcement date, iii) the return reaction is of smaller economic magnitude than in major industrialised countries, and iv) the overall return reaction is stronger when the payment method is pure cash.

Determinant of Recovery Rates

Rainer Jankowitsch
WU (Vienna University of Economics and Business, Austria
rainer.jankowitsch@wu.ac.at

Florian Nagler
VGSF - Vienna Graduate School of Finance, Austria
florian.nagler@wu.ac.at

Marti G. Subrahmanyam
New York University, United States
msubrahm@stern.nyu.edu

Abstract

In this paper, we analyze the recovery rates of defaulted bonds in the US corporate bond market, based on traded prices after the default event, over the time period 2002 to 2010. Our data set, obtained from the Trade Reporting and Compliance Engine (TRACE) database maintained by the Financial Regulatory Authority (FINRA), allows us to analyze the prices of defaulted bonds based on a complete set of transaction data. Analyzing the microstructure of trading permits us to estimate a reliable market-based recovery rate. We investigate the relation between these recovery rates and a comprehensive set of bond characteristics, firm fundamentals and macroeconomic variables. Furthermore, we also analyze the effect of liquidity of an individual bond on its traded prices after default. Our panel regression analysis explains 64% of the total variance in the recovery rates across bonds. We find that the type of default event, the seniority of the bond, and the industry in which the firm operates, are important determinants of the recovery rate. However, of equal importance in determining the recovery rates are balance sheet ratios motivated by structural credit risk models, macroeconomic variables, and transaction costs metrics of liquidity.

Were Multinational Banks Taking Excessive Risks Before the Recent Financial Crisis?

Mohamed Azzim Gulamhussen
University Institute of Lisbon, Portugal
magn@iscte.pt

Carlos Pinheiro
Caixa Geral de Depósitos, Portugal
carlos.manuel.pinheiro@cgd.pt

Alberto Franco Pozzolo
Università degli Studi del Molise, Italy
pozzolo@unimol.it

Abstract

The recent financial crisis has clearly shown that the relationship between bank internationalization and risk is complex. Multinational banks can benefit from portfolio diversification, reducing their overall riskiness, but this effect can be offset by incentives going in the opposite direction, leading them to take on excessive risks. Since both effects are grounded on solid theoretical arguments, the answer of what is the actual relationship between bank internationalization and risk is left to the empirical analysis. In this paper, we study such relationship in the period leading to the financial crisis of 2007-2008. For a sample of 384 listed banks from 56 countries, we calculate two measures of risk for the period from 2001 to 2007 – the expected default frequency (EDF), a market-based and forward-looking indicator, and the Z-score, a balance-sheet-based and backward-looking measure – and relate them to their degree of internationalization. We find robust evidence that international diversification increases bank risk.

Who Wants to be on CNBC? - Labor Market Impact of CEO's Media Visibility

Y.Han (Andy) Kim
Nanyang Business School, Singapore
yhkim@ntu.edu.sg

Kee Wen (Kenn) Wong
HSBC, Singapore

Zhe Ren (David) Gan
United Overseas Bank, Singapore

Abstract

This paper investigates the impact of media visibility on CEO's labor market movements. We utilise the Nielsen viewership figures on a sample of 10,133 CNBC interviews by 3,735 unique CEO-firm combinations over 1997~2009 to measure the CEOs' media visibility. We then track these CEOs' career movements following the interviews. We find that CEOs with greater media exposure stands a better chance of being scouted by larger public firms, and by firms in a different industry compared to CEOs with lesser media exposure. The finding is robust when we control for potential interview selection bias. Interestingly, male viewership has persistently significant predictive power whereas female viewership does not show significance.

Momentum and Overreaction in Prices: Do They Exist and Result in Profitable Trading Strategies in the Carbon Market?

Jarrod Crossland
Origin Energy, Australia
crosslandj@gmail.com

Bin Li
Griffith University, Australia
B.Li@griffith.edu.au

Eduardo Roca
Griffith University, Australia
E.Roca@griffith.edu.au

Abstract

Since 2005, the European Union Emissions Trading Scheme (EU ETS) has seen a rapid growth in trading volume activity, with 1.44 billion tones of CO2 traded in 2007. The total value of these trading transactions was €24.1 billion in 2007, confirming the EU ETS as the largest emissions trading system by transaction value. In this paper, we test whether this market exhibit predictability of prices in terms of momentum (i.e., positive/negative changes continuing) and overreaction (i.e., positive/negative changes reversing). Following Moskowitz, Ooi, and Pedersen (2012), we test whether momentum and overreaction exist in the carbon price, and if they do, whether they result in profitable trading strategies. We document a robust short-term momentum and medium-term overreaction within the EU ETS. We also found statistically significant returns in a number of strategies tested. The strategies employed provide excess returns that remain achievable in a practical sense even after transaction costs have been taken into consideration. Our results have potentially important implications for asset pricing theories.

Corporate Governance and Private Equity Placements

Yin-Hua Yeh
National Chiao Tung University,, Taiwan
trad1003@mail.fju.edu.tw

Pei-Gi Shu
Fu Jen Catholic University, Taiwan

Ming-Sun Kao
Fu Jen Catholic University, Taiwan

Abstract

We propose a signaling model for private equity placement that the market is concerned for the coupling between the issuing firms and the new block investors. . The model predicts a positive announcement effect associated with good-governance firms because they tend to attract good block investors who are expected to gain from the value enhancement via their monitoring/advising efforts than from wealth exploration. The reversed is applied to the announcement of bad-governance firms. Moreover, the identity of the new block investor who is active amplifies the positive (negative) announcement effect associated with good- (bad-) governance firms. The empirical result from a sample of 213 private equity placements in Taiwan verifies the aforementioned postulation. Firms with a higher composite corporate governance index (CGI) are associated with a higher announcement return. Moreover, the presence of outsiders in the board or management team amplifies the wealth effect, i.e. a coupling between high (low) CGI firms and active outsiders results in an even higher (lower) announcement effect.

Accounting Conservatism and Corporate Investment Decisions: Evidence from a Structural Assessment

Karen Jingrong Lin
University of Mass Lowell / Sun Yat-Sen University, United States
karenljr@gmail.com

Chen Chen
The Chinese University of Hong Kong, China
cchen@baf.cuhk.edu.hk

Yi Hu
The Sun Yat-Sen University, China
huyi1985@gmail.com

Abstract

This study addresses the research question of whether accounting conservatism affects managers' selection of future projects. We use structural assessment and GMM estimation to generate a clean prediction for the effect of accounting conservatism on corporate investment decisions. First, we find that, when conservative accounting is in place, managers' hurdle rates increase, reflecting a more conservative attitude toward future project selection. Second, we investigate whether the impact of accounting conservatism on hurdle rates is more significant when conservatism is needed to solve the agency problem, and the evidence supports our predictions. Third, to address the concern that conservatism may hurt shareholder value by discouraging risk-taking behaviors, we test the market value implication of accounting conservatism's effect on investment. We find that accounting conservatism adds value to firms when managers make conservative investment decisions. Together, our results are consistent with the view that accounting conservatism plays a disciplinary role in corporate investment decisions.

Diversification and Robust Measures of Tail Risk in Mutual Funds

Francis In
Monash University, Australia
francis.in@monash.edu

Woohwan Kim
Monash University, Australia
woohwan.kim@monash.edu

Abstract

This paper examines the efficiency of market standard portfolios (Markowitz and Sharpe) through the effects of diversification and the tail risk of U.S. mutual funds by adopting higher moments and various robust measures of tail weight. We use the monthly returns of U.S. equity mutual funds from October 2009, to September 2011. By carrying out extensive simulations comparing conventional measures with robust measures, we find that market standard portfolios such as Markowitz and Sharpe ratio optimization portfolios are exposed to higher tail risk than naïve portfolios. We also find that the diversification effect holds in naïve portfolios, while Markowitz and Sharpe ratio optimization portfolios show little evidence thereof. We conclude that portfolio optimization based on only second moments leads to extremely non-optimal asset allocation when using robust measures of tail risk in mutual funds.

Credit Rating Changes and Leverage Adjustments: Concurrent or Continual?

Reza H. Chowdhury
University of Dubai, United Arab Emirates
rchowdhury@ud.ac.ae

Min Maung
University of Saskatchewan, Canada
maung@edwards.usask.ca

Abstract

Prior research has shown that credit ratings affect firm's capital structure decision. In this paper, we examine whether firms adjust their leverages instantaneously or persistently following credit rating changes. By using simultaneous equations systems and fixed-effect panel regression models with instrumental variables, we find that both credit rating upgrades and downgrades cause firms to adjust their capital structures in the following 5-year period. While firms generally take considerable time to adjust their leverages, our result exhibits that the effect of credit rating downgrades on leverage persists longer than that of rating upgrades.

Informational Content of Option Trading on Acquirer Announcement Return

Konan Chan
National Chengchi University, The University of Hong Kong, Hong Kong
konan@business.hku.hk

Li Ge
The University of Hong Kong, Hong Kong
geli1019@hku.hk

Tse-Chun Lin
The University of Hong Kong, Hong Kong
tsechunlin@hku.hk

Abstract

This paper examines the informational content of option trading in merger and acquisition (M&A) events. We find that pre-M&A announcement option trading contains information on acquirer announcement returns. Using 5,099 M&A events from 1996 to 2010, we show that implied volatility (IV) spread predicts positively on the announcement return, while implied volatility (IV) skew predicts negatively on the announcement return. The result is stronger if the option liquidity is high and stock liquidity is relatively low. We also find some supporting evidence in post-M&A long-run performance for acquirers, using calendar-time portfolio regression, post-M&A one-year buy-and-hold abnormal returns, and cumulative abnormal returns around post-M&A quarterly earnings announcement days. We show that higher IV spread and lower IV skew are associated with better long-run abnormal performance. Moreover, we use the relative trading volume of options to stock (O/S) as an alternative proxy for informed option trading activity, and show that higher O/S predicts higher acquirer absolute announcement return. A pre-event price run-up mitigates the predictive power of O/S. Our main result remains consistent among a smaller sample of target firms.

Why do Option Prices Predict Stock Returns?

Joost Driessen
Tilburg University, Netherlands
j.j.a.g.driessen@uvt.nl

Tse-Chun Lin
The University of Hong Kong, Hong Kong
tsechunlin@hku.hk

Xiaolong Lu
The University of Hong Kong, Hong Kong
xllu@hku.hk

Abstract

This paper provides a new perspective on the informational leading role of the option market relative to the stock market. We study the extent to which the predictive power of option implied volatilities (IVs) on stock returns lies in earnings-related or/and analyst-related corporate news. We find that our two proxies for option trading (IV skew and IV spread) significantly predict earnings surprises, analyst recommendation changes, and analyst forecast changes. Next, we find that the IV skew and spread predict stock returns, and that the degree of predictability more than doubles around earnings-related or analyst-related events. Additionally, we show that informed traders choose to use the option market particularly because of short-sale constraints on the underlying stock. We also find that the predictability of option IVs increases with the liquidity of the options.

Financial Intermediation of Microfinance NGOs - An Alternative Role in the Credit Delivery System Towards Financial Inclusion-A Study in the Indian Context

Raja Sithanathan
Vivekananda College, India
snpsrajavc@yahoo.co.in

Abstract

Banks are basically commercial organizations. Hence, they were initially hesitant to reach the large number of poor strewn all over the country requiring access to credit. Grass-root level initiatives on the part of several voluntary organizations/NGOs thus became necessary to overcome the resistance of the banks. Taking the lesson from the experiences of other developing countries like Bangladesh, a combination of formal and informal financial intermediaries was suggested to take a lead in providing sustained and valuable services to the rural poor. As such, a supplement credit delivery system has been developed by encouraging microfinance NGOs to act as facilitators and intermediaries. Currently the micro credit sector is dualistic in nature. The formal structure has a legal and regulated component, which provides credit and other services to the non-formal sector. The non-formal structure largely comprising NGOs operates outside the legalized structure. Thus, in the matter of micro finance to poor, the banks, micro credit institutions and the NGOs have become intermediary agencies. This partnership has broadened the infrastructure for credit delivery resulting in increased outreach. With a view to develop a supplementary credit delivery mechanism to reach the poor, the SHG-Bank Linkage Programme in 1992 was introduced. Microfinance through SHGs is propagated as an alternative system of credit delivery for the poorest of the poor. The SHGs, Banks and the NGOs are three agencies on the constitution of the SHG-Bank Linkage Programme. In the evolution of an alternate credit delivery system, the banks and NGOs have certain specific strengths of their own. Accordingly, the bank-NGO collaboration under the alternative credit system aims at forging a synergy which will complement the role of one another. As such, the NGOs have become a formal interface between SHGs and the banking system. Under the SHG-Bank Linkage Programme also, lending to NGOs for further on lending to SHGs has been recognized as a legitimate financial intermediation activity of the NGOs more recently. In the credit delivery process, the NGOs have emerged as a key player in the field of micro credit thereby it facilitates the low income group people to access the formal financial system. This is an attempt to make the poor to get rid of socially neglected situation and to bring them into banking fold. In this regard, the role of NGOs has evinced as facilitator on the one hand and as intermediary on the other hand. As a facilitator, their role is limited to non-financial services, whereas as an intermediary, the role is similar to that of a bank in credit acquisition and credit disbursement. The NGOs establish a link with the banks for the acquisition of funds and a link with SHGs in credit disbursement. This has brought the poor into the formal banking system of the country. As such, the NGOs have been acting as a financial intermediary between the microfinance institutions and SHGs. In this context, an attempt has been made to evaluate the role of NGOs as financial intermediary in the credit delivery system.

Accounting Expertise of Chief Financial Officers

Y.Han (Andy) Kim
Nanyang Business School, Singapore
yhkim@ntu.edu.sg

Abstract

We find evidence that the difference in financial accounting skills of a Chief Financial Officer proxied by CPA license is reflected in the firm's stock price. A transition from a CPA CFO to a non-CPA CFO results in a permanent value loss compared to a transition from a CPA CFO to another CPA CFO position, other things being equal. Moreover, we find that superior financial accounting skills of the financial chief matter to the firm in the sense that a transition from a non-CPA CFO to a CPA CFO is results in a reduction of earnings management as well as the degree of information asymmetry. We find evidence that the firms are less likely to hire CPA CFOs when the shareholders have better monitoring capabilities. Lastly, we test whether labor market rewards such superior accounting skills of CFOs. The result suggests that a person with CPA is likely to be promoted to the CFO position two years earlier in his or her career on average. To the extent that CPA CFOs tend to manage the debt maturity structure in a safer manner, they get paid slightly better than their peers in terms of salary, while their narrow focus on book-keeping significantly drag them down in terms of equity based compensation.

CEO Interviews on CNBC

Y.Han (Andy) Kim
Nanyang Business School, Singapore
yhkim@ntu.edu.sg

Felix Meschke
University of Kansas, United States

Abstract

This paper investigates whether media attention systematically affects stock prices by exploiting the substantial discrepancy between perceived and actual information content of almost 7,000 CEO interviews on CNBC. The average cumulative abnormal stock return over the [-2, 0] trading day window is 162 basis points, yet prices exhibit strong reversion of 108 bps over the following ten trading days. The paper traces the mechanism through which media attention affects stock prices by capturing the trading behavior of individual investors and short sellers, and by collecting interview transcripts, confounding event dates, and surrounding news stories to control for information effects. The results show that the number of people watching CNBC, the trading behavior of individual investors and short-sellers, and the characteristics of CEO interviews help explain the ensuing market reaction.

Financial Crisis, Control Rights and Investment-Cash Flow Sensitivity: The Chinese Perspective

Xiaoqian Zhang
Zhejiang University, China
develop21cn@zju.edu.cn

Abstract

The investment-cash flow sensitivity is considered with firm's control right and the impact of financial crisis at the end of 2008 on this relation. Different from the existing literatures in ICF analysis, a continuous measurement of control rights is adjusted and considered in the regression model. Compared with the classic model focusing on ownership, the model with control right is more efficient and stable. The dynamic empirical studies reveal the impact of control right which can't show by traditional ownership substitutions. The GMM regressions considering endogeneities indicate that ICF sensitivity results from control right. The empirical studies also find that Chinese companies' quick recovery from this financial crisis comes from their high control rights .

Information Disclosure and Depositor Discipline in the Chinese Banking Sector

Yuliang Wu
Queen's University Belfast, United Kingdom
y.wu@qub.ac.uk

Mike Bowe
University of Manchester, United Kingdom

Abstract

We investigate the relationship between information disclosure and depositor behaviour in the Chinese banking sector. Specifically, we enquire whether enhanced information disclosure enables investors to more effectively infer a banking institution's risk profile, thereby influencing their deposit decisions. Utilising an unbalanced panel, incorporating financial data from 169 Chinese banks over the 1998-2009 period, we employ generalized-method-of-moments (GMM) estimation procedures to control for potential endogeneity, unobserved heterogeneity, and persistence in the dependent variable. We uncover evidence that: (i) the growth rate of deposits is sensitive to bank fundamentals after controlling for macroeconomic factors, diversity in ownership structure, and government intervention; (ii) a bank publicly disclosing more transparent information in its financial reports, is more likely to experience growth in its deposit base; and (iii) banks characterised by high information transparency, well-capitalised and adopted international accounting standards, are more able to attract funds by offering higher interest rates.

Dynamic Conditional Beta and Systemic Risk in Europe

Robert Engle
New York University, United States
rengle@stern.nyu.edu

Eric Jondeau
University of Lausanne, Switzerland
eric.jondeau@unil.ch

Michael Rockinger
University of Lausanne, Switzerland
michael.rockinger@unil.ch

Abstract

Systemic risk can be defined as the propensity of a financial institution to be under-capitalized when the financial system as a whole is under-capitalized. It combines the market capitalization of the firm, the sensitivity of its equity return to market shocks, and its financial leverage. In this paper, we describe an econometric approach designed to measure systemic risk for non-U.S. institutions. We extend the approach developed by Brownlees and Engle (2010) to the case with several factors explaining the dynamic of financial firms' return and with asynchronicity of the time zones. Our model combines a DCC model to estimate the dynamic of the beta parameters, univariate GARCH models to estimate the dynamic of the volatility of the error terms, and a dynamic t copula to estimate the dynamic of the dependence structure between the innovations. We apply this methodology to the 194 largest European financial firms and estimate their systemic risk over the 2000-2012 period. We find that banks and insurance companies bear about 80% and 20% of the systemic risk in Europe, whereas systemic risk is essentially unaffected by financial services and real estate firms. Over the recent period, the systemically riskiest countries are the UK and France, and the riskiest firms are Deutsche Bank and BNP Paribas.

Multiple Financial Access and Debt Trap

Kashiram Sharma
University of Namibia, Namibia
kashiram2003111@yahoo.com

Udai Lal Paliwal
University of Namibia, Namibia

Abstract

Access to financial services is a prerequisite for poverty reduction and socio economic empowerment of poor and vulnerable groups of people. Though financial services availed are need based easy availability and delivery at affordable cost motivates borrowers to use the service to fulfill desired objectives. Sometimes there is multiple-financial access and a borrower can make a choice of product and source and reduce his cost of finance. However, in case of lack of financial literacy and financial skills the ability of a borrower to make wise financial decisions may be affected. Borrowing may be done without making proper assessment of one's repayment capacity. Borrowing may be also done from one source to repay the other source, etc. This has been the experience in many developing countries including Africa, where multiple-financial access has led to not economic empowerment but economic impoverishment. The present research about Namibia brought out that multiple financial access in the form of personal loans and easy loans from commercial banks, micro credit for consumption from micro lenders and sale of household items including electronic items on installments have resulted in increased conspicuous consumption and household expenditure. As a consequence there is reduction in household savings and increased personal debt burden.

Cost Efficiency of Kazakhstan and Russian banks: Results from Competing Panel Data Models

Subal Kumbhakar
State University of New York at Binghamton, United States
kkar@binghamton.edu

Anatoly Peresetsky
Higher School of Economics and CEMI RAS, Russia
peresetsky@cemi.rssi.ru

Abstract

In this paper, we estimate cost efficiency of the Kazakhstan and Russian banks. A stochastic frontier (SF) approach based on a panel data for 2002–2006 is used. The Kazakhstan banking system is traditionally assumed to be more advanced compared to the Russian system. In 2003 Kazakhstan adopted the International Accounting System, and in 2005 Basel-2 norms were introduced. None of these happened in Russia during the period of our study. Given these differences, our objective is to examine whether there is a systematic difference in bank efficiency between them. For this we use two sets of SF panel models, viz., models which do not separate and do separate bank effects from inefficiency. Within each set we also consider models with a single and multiple outputs as well as alternative distributional assumptions on inefficiency. Empirically we do not find any significant differences in the cost efficiency scores of banks between these two countries during the period of our study. This result is found to be quite robust across several alternative and competing models. Some differences (within each country) are found when different distributional assumptions are used. We also find that many of the banks in both countries operate below their optimal size.

Rethinking Banking Models Using a Grounded Theory Model of Bank Intangibles

Lei Chen
University of Glasgow, United Kingdom
cllgril@hotmail.com

John Holland
University of Glasgow, United Kingdom
John.Holland@glasgow.ac.uk

Jo Danbolt
University of Glasgow, United Kingdom
Jo.Danbolt@glasgow.ac.uk

Abstract

This paper provides a new way of rethinking banking models by using qualitative research on intangibles. The banking sector has been transformed significantly by the changing environment. The 2007-2009 financial crisis also added concerns to the existing bank business models. Using qualitative data collected from interviews with bank managers and analysts in the UK, this paper develops a grounded theory model of bank intangibles that reveals how intangibles and tangible/financial resources interact in the bank value creation process and actively respond to environmental changes. The ground theory model provides the means to search for ways of improving the financial intermediation, information intermediation and risk management roles of banks, and also contributes to the improvement of information exchange in the market.

Financing from Family and Friends

Samuel Lee
New York University, United States
slee@stern.nyu.edu

Petra Persson
Columbia University, United States
pmp2116@columbia.edu

Abstract

We present two models in which a family investor differs from a non-family investor only in that she has an altruistic relationship with the entrepreneur who seeks financing. We show that because of this single difference, family finance is a source of trust capital whereas formal finance is a source of risk capital. Both deepen the financial market. Family finance has two drawbacks: Risk remains in the entrepreneur's social sphere and exposes his social relations to negative feedback effects, both deterring risk taking. Our models emphasize crucial differences between legal liability and social indebtedness and shed light on the dearth of growth finance in developing countries. Based on these insights, we propose a method for providing microventure capital.

Hong Kong Capital Flight: Determinants and Features

Christopher Gan
Lincoln University, New Zealand
Christopher.Gan@Lincoln.ac.nz

Yingli Han
Lincoln University, New Zealand
hanyingli733@hotmail.com

Baiding Hu
Lincoln University, New Zealand
Baiding.Hu@Lincoln.ac.nz

Zhaohua LI
Lincoln University, New Zealand
Zhaohua.Li@Lincoln.ac.nz

Abstract

This study uses the hot money, the World Bank and trade mis-invoicing methods to measure capital flights in Hong Kong. The OLS model is used to test the determinant of those capital flights. It finds that the determinants of Hong Kong capital flight are currency overvaluation, current account deficit and China's announcement of Open Door Policy in 1979. This study also uses the round-tripping foreign direct investment model to estimate the round-tripping capital flight between Hong Kong and China. The results shows that the round tripping phenomenon takes about one-third of China's total recorded FDI from Hong Kong and more than half of Hong Kong reported FDI to China.

The Impacts of Leverage, Price Book Ratio, Dividend Yield and Past Performance on Stock Returns

Tristan Nguyen
WHL Graduate School of Business and Economics, Germany
tristan.nguyen@whl-lahr.de

Alexander Schuessler
HHL Leipzip Graduate School of Management, Germany
alexanderschuessler@gmx.de

Abstract

Predicting the performance of stocks has been the topic of numerous empirical studies. Considering mixed results of several studies that analyze the influence of total leverage on stock returns, we focus in our approach on a more differentiated ratio: ‘Total Debt to (Total Capital + Long Term Debt)’ [TD/(TC+LTD)] which treats short-term debt and long-term debt differently. In this article, we employ an investment strategy which is based on TD/(TC+LTD) as well as price to book, dividend yield and past stock performance. The strategy is tested on the German stock market (DAX and MDAX) for the holding periods between one and four years. Interestingly, the relation between TD/(TC+LTD) and stock returns is negative and highly significant. That is critical because it contradicts one of the basic principles in traditional financial theory. Price book is negatively and dividend yield is positively related to returns. Looking at past performance, we find a significant short-term momentum and long-term contrarian pattern which is consistent with the literature. Furthermore, we analyze the question whether differences in returns are a compensation for risk taking. For every holding period, we add the beta factor as an explanatory variable to the regression. We find out that controlling for beta does not influence the results in a crucial way.

Strategic Data Management for Enhancing Financial Performance

Kayla Summerville
Alfred University, United States

Zong Dai
Alfred University, United States
daiz@alfred.edu

Abstract

Data is a corporate resource (e.g. Levitin & Redman, 1998) and effective strategic data management yields competitive advantage (e.g. Vesely,1990). However, the relationship between strategic data management and financial performance has not been well documented in the literature. This paper is intended to examine how the business firm develops their strategic data management system to create competitive advantage and enhanced financial performance. The research methodology employs a fact-based principle that combines quantitative and qualitative methods including interviews with management. Data was collected and analyzed at the corporate level of the subject organization.The paper begins an introduction, followed by a literature review, then a case study, concluded with a section of findings.

Capital Structure and Financing Choices in Australia

Klaus Buhr
Department of Accounting and Finance, Unitec Institute of Technology, New Zealand
kbuhr@unitec.ac.nz

Roy Cross
Brook Asset Management Analyst, New Zealand, New Zealand

Liz Rainsbury
Department of Accounting and Finance, Unitec Institute of Technology, New Zealand
erainsbury@unitec.ac.nz

Abstract

We use a modified pecking order framework to analyse financing choices for Australian firms. The traditional pecking order model has been extended to allow a non-linear relationship between a firm's requirements for external capital (the financial deficit) and the amount of external debt used to meet these requirements. The pecking order theory predicts that firms will follow a defined hierarchy of financing choices with internal funds being used first, followed by external debt and as a last resort the issuance of external equity. Our main finding is that Australian firm's do not follow the pecking order as closely as in other markets as the model explains less of the variation in debt issuance. Importantly, we find that this is not related to debt capacity constraints, which has been hypothesized by other researchers as a legitimate reason why firms, small firms in particular, would not appear to be following the pecking order theory. We use Altman's Z-Score, which is a commonly used measure of financial distress, to identify firms that are relatively unconstrained in terms of debt capacity. We also find that while controlling for debt capacity does improve the explanatory power of our model, the improvement is only marginal. We do find evidence against the static trade-off theory of capital structure. In particular firms that are unconstrained in terms of debt capacity and not facing significant capital expenditure do not increase leverage towards an optimal capital structure in the manner predicted by the static trade-off theory. We hypothesize that at least part of the reason for these findings is due to taxation differences, with the imputation credit system in Australia effectively removing the tax advantage of debt for domestic investors. Another important factor that could explain the lower explanatory power of the pecking order model could be the more accepted use of warrants and rights issues to raise equity, which have been argued to have lower asymmetric information costs than issuing straight equity.

Are Bank Dividends a Signal to Informed Depositors?

Cristiano Forti
Getulio Vargas Fundation, Brazil
crforti@gmail.com

Rafael Schiozer
Getulio Vargas Fundation, Brazil
rafael.schiozer@fgv.br

Abstract

This study investigates whether the composition of bank debt affects payout policy. We identify that information-sensitive depositors (institutional investors) are targets of dividend signaling by banks. We use a unique database of Brazilian banks, for which we are able to identify several types of debtholders, namely institutional investors, nonfinancial firms and individuals, which are potential targets of dividend signaling. We also exploit the features of the Brazilian banking system, such as the existence of several closely held banks, owned and managed by a small group of shareholders, for which shareholder-targeted signaling is implausible, and find that banks that rely more on informed (institutional) depositors for funding pay larger dividends, controlling for other features. During the financial crisis, this behavior was even more pronounced. This relationship reinforces the role of dividends as a costly and credible signal about the quality of bank assets. We also find that payout is negatively related to the banks' cost of funding (interest rates paid on certificates of deposits), that dividends have a positive relationship with size and past profitability and that closely held banks pay more dividends than publicly traded banks, which is also in line with the idea that depositors are targets of dividend-signaling. Finally, we find a negative relationship between dividends and the capital adequacy ratio, which indicates that regulatory pressure may induce banks to pay less dividends, and that the payout is negatively related to the growth of the loan portfolio, consistent with the idea of banks retaining earnings to increase equity and consequently their lending capacity.

Government Ownership and the Cost of Debt: Evidence from Government Investments in Publicly Traded Firms

Ginka Borisova
Iowa State University, United States
ginka@iastate.edu

Veljko Fotak
University of Oklahoma, United States
veljko@ou.edu

Kateryna Holland
University of Oklahoma, United States
kateryna.holland@ou.edu

William Megginson
University of Oklahoma, United States
wmegginson@ou.edu

Abstract

We investigate the impact of government share ownership on the cost of corporate debt. Government ownership might carry an implicit debt guarantee that reduces the chance of default and, hence, leads to a lower cost of debt. On the other hand, government ownership could lead to a higher cost of debt if this implicit debt guarantee increases moral hazard for managers and if state owners impose social and political goals that reduce corporate profitability and thus increase default risk. Using a sample of 1,278 bonds issued by 214 firms subject to changes in government share ownership from 43 countries over 1990-2010, we find that government ownership is associated with lower spreads during the 2008-2010 financial crisis, during various banking crises, for highly-levered firms, and for non-investment grade bonds. That is, in times of economic recession or firm distress, the dominant effect is the reduction in perceived default risk. Further, we find that the effect is specific to domestic government ownership, also consistent with the notion that the main channel of impact is the debt guarantee, and we document that the impact of government ownership differs by type of government entity. Outside of crises, government ownership generally leads to a higher cost of debt.

Effect of Split-share Structure Reform on Compensation Incentive Based on firm Performance

Qing Yang
Fudan University, China
qyang@fudan.edu.cn

Lin Shi
Fudan University, China

B. Burcin Yurtoglu
WHU Otto Beisheim School of Management, Germany

Abstract

In April 2005, China's capital market launched the split-share structure reform which put an end to the dualistic structured stock market with Chinese characteristics. This paper takes the split-share structure reform as an exogenous policy variable and analyzes the relationship between executive compensation and corporate performance of the listed companies of China during the period from 2001 to 2007. It breaks down listed companies into different categories based on their various corporate governance mode, e.g. state bureau-owned, central state-owned, local state-owned, collective and employee-owned, and private or foreign-owned. Our research shows that the non-tradable reform has a significant impact on the improvement of executive compensation incentive in listed companies. Also as a policy variable, the signaling effect of the reform hasa bigger influence than its actual practice, with the state bureau owned, central state-owned and collective-owned listed companies most significantly affected and private-owned ones the least. Through sensitivity analysis, it is also discovered that compensation raise is mainly from the growth of corporate assets rather than the relevance between executive compensation and firm performance measured by market indicators or accounting indicators, which means firm performance only has limited contribution to the compensation incentive.

Financial Development and Innovation Activity: Evidence from Selected East Asian Countries

Soo-Wah Low
National University of Malaysia, Malaysia
swlow@ukm.my

Si-Roei Kew
National University of Malaysia, Malaysia
srkew@ukm.my

Lain-Tze Tee
National University of Malaysia, Malaysia
jrtee@ukm.my

Abstract

This paper examines the role of financial development in promoting innovation-related activity. Using panel data for seven East Asian countries for the period from 1998-2007, we find that, on average, countries with more developed financial system as measured by the overall size of financial development have higher number of patent applications. In particular, the findings show that banking sector development correlates positively with patent applications after controlling for variables known to affect innovative activities. Interestingly, we find no evidence that variation in patent applications is affected by a country's stock market development. The findings suggest that banks play important roles in supporting innovation-related activity.

The Centralized Ratings Based Approach (CRBA)

Rodrigo Gonzalez
Central Bank of Brazil, Brazil
rodrigo.gonzalez@uol.com.br

Jose Savoia
Universidade de Sao Paulo, Brazil
jrsavoia@usp.br

Abstract

This paper explores the issue of regulatory dependence on credit ratings and proposes an alternative Basel II approach based on information available on Credit Registers. The Dodd-Frank Act, the European Commission proposal for Credit Rating Agencies (CRAs) and Basel III try to minimize conflicts-of-interest in the industry and the incidence of both inflated and low quality ratings. Because of the way minimum capital requirements (MCR) are calculated, overreliance in CRAs' opinions is itself an issue that these banking regulatory reforms recognize but do not fully met. To address that, we propose a new Basel II standardized approach replacing credit opinions from Credit Rating Agencies (CRAs) with centralized ratings, based on the frequency of defaults observed by type and risk of the borrower in Credit Registers. We call this approach Centralized Ratings Based Approach (CRBA). Data comprises of 650,000 random loans sorted from the Brazilian Credit Register (SCR) between July 2004 and December 2010. First, we use Creditrisk+ to estimate economic capital on this portfolio. Second, we estimate minimum capital requirements for credit risk based on the current Brazilian Approach (SSA), Basel I, IRB and finally on four alternative specifications of the Centralized Ratings Based Approach (CRBA) with different Risk Weighted Assets (RWAs), according to the specific risk of the borrower as measured in a standardized rating scale. The results show that the CRBA is a viable alternative to the classic standard approach (SA), because it is more risk sensitive than Basel I or the Simplified Standard Approach (SSA), but less sensitive than the Internal Ratings-Based (IRB) Foundation Approach. The CRBA not only eliminates regulatory dependence on external credit opinions, but allows Supervisors to follow banks' credit risk taking monthly as well as the consistency of their internal models using transition matrixes for every single bank individually

Falling Currency Effects: An Internal Security Challenge (A case study of India)

Ajeya Gupta
DDU Gorakhpur University, India
ajeya.gupta@gmail.com

Abstract

While many currencies have recently depreciated against the dollar, the rupee has fallen more than most. It is the worst-performing Asian currency this year, and some analysts are predicting that it could fall further. Strategists world over opine that the rupee could fall to the level of 58 against the dollar. 'We do not yet see light at the end of the tunnel'. Analysts further say the depreciation of the rupee could worsen inflation, which has been at or above 10 percent for more than a year, by sharply increasing the cost of oil and other commodities that India imports and has to pay for in dollars. That would also deepen the government's already large fiscal deficit, because the country heavily subsidized imported fuel and fertilizers. Moreover, 'the volatility of the exchange rate increases risks and therefore reduces investments in the tradables sector. These all accumulate to raise a kind of 'financial stability threat', that require immediate attention of the policymakers in order to avoid serious "internal security threat".

Public Information Arrival and Stock Return Volatility: Evidence from News Sentiment and Markov Regime-Switching Approach

Yanlin Shi
The Australian National University, Australia
yanlin.shi@anu.edu.au

Kin-Yip Ho
The Australian National University, Australia
kin-yip.ho@anu.edu.au

Wai-Man Liu
The Australian National University, Australia
waiman.liu@anu.edu.au

Abstract

This study models the role of public information arrival on stock return volatility. By employing the exogenous firm-specific news sentiment data from RavenPack, we empirically analyse hourly stock return of the S&P 100 stocks from January 1, 2000 to December 31, 2010. Using the Markov Regime-Switching GARCH models with "calm" and "turbulent" states, we further support the theory of Mixture Distribution Hypothesis and demonstrate the asymmetric effects of the good and bad news on the stock return volatility in different regimes. We find that firm-specific news effects induce the stock return volatility persistence in calm state rather than in turbulent state. Both bad and good news have positive effects on volatility in both calm and turbulent state. Bad news in calm state has a greater impact on volatility than good news. In turbulent state the impacts of both good and bad news are similar and much smaller than their impacts in calm state. Also, the impact of news differs across sectors and firm size.

Home Country Determinants of Outward FDI: A Study of Select Asian Economies

Niti Bhasin
Department of Commerce, Delhi School of Economics, University of Delhi, India
nitisurydse@gmail.com

Vandana Jain
Shri Ram College of Commerce, University of Delhi, India
jain_vandana_9@yahoo.co.in

Abstract

Since the early 1990s, developing countries have seen a rapid growth in their outward investments. The share of South, East and South-East Asia in global outward FDI has substantially increased in the last two decades. Due to the increasing importance of this region in global outward FDI, this paper attempts to examine the home country determinants of outward FDI in ten select economies of the region. With the help of panel data for the period 1991-2010, this paper models the role of home country "push" factors in promoting outward FDI. A fixed effects (Least Squares Dummy Variables (LSDV)) model is developed that captures market conditions, policy variables, economic variables and production factors. We have also used Principal Component Analysis to augment the model's analytical richness. The results indicate that GDP and FDI openness are important home country factors affecting outward FDI. Countries with high GDP and a more liberal and open FDI policy have larger FDI outflows.

Fuzzy-Logic-Based Risk Management of M&A Deals Outcome: A Case-Study a Large Russian Metallurgic Holding

Maria Polikarpova
Magnitogorsk State Technical University of G.I.Nosov, Russia
marjyshka@rambler.ru

Abstract

The paper researches the application of several fuzzy logic concepts to evaluating risk rating of M&A projects undertaken by a large Russian Metallurgic Holding: maxmin compression, fuzzy relationship of preferences, additive compression, linguistic vector estimates. The way of expert answer treatment is presented for the possibility of further fuzzy logic methods application. 20 M&A projects are used as the empirical basis for the research. The methods applied show consistency in final estimates proving the ability of their use in MA deals' risk outcomes evaluation. The proposed method can be used to evaluate risk consequences for M&A deals.

Risk Sharing and Stock Price Informativeness: Evidence from Stock-split Natural Experiment

Eric Chang
The University of Hong Kong, Hong Kong
ecchang@hku.hk

Tse-Chun Lin
The University of Hong Kong, Hong Kong
tsechunlin@hku.hk

Xiaorong Ma
The University of Hong Kong, Hong Kong
xrma.rachel@gmail.com

Abstract

We show that three proxies for stock price informativeness, adjusted probability of information-based trading (AdjPIN), price non-synchronicity and probability of information-based trading (PIN), decrease signi cantly due to enlarged investor base after stock splits. The results suggest that investors are less incentivized to gather firm speci c information when firm's investor base expands, which is consistent with the "risk sharing hypothesis" proposed by Peress (2010) that information production in stock market is restricted by the degree of risk sharing. Furthermore, we find that the change of the price informativeness around splits is negatively related to the magnitude of positive return drifts following splits. This result is consistent with the notion that less information incorporated in stock prices results in a sluggish response by the market to firm event.

Asian finance and banking implications from crisis: Malaysian commercial banks' income smoothing behaviour through loan loss provisions

Mohd Yaziz Mohd Isa
University Tun Razak, Malaysia
mohd_yaziz@unirazak.edu.my

Dr. Yap Voon Choong -
Multimedia University, Malaysia
mohd_yaziz@unirazak.edu.my

Professor Dr. Sazali Abdul Wahab
University Malaysia Kelantan, Malaysia
mohd_yaziz@unirazak.edu.my

Abstract

The paper aims to use results from panel least squares regression model to study on income smoothing behaviour through loan loss provisions by Malaysian's commercial banks during the Asian finance and banking crisis covering from Asian currency crisis 1997, the United States sub-prime crisis 2009, and current Euro debt crisis. The results indicated that Malaysian commercial banks do not, during the crisis periods, smooth their income through loan loss provisions, with possible explanations of good governance with stringent conditions imposed by regulators instead of market discipline.

Understanding Asset Correlations

Henrik Hasseltoft
University of Zurich/Swiss Finance Institute, Switzerland
henrik.hasseltoft@bf.uzh.ch

Dominic Burkhardt
University of Zurich/Swiss Finance Institute, Switzerland
dominic.burkhardt@bf.uzh.ch

Abstract

We study low-frequency movements in US stock-bond correlations. Why were correlations highly positive during the 1970-1980's but then turned sharply negative around 2000? We document a strong inverse relation between stock-bond correlations and correlations between real economic growth and inflation. We find that inflation uncertainty drove stocks and bonds in the same direction pre 2000 but in opposite directions post 2000. Higher inflation uncertainty was bad for stock prices throughout 1965-2011 but its impact on nominal bond prices switched from negative to positive around 2000. This contradicts the existing view that higher inflation risk is always bad for bonds. This change coincided with a macroeconomic regime-shift in which inflation turned procyclical after having been countercyclical for several decades. Overall, we find that time-variation in the comovement of growth and inflation is important for understanding how inflation impacts asset prices. We explain our empirical findings using a long-run risk model featuring non-neutral inflation shocks and regime-shifts in the correlation between growth and inflation. Nominal bonds are risky in times of stagflation but provide insurance when inflation is procyclical. The model produces time-varying stock-bond correlations and provides a rational explanation for why dividend yields and nominal yields comove in data, often referred to as the Fed-model. This stands in sharp contrast to the usual explanation of inflation illusion.

Is Momentum Really Momentum? International Evidence

Qiang Gong
Southwestern University of Finance and Economics, China
qgong@swufe.edu.cn

Ming Liu
International University of Japan, Japan
mliu@iuj.ac.jp

Qianqiu Liu
University of Hawaii, United States
qianqiu@hawaii.edu

Abstract

Novy-Marx (2010) finds that momentum is primarily driven by stock performance twelve to seven months prior to portfolio formation in the US market. We examine whether this finding holds in international stock markets. In particular, we investigate whether intermediate horizon past performance is more dominant than 52-week high momentum strategy and recent past performance with individual stock data in international markets. Our results indicate that the intermediate past, recent past, and the 52-week high momentum effects are prevalent in international markets. The intermediate horizon past performance during the last twelve to seven months dominates in most of the markets studied. The 52-week high momentum and the recent past performance during the last six to two months are highly correlated. However, they are not as important as stock performance during the last twelve to seven months.

Does Cognitive Limitation Affect Investor Behavior and Performance? Evidence from Limit Order Clustering

Wei-yu Kuo
National Chengchi University, Taiwan
wkuo@nccu.edu.tw

Tse-chun Lin
The University of Hong Kong, Hong Kong
tsechunlin@hku.hk

Jing Zhao
The University of Hong Kong, Hong Kong
zhj8834@hku.hk

Abstract

We investigate the effect of cognitive limitation on investment behavior and investor performance. We hypothesize that the cognitive limitation of investors could be manifested by disproportional large amount of limit orders submitted at round numbers if they use these numbers as cognitive shortcut to save energy from extensive algorithmic processing. Analyzing over 200 million detailed records of trades and quotes in Taiwan Futures Exchange, we document a strong and persistent pattern of limit order clustering at round number prices. The most frequent limit order prices are multiples of a hundred, followed by multiples of fifty, and then multiples of ten. The limit order clustering phenomenon is more pronounced among individual investors. Moreover, using the proportion of orders submitted at round number prices as a proxy for the level of an investor’s cognitive limitation, we find that individual investors that are cognitively more constrained suffer from greater losses in their investments. Finally, we find that past trading experience, proxied by number of limit orders submitted, helps to mitigate the cognitive limitation.

Risk-Taking Behavior of Privatized Banks

Sana Mohsni
Carleton University, Canada
sana_mohsni@carleton.ca

Isaac Otchere
Carleton University, Canada
isaac_otchere@carleton.ca

Abstract

This paper examines the risk-taking behavior of privatized banks prior to and after privatization. We find that privatized banks experience a significant decrease in risk after privatization although they still exhibit higher risks than rivals. The results are robust to different measures of risk. This finding is consistent with the assertion that following the removal of government implicit guarantee and subsidies and, perhaps, the reduction in lending to state owned enterprises, privatized banks become more prudent. Since rival banks do not experience significant change in risk taking, we conclude that the reduction in risk experienced by the privatized banks cannot be attributed to the changing market structure. Rather, it is the bank's ownership structure that affects its risk-taking behavior. Regression analysis indicates that banks privatized through share issue privatization exhibit higher risk than those privatized through asset sale. The risk taking behavior of newly-privatized banks is also influenced by other factors such as: the speed at which the firm becomes fully privatized, the level of the country's development, and the country's legal system.

Protection of Investments by Protection Against Trademark Dilution - The Legal Framework in the International Trademark Law, Trademark Law of the European Union and Trademark Law of the South East Europe Countries

Jadranka Dabovic Anastasovska
Faculty of Law "Iustinianus Primus", University "Ss. Cyril and Methodious", Macedonia
jadranka_dab@yahoo.com

Neda Zdraveva
Faculty of Law "Iustinianus Primus", University "Ss. Cyril and Methodious", Macedonia
neda.zdraveva@gmail.com

Abstract

In this paper we argue that the clear legal picture of what trademark dilution is essential for the protection of the economic interests of the trademark owners. For this purpose we review the process of branding and the role of the trademark in such processes. Further, we focus on the concept of the trademark dilution taking the US legislation and theory as starting point as there explicit antidilution rules exist. Based on that we review and analyze how this concept is treated in the international and EU intellectual property/trademark law. Last, but not the least, we take a look at the legal standing in the South-Eastern European countries in regard to trademark dilution. We conclude that the international law and the EU legislation provide for protection against dilution, although the rules are not particularly clear. The legislation of the SEE countries analyzed also provides for such protection, however here room for improvement may be found as well.

A New Survey of Micro-Enterprises and Their Finance

Ying Lowrey
Tsinghua University, China
ying-lowrey@mail.tsinghua.edu.cn

David Liu
CreditEase Group, China
daweiliu@creditease.cn

Abstract

To better understand the status of micro enterprises and their needs for finance, CreditEase Group collaborated with members of Students in Free Enterprise (SIFE) from China's more than 60 universities and completed a survey of micro-enterprises and their finance. This paper provides preliminary review on the survey data. In order to assess the quality of the survey, this paper compares findings from the survey and that of 2007 Survey of Business Owners (SBO) conducted by the U.S. Census Bureau. Despite we are still in the process of data cleaning and exploring, preliminary findings showed strong similarity with findings from the 2007 SBO for the data we examined. The survey was experimental and sampling was not based on statistical population. Therefore, the current study does not mean to extrapolate to the whole nation. At the same time, the sample was locally representative; it is useful for researchers to investigate several specific markets where micro-enterprises and microfinance have been active. With the deepening of China's economic development and growth, a rapid growth of micro-enterprises and microfinance enterprises are foreseeable. A well constructed database will be timely for embracing the new energy brought by these vibrant micro-enterprises and microfinance enterprises.

The Effects of Political Insitutions and Economic Institutions in A Transitory Economy: Evidence from the Going Public Process in China

Bill Francis
Rensselear Polytechnic Institute, United States
francb@rpi.edu

Iftekhar Hasan
Fordham University, United States
ihasan@rpi.edu

Xian Sun
Johns Hopkins University, United States
xian.sun@jhu.edu

Mingming Zhou
University of Colorado Colorado Springs, United States
mzhou@uccs.edu

Abstract

Using provincial data on political pluralism, expropriation risk, the rule of law, property rights, and law enforcement as proxies for local political and legal institutional development in China, this paper tests the hypotheses of the hierarchy of the institutions when the level of government intervention on economic activities varies. We find a strong association between the quality of the political institutions and the demand for initial public offerings (IPOs), its underpricing and long-run return, as well as the fixed cost of going public by local firms during the highly regulated period, suggesting the determining role of the quality of the political institutions when the government intervention is high. In contrast, legal institutions are particularly significant during the low regulation period, consistent with the conventional framework of the hierarchy of the institutions in a market economy, in which economic institutions shape the economic outcome. In addition, the paper reveals that there are significant collective effects among those institutions. Specifically, the quality of political institutions is fundamental because this quality substitutes weak legal institutions and complements strong ones. Legal institutions, on the other hand, complement other institutions but do not make up for the deficiencies of weak ones.

Credit-induced Inflation: Behavior Study of Banks

Ianping Ding
Shanghai University of Finance and Economics, China
yiqiao71@mail.shufe.edu.cn

Jianfang Zhou
Hangzhou Normal University, China
lukazhou520@163.com

Songhua Wang
Shanghai TV University, China
wangsh@shtvu.edu.cn

Abstract

Although the inflation is frequently studied by using macro data, this paper intends to explore the same subject by applying data from the banks' balance sheet. The inflation is triggered by banks' credit, which can be supported by market micro-structure and allocation effect of monetary policy. The empirical results do find that among other things the credit exerts the most significant impact on the inflation by adopting Bootstrap and 2SLS methodology to the quarterly panel data with 14 banks between 2007-2011. The dummy variable of state-own banks with their scale has a positive impact on the inflation since their total assets and scale dominate in credit components. Whereas the dummy variable of city-banks has a negative impact on the inflation only because they are subject to the policy restriction. This can be found by the volatility their credit component. The dummy variable of stock-banks goes between the former two, and is not statistically significant due to big variance within the group. They can expand credit by varying core capital and supplementary capital. All in all, total asset and scale prevail for the big banks, and capital adequacy ratio binds the smaller banks among the factors affecting inflation.

An Anatomy of Fundamental Indexing

Lieven Demoor
KULeuven and HUBrussel, Belgium
lieven.demoor@hubrussel.be

Fang Liu
Central University for Finance and Economics, China
iu@cufe.edu.cn

Piet Sercu
KULeuven, Belgium
piet.sercu@econ.kuleuven.be

Tom Vinaimont
City University of Hong Kong, Hong Kong
eftomv@cityu.edu.hk

Abstract

Adherents of Fundamental Indexing (FI) suggest that it is more pro table to base portfolio weights on indirectly size-related indicators like accounting data rather than directly on market caps. In noisy markets a la Roll (1984), it is argued, underpriced stocks overperform but are underweighted and vice versa, implying a `drag' which FI claims to avoid. Mixed into the debate is the question whether mispricing is partly identi fiable or not, i.e. whether a policy of actively increasing the small-cap weights and vv helps. Carhart style regressions are unable to explain the extra return, but that conclusion is not robust across variant models, and there are substantial doubts about the constantness of factor sensitivities. We investigate the latter issue via cross-sectional regression of weight shifts, and fi nd that not only the weight shifts are much larger than necessary to avoid drag, but the cross-sectional patterns are also quite variable over time. In short, there are style shifts and they are unstable.To estimate the benefi ts from drag avoidance, purged of style shifts without having to rely on generalized FF regressions, our procedure is to sort stocks on size into vigintiles, and compare within each vigintile the performance of FI-weighted returns to equally-weighted (EW) returns, which should be immune to drag too without much style shift. We find that within-vigintile EW portfolios are style neutral w.r.t. market and value, and do not meaningfully outperform VW portfolios. Thus, avoiding drag is not why FI does well: drag is empirically unimportant. Most or all of the prima facie benefits must be from time-varying style shifts.

Gross Capital Flows: Dynamics and Crises

Fernando Broner
CREI and Universitat Pompeu Fabra, Spain
fbroner@crei.cat

Tatiana Didier
World Bank, United States
tdidier@worldbank.org

Aitor Erce
Bank of Spain, Spain
aerce@bde.es

Sergio Schmukler
World Bank, United States
sschmukler@worldbank.org

Abstract

This paper analyzes the behavior of international capital flows by foreign and domestic agents, dubbed gross capital flows, over the business cycle and during financial crises. We show that gross capital flows are very large and volatile, especially relative to net capital flows. When foreigners invest in a country, domestic agents tend to invest abroad, and vice versa. Gross capital flows are also pro-cyclical, with foreigners investing more in the country and domestic agents investing more abroad during expansions. During crises, especially during severe ones, there is a collapse in total gross flows and retrenchment, that is, a reduction in both capital inflows by foreigners and capital outflows by domestic agents. This evidence sheds light on the nature of shocks driving capital flows and helps discriminate among existing theories. Our findings seem consistent with shocks that affect foreign and domestic agents asymmetrically, such as sovereign risk and asymmetric information.

A Study of Sovereign Risk, Using Contigent Claims Analysis

Moisa Altar
Romanian-American University-Bucharest, Romania
altarm@gmail.com

Judita Samuel
Romanian-American University-Bucharest, Romania
jsamuel47@yahoo.com

Adam Altar-Samuel
Romanian-American University-Buchares, Romania
adamalt@gmail.com

Abstract

The recent crisis demonstrated how rapidly financial distress can be transmitted to the domestic economy and across borders. Credit has played a key role in the transmission of financial distress to the broader economy, consistent with evidence from the literature. Indeed, studies by Gilchrist et al (2009), Marcucci and Quagliariello (2008), Jacobson et al, 2005, and Carlson et al (2008) show that the credit channel is the main channel of transmission of financial distress, the strength of which hinges on that of the financial accelerator—the extent to which borrowing costs depend on the external finance premium that reflects borrowers' net worth (Bernanke and Gertler, 1995; Bernanke, Gertler and Gilchrist, 1999; and Kiyotaki and Moore, 1997). This paper describes a framework for analyzing a country's exposure to macroeconomic risks, based on the theory and practice of contingent claims analysis(CCA). The CCA analysis is an integrated framework relating bank asset values to equity value, default risk, and bank funding costs.The systemic contingent claims analysis ('Systemic CCA') framework helps quantify the magnitude of general solvency risk and government contingent liabilities by combining the individual risk-adjusted balance sheets of financial institutions and the dependence between them. The Systemic CCA applied to the financial sector delivers useful insights about the magnitude of systemic losses and potential public sector costs from market-implied contingent liabilities.In this paper, we highlight the fact that a number of core indicators deduced by applying CCA methodology, such as probability of default, loss given default and debt spread depend on three parameters, namely the asset return volatility, the indebtedness (the debt ratio) and the time until maturity. The paper insists on the need for sensitivity calculation for the core indicators. Thus, for the case when the debt ratio is greater than 1,we find a strange behavior of the probability of default with respect to asset return volatility, as well as with respect to time until maturity. The probability of default decreases until a given value of the volatility (or of time to maturity, respectively), then it starts to increase.

Performance of Mergers and Acquisition: Indian Banking Sector

Salimuddin Dewan
ICFAI Business School, Ahmedabad, India
dewan.salim@gmail.com

Abstract

In today's global economy, Mergers and Acquisition are being increasingly used world over as a strategy for achieving larger size and faster growth in market share and reach, and to become more competitive through economies of scale. This research study aims to study the impact of mergers on the operating performance of acquiring corporate in different periods in Indian banking sector, after the announcement of industrial reforms by examining some pre- merger and post- merger financial ratios with chosen sample firms. The results will suggest that there are minor variations in terms of impact on operating performance following mergers in different intervals of time in India. The benefits of mergers are visible only in the form of increased size and improved interest coverage ratio. Regression analysis will show that current ratio, debt – equity ratio, size are negatively related to profitability , where as interest coverage ratio and age affect profitability positively. .

Volatility Study of Indian Stock Market During Its Post Derivative Period

Padmabati Gahan Gahan
Sambalpur University, India
p.gahan@rediffmail.com

Jibendu Kumar Mantri Mantri
North Orissa University, India
jkmantri@gmail.com

Jayant Kumar Parida Parida
Utkal University, India
jayantakp@yahoo.co.in

Pradipta K Sanyal Sanyal
Deptt of Business Management,EIILM,Kolkota, India
sanyalpradipta@yahoo.co.in

Abstract

The financial derivatives like options and futures have been introduced in the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) of India since June 2000.The large number of investors find the derivatives attractive due to their low price and low transaction costs as compared to the underplaying financial assets spot market in order to derive leverage in the benefits, asymmetric returns and hedge the systematic risks of the underling portfolio of assets. Because of the large scale participation of traders in derivative markets, the informational efficiency of the spot market rises and therefore, true prices of the assets are discovered. As a result, the volatility in the spot market becomes moderate. The present paper is taken up to study the volatility pattern of BSE Sensitive Index (Sensex) and NSE Nifty (Nifty) during the post derivative period. The various volatility models have been developed in the present study to get the approximately best estimates of volatility by recognizing the stylized features of Stock market data like heteroscedasticity, clustering, asymmetry autoregressive and persistence. Finally, MA (q,p), GARCH (q, p), EGARCH (q, p) and IGARCH (q, p) have been employed for the calculation of volatility in Sensex and Nifty during pre-derivative period, past-derivative period and whole period of study. When compared, it is found that there is difference between the volatility of pre and post derivative period. Conditional volatility determined under all the models for Sensex and Nifty are found to be less in post derivative period than that of the post derivative period.

Multiplicative Model of Countercyclical Capital Buffer Evaluation Differentiated by Homogeneous Clusters of Countries

Fuad Aleskerov
National Research University Higher School of Economics, Russia
Fuad Aleskerov [fa201204@gmail.com]

Henry Penikas
National Research University Higher School of Economics, Russia
Penikas@gmail.com

Azamat Keskinbayev
National Research University Higher School of Economics, Russia
keskinbayev.a@gmail.com

Abstract

Basel Committee introduced countercyclical capital buffer to mitigate the effects of bank capital procyclicality, i.e. the decrease in the banks' capital adequacy in the downturn times. The ratio of loans to GDP was taken as the proxy for the economic cycle signaling variable. Nevertheless Repullo and Saurina in 2011 have proved that credit-to-GDP is not as good at predicting the stage of economic cycle, as the GDP growth rate. They proposed a theoretical framework for capital buffer calculation based GDP growth rate dynamics.Current paper extends the countercyclical capital buffer analysis in two dimensions. Primarily, empirical criteria to implement Repullo and Saurina's idea is proposed and justified. Secondly, the countercyclical capital buffer parameter (alpha) is differentiated by clusters of countries displaying homogeneous patterns of macroeconomic variables dynamics. Finally, the countercyclical capital buffers based on Basel Committee approach and Repullo and Saurina idea are compared.

Stock Market Liquidity and Bond Risk Premia

Kees Bouwman
Erasmus University, Netherlands
kbouwman@ese.eur.nl

Elvira Sojli
Erasmus University, Netherlands
esojli@rsm.nl

Wing Wah Tham
Erasmus University, Netherlands
tham@ese.eur.nl

Abstract

We assess the effect of stock market liquidity on U.S. bond risk premia. We find that stock market liquidity adds to the well established Cochrane-Piazzesi and Ludvigson-Ng factors. It explains 10%, 9%, 7%, and 7% of the one-year-ahead variation in the excess return for two-, three-, four-, and five-year bonds respectively and increases the adjusted R2 by 3-6% across all maturities over Cochrane and Piazzesi (2005) and Ludvigson and Ng (2009) factors. The effects are highly statistically and economically significant both in and out of sample. We argue that stock market liquidity is a more timely variable that captures uncertainty in investors' preferences and might contain information about expected future business conditions through the investment channel.

An Empirical Bond Portfolio Study:Evidence from the Asian Emerging Bond Market

Jinghua Wang
Illinois Institute of Technology, United States
carolyn.edu@gmail.com

John Bilson
Illinois Institute of Technology, United States

Abstract

Investors and researchers have been paying more attention to the Asian Emerging Market (AEM) bond since the end of 2007 after the financial recession started. This research indentifies the linkages and leverages of government bond portfolios between the Developed Markets (DMs) and the Asian Emerging Market. The study verifies the superior returns of global bond portfolios by using a Kalman Filter based model that can be used in conjunction with the mean-variance theory for bond portfolio optimization. We explore global portfolio opportunities for investors in the DMs, with or without the AEM, and verify the influence of global investment on the performance of bond portfolios. The Kalman filter is applied in this framework to estimate the time-varying coefficients. The empirical results prove the bond portfolio achieves a better performance when the AEM was added into the DMs.

Commodity Price and Exchange Rate Dynamics: Australia and New Zealand Evidences

Xiaoming Li
Massey University, Albany Campus, New Zealand

Liping zou
Massey University, Albany Campus, New Zealand
L.Zou@massey.ac.nz

Hao Zhu
Massey University, Albnay Campus, New Zealand

Abstract

This paper investigates the dynamic relationship between the commodity price and the exchange rate in Australia and New Zealand. We focus on Australia and New Zealand, not only do their primary commodities account for significant shares of their exports, but also their currencies share some distinctive characteristics that are unique from other commodity currencies. Using country-specific commodity prices indices, we examine the relationship between the departure from the currency's fair value and fundamental macroeconomic variables. Evidence of a strong and robust relationship between nominal exchange rates (both direct quoted rate against USD and cross-quoted) and the commodity price is found. For the NZD/AUD cross rate, results indicate that the commodity price can be used to improve the forecast ability of the future exchange rate. The commodity-price-augmented exchange rate forecasting model developed in our study consistently out-performs the random-walk model, for both in-sample and out-of-sample exchange rate forecasting. These results provide some implications in policymaking for nations that heavily rely on primary commodity production, and attempt to develop the capital market liberalization by moving towards floating exchange rate regime.

Tunneling or Alignment? The Interaction between Shareholding Ratios, Control Shareholders Behavior and Firm Performance in a Transitional Economy - Evidence from China

Crystal Xiaobei Chen
Northeastern Illinois University, United States
x-chen1@neiu.edu

Shanmin Li
Sun Yat-sen University, China
mnslsm@mail.sysu.edu.cn

Chloe Wenting Chen
Sun Yat-sen University, China
chloe8488@gmail.com

Abstract

We study the three way dynamic relationship between the shareholding ratio of the control shareholders, the tunneling behavior and the firm performance in a transitional developing market. We examine China's control transfer events during from 2001 to 2008, and our major findings are: (1) Before control transfer, the shareholding ratio and tunneling of China's public company's largest shareholders show an inverse N-shaped relationship; (2) After control transfer, for the bad bids sample, the shareholding ratio and tunneling of largest shareholders show an N-shaped relationship; (3) After control transfer, for the good bids sample, the shareholding ratio and tunneling of largest shareholders show an inverse N-shaped relationship. We also find the mean of tunneling is maximal when the shareholding ratio ranges from 28% to 31%, and the tunneling behavior of largest shareholder gradually reduced after control transfer.

Do Firms Replenish Executives' Incentives After Equity Sales?

Tomislav Ladika
Brown University, United States
tomislav.ladika@gmail.com

Abstract

Boards grant executives equity to align their incentives with those of shareholders. Yet executive equity sales are common --- 60 percent of executives sell firm equity during their tenure --- and can cause an executive's holdings in the firm to become suboptimally low. I empirically examine whether boards restore a selling executive's incentives by shifting the composition of his subsequent pay toward more equity. Firm-level changes can cause executives to sell equity and simultaneously reduce their need for incentives. I account for such variables by comparing executives who sell equity to other top executives at the same firm who do not sell. I find that boards grant similar pay to selling and non-selling executives at the same firm, and replenish at most 10 percent of incentives lost due to a sale. This result is robust to a variety of additional reasons why the board may want a selling executive to own less equity, such as changes in the board's information about the executive or shocks to the executive's wealth. My paper suggests that boards do not maintain executives' incentives at an optimal level, as predicted by efficient contracting theory.

The Use of Warrants in Non-Underwritten IPOs

Arif Khurshed
Manchester Business School, United Kingdom
Arif.khurshed@mbs.ac.uk

Dimitris Kostas
Manchester Business School, United Kingdom
Dimitris.Kostas@postgrad.mbs.ac.uk

Brahim Saadouni
Manchester Business School, United Kingdom
Brahim.Saadouni@mbs.ac.uk

Abstract

We examine the use of warrants as part of the brokers compensation package on IPOs listed on AIM over the period January 1996 to December 2008. The findings suggest that companies listed on AIM cannot choose the contract that minimises their cost. This is in contrast to Dunbar (1995) and Ng and Smith (1996) who found supporting evidence of the cost minimisation/net proceeds maximisation hypothesis. In addition, riskier firms that decide to raise capital through an IPO will incur higher flotation costs (such as commission, corporate broking fee and warrants), regardless of the reputation of the broker.

Inflation-linked bonds and China's pension reform

Peng Huang
Boston University, United States
penhuang@bu.edu

Abstract

As the problem of aging population becomes increasing serious for China, the problems associated with the current Chinese pension system have also drawn increasing attention in recent years. There are several obvious problems. The current system, for example, provides pensioners little protection against inflation. The management of the current system is inefficient. Furthermore, distorted incentives in the system, which have led to the failure of previous pension reforms, still exist. This paper summarizes the current problems of China’s pension reform and also provides proposals so as to find ways to improve the conditions of Chinese pensioners. I argue that one thing the government could do is to issue inflation-linked bonds, which can provide a solid hedge against inflation risks and thus provide important protections for pensioners. Drawing on the lessons of Chile’s pension reform in 1980s, such bonds might also provide better incentives to manage the pension system transition.

The Acquirer Characteristics, Information Asymmetry and their Influences of Method of Payment of Chinese Domestic Acquirers

Agyenim Boateng
University of Nottingham, China, China
agyenim.boateng@nottingham.edu.cn

Xiaogang Bi
University of Nottingham, China, China
x.Bi@Nottingham.edu.cn

Abstract

This study examines the effects of acquirer characteristics, information asymmetry on method of payment of Chinese acquirers based on a sample of 1370 mergers and acquisitions that occur between 1998 -2008. Using both Buy and Hold Abnormal Returns (BHAR) and Calendar Time Abnormal Returns (CTAR) approaches, we find that Chinese acquirers experience pre-acquisition abnormal returns ranging from 14.29%-121% over the period 12-36 months prior to the acquisition relative to 3 different portfolio benchmarks. In the pre-bid period, acquisitions financed by shares outperform acquisitions financed by cash. However, in the post-acquisition period, we document no significant difference between cash- and equity-financed acquisitions. We document a number of factors that determine the method of payment by Chinese acquirers: acquirer market value, Tobin's Q, state ownership and leverage have significant effects on the method of payment.

The General Equilibrium Framework with Default and Collateral

Ricardo Luis Chaves Feijó
University of Sao Paulo, Ribeirao Preto, Brazil
riccfeij@usp.br

Abstract

The paper proposes a survey about the recent development of the frontier of a research program which has as subject-matter the proofs of general equilibrium of the incomplete security markets. For this the exposition strategy consists in adopting an explanation, technical but not only mathematical, of the land crossing by theoretician of pure general equilibrium since the model sent as legate by Arrow-Debreu and after then by Radner. If fact, the sequential models of general equilibrium are the beginning of the path that results into the recent model which combines the older models, which demonstrated equilibria by artificial assumption about debt constraints, with a most penetrating analysis of default and the role of collateral. We show that these models do not make most restrictive hypotheses than the previous one, indeed they have the advantage that an actual mechanism like the collateral can characterizing the convergence of the markets, besides resulting in more efficiency. A large family of papers is carefully analyzed and we show clearly the scope of each. A list of the main theorems proved by this literature is commented on the final part of this paper.

Accounting Disclosure Quality, Cost of Capital and Interrelated Firm Effects

Weiyi Cynthia Cai
Monash University, Australia
cynthia.cai@monash.edu

Abstract

This paper investigates the relation between disclosure quality and cost of capital in the presence of an interrelated firm. Previous studies suggest that disclosure quality monotonically reduces cost of capital if a firm has a constant investment level; that is, the disclosing firm is in a pure exchange economy. However, this paper shows that this notion is not always valid: the relation between disclosure quality and cost of capital is more subtle. In a production-based economy, disclosure quality has both an informational effect and a production effect on a firm's cost of capital. Given a positive correlation between two firms, the informational and the production effect invariably affect a disclosing firm's cost of capital in opposite ways. Even when disclosure does not change a disclosing firm's own investment decisions, there are possibilities that disclosure quality affect the firm's cost of capital in a detrimental way where interrelated firms are priced in a capital market that values diversification.

Financial Dependence, Capital Markets Concentration and Economic Growth in Emerging Economies

Tatiana Didier
World Bank, United States
tdidier@worldbank.org

Andres Schneider
World Bank, United States
andres.m.schneider@gmail.com

Abstract

This paper studies the relationship between concentration in capital markets, that is, how widespread is the use of equity and bond markets by the private sector, and economic growth in emerging economies. Following the methodology put forward in Rajan and Zingales (1998), we analyze the extent to which the industries with greater financial needs grow disproportionally more in countries with less concentrated capital markets. We find that the concentration of capital markets is in fact a very important factor underlying the financial development and growth dynamics. There are nonetheless some important differences in how concentration affects economic growth between equity and bond markets. If the focus is on equity markets, the inclusion of market concentration renders market size no longer statistically significant. Moreover, similar results are obtained when concentration in trading activity in equity markets is evaluated. In contrast, bond market capitalization is found to still have a positive and statistically significant affect in growth outcomes, while concentration in bond markets leads to negative effects.

An Analysis of Efficiency in the Jordanian Banking Sector

Rami Zeitun
Qatar University, Qatar
rami.zeitun@qu.edu.qa

Abstract

The objective of this paper is to measure and evaluate the relative efficiency of the Jordanian banks over the period 1998-2005. The measurement of efficiency is estimated using Data Envelopment Analysis (DEA). DEA was introduced by Charnes et al (1978). The purpose of DEA is to measure the relative efficiency and productivity of decision-making units (DMUs) among similar banks'. our sample contains 12 banks, two of them are Islamic banks. technical efficiency, pure efficiency and scale efficiency were used to evaluate the relative efficiency of Jordanian Banks using annual data from 1998 through 2005. The study show that, on the technical efficiency scale Jordanian banks were inefficient in managing their financial resources and generating profit (income). Furthermore, only few banks found to be efficient on the scale of pure technical efficiency and in few years. These findings can be used by the regulators, policy makers and banks management to further investigate the reasons behind the inefficient DMUs.

Corporate Governance and Seasoned Equity Offerings: Offer Methods and Flotation Costs

Hardjo Koerniadi
AUT University, New Zealand
hardjo.koerniadi@aut.ac.nz

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

Lau Sie Ting
Nanyang Technological University, Singapore

Ting Yang
AUT University, New Zealand
ting.yang@aut.ac.nz

Alireza Tourani-Rad
AUT University, New Zealand
atourani@aut.ac.nz?

Abstract

In this paper, we examine whether there is a relationship between the internal corporate governance of a firm and the method by which seasoned equity offerings are made. Extant research posits the view that firms offering equity securities via shelf offerings suffer from an under-certification problem. This is due to the fact that equity issued under shelf offerings is often offered at short notice giving investment bankers inadequate time to conduct due diligence. We suggest that firms may self-certify their quality by pursuing high standards of internal corporate governance. Our empirical evidence supports this view. We also examine whether corporate governance quality influences the issuer's decision to use the now widely prevalent accelerated offers method of issuing SEOs. Our empirical evidence supports the view that well-governed firms tend to issue accelerated offers as compared to poorly governed firms. Furthermore, we also examine whether flotation costs are influenced by a firm's internal corporate governance. We find that flotation costs are significantly lower for firms with good governance after controlling for other determinants of flotation costs.

Power Struggles, Tunneling Incentives, and Investment Efficiency in Diversified Business Groups

V. Ravi Anshuman
Indian Institute of Management Bangalore, India
anshuman@iimb.ernet.in

Nivedita Sinha
Indian Institute of Management Bangalore, India
niveditasinha07@iimb.ernet.in

Abstract

Unlike conglomerates in the U.S., where investment flows may be distorted due to power struggles (Rajan, Servaes, and Zingales (2000)), we find that diversified business groups in India, on average, invest efficiently. Our analysis controls for the possibility of tunneling (Bertrand, Mehta, and Mullainathan (2002)) and examines firm level as well as group level investment flows. At the firm level, we find that investment flows are consistent with the Efficient Internal Capital Markets Hypothesis and incentives for investment distortion due to power struggles do not exist. We also find that investment flow (in the "right direction") increases with diversity in resource-weighted opportunities among those group-firms that have high resources attached to them, suggesting that the allocation of resources is consistent with the Efficient Internal Capital Markets Hypothesis where it matters more. At the firm level, we also find that investments flow from group-firms where the controlling family holds low cash flow rights to firms where the controlling family holds high cash flow rights suggesting tunneling. However, we find that it is only in the group-firms with low growth opportunities that investment flows are related to diversity in cash flow rights, as predicted by the Tunneling Hypothesis. Again, where it matters more (group-firms with high growth opportunities) investment decision making in business groups is consistent with the Efficient Internal Capital Markets Hypothesis. We also find that the presence of relational contracts in business groups mitigates the adverse effects of tunneling incentives, consistent with the internal governance argument in Acharya, Myers, and Rajan (2011). Overall at the group level, our results suggest that investment distortions due to power struggles and tunneling are swamped by efficiency considerations, and investment decisions in diversified business groups are largely consistent with Efficient Internal Capital Markets Hypothesis.

Investor Sentiment and the Fragility of Liquidity

Chunmei Lin
National University of Singapore, Singapore
g0700584@nus.edu.sg

Abstract

This paper studies the relationship between investor sentiment and the fragility of liquidity: the property that a small funding shock to the investors' capital can lead to a large jump in stock illiquidity. I argue that investors' negative sentiment plays an important role in amplifying the market liquidity impact of funding shocks to investors. I test this hypothesis using data on monthly outflows from mutual fund investors of a large cross-section of US stocks over the period 1991-2009. I define the variable OutFlow to present the percent of the shares of a given stock owned by mutual funds that is subjected to mutual fund outflows. Using a vector autoregression (VAR) framework, I find that an OutFlow equivalent to 1% of a stock's market value leads to a 22% increase in Amihud illiquidity. Given the same level of mutual fund outflows, a one-standard-deviation increase in negative sentiment leads to an additional 33% jump in illiquidity. In the cross-section of stocks, liquidity is more fragile among stocks which are more sensitive to shifts in investor sentiment. Furthermore, I find economically significant returns for liquidity provision during periods of negative sentiment.

Liquidity Variation and the Cross-Section of Stock Returns

FANGJIAN FU
SINGAPORE MANAGEMENT UNIVERSITY, Singapore
fjfu@smu.edu.sg

Wenjin Kang
National University of Singapore, Singapore
bizkwj@nus.edu.sg

Yuping Shao
National University of Singapore, Singapore
yuping.shao@nus.edu.sg

Abstract

Stock liquidity varies substantially over time. A significant decrease in liquidity is often followed by a sizable rebound, and vice versa. The month-to-month liquidity change predicts the cross-sectional stock returns in the following month. Caeteris paribus, a liquidity decrease predicts a low return and a liquidity increase predicts a high return. The results are not explained by other cross-sectional return determinants including the liquidity level. The results are consistent with the mean-reverting nature of liquidity and its variation being priced. A liquidity reduction predicts an expected liquidity increase and thus a lower expected return, and vice versa. Our research suggests liquidity variation as an important factor of asset pricing. Its effect is independent from the widely documented liquidity level effect.

Diversification in a small market: some evidence from Namibia

Udai Lal Paliwal
University of Namibia, Namibia
ulpaliwal@unam.na

Abstract

Maximizing returns and minimizing risk through diversification has been a popular topic in economics and finance research. Studies have shown that correlation among international portfolio returns increases during periods of turbulence in capital markets, meaning that benefits from international diversification are lost exactly when they are needed most (Bodie, Kane & Marcus, 2008). This and other similar findings pave the way for nontraditional diversification strategies. The present paper is an attempt to analyse portfolio returns and diversification benefits of including gold, bonds, real estate and stock in portfolio of a Namibian investor.

Does 2008 Global Financial Crisis Contagious?

Niyazi Berk
Bahcesehir, Turkey

Dina Cakmur Yildirtan
Marmara University, Turkey
dinacakmur@yahoo.com.tr

Ayse Gul Bolukbasi
Marmara University, Turkey

Abstract

Third Generation Crisis Models which is generated after the Asian Crisis tries to explain this contagion effects. The 2008 US mortgage crises, then European debt crises is become a global economic crises. In this study we aimed to identify the US roots of the current European Financial Crisis. We compared 10 countries with the US. These 11 countries can be grouped in two baskets. First group is BRIC counties (Brazil, Russia, India, and China) and second one is G7 countries (France, Germany, the UK, Italy, Japan Canada and the US). The study use the vector autoregressive models (VAR) through stock exchanges indices. To understand the direction of the contagions, we used Granger causality tests. We concluded that, among the studied countries stock exchange indices, the 2008 US financial crises has major contagion effects through stock exchange indices are on Canada, Germany and Italy stock markets.

VC Participation and the Performance of Chinese IPOs

Isaac Otchere
Carleton University, Canada
isaac_otchere@carleton.ca

Anna Vong
University of Macau, Hong Kong, Hong Kong
annavong@umac.mo

Abstract

Numerous studies have identified the value-added potential of venture capitalist to their portfolio companies in the initial public offerings, the post-issue operating performance and the long-run stock market performance. We empirically examine this phenomenon in China, where venture capital (VC) has become an increasingly important source of funding for small and medium-sized enterprises. By comparing the stock market performance and the operating performance of VC backed IPOs with a control sample of non-VC backed IPOs from 1991 through 2008 in China, we find that the presence of VC improves both the long-term stock performance and the post-IPO operating performance. The post-issue performance differential is observed for the early years of the IPOs, when the value-added VC monitoring is present, but as the VC exits and market monitoring takes over, the monitoring role of the VC diminishes. This study does not support the certification role of the VC at the time of the initial public offerings (IPOs), as the underpricing level of the VC backed group is comparable to that of the non-VC backed group, and the IPO cost for the VC backed group is significantly higher than for their counterparts. Nevertheless, additional analysis indicates that VC reputation is associated with lower underpricing level, suggesting that reputable (and presumably) experienced VCs use their expertise and influence to reduce underpricing.

Idiosyncratic Volatility and Cross-sectional Returns in the Chinese Stock Market

Gilbert Nartea
Lincoln University, New Zealand
gilbert.nartea@lincoln.ac.nz

Ji Wu
Lincoln University, New Zealand

Lee Yao
Loyola University New Orleans, United States

Abstract

We investigate relationship between idiosyncratic volatility and cross-sectional stock returns in the Chinese stock market over the period 1993:08 to 2007:12 using both portfolio-level analysis and firm-level cross-sectional regressions. We document a negative and significant relationship between realized idiosyncratic volatility and one-month ahead returns over the period 2004:02 to 2007:12, that is robust to controls for several variables including size, BM, momentum, reversal, illiquidity, number of zero volume trading days, closing price and skewness. Our results are consistent with studies suggesting that investors in mainland China tend to trade more heavily on riskier stocks and imply investor preference for high idiosyncratic volatility stocks.

An Empirical Analysis of the Volatile Stock Behavior at the event of Dividend Announcement: Evidence from Indian Capital Market (National Stock Exchange of India)

Kanwal Anil
School of Business Public Policy & Social Entrepreneurship ,Ambedkar University Delhi., India
kanwal.anil@yahoo.com

Rahul Grover
LBSIM, India
rahugr@gmail.com

Sudeep Sahu
LBSIM, India

Abstract

This research study analyses the impact of dividend announcement on company stock returns for 25 companies listed in five different indices (BANK-NIFTY, CNX-IT, CNX-FMCG, CNX-ENERGY and CNX-INFRA) on National Stock Exchange (NSE) i.e. the Indian Capital Market. The study has been conducted with the help of event study methodology for a window of 31 days in total. The study gives a comparative analysis of the stock returns behavior for 15 days before and 15 days after dividend announcement and also of the stock behavior with respect to the Market Index versus the Sector Index for all the companies. The present research is an attempt to provide an evidence of stock volatility around the dividend announcement day in the Indian Capital Market i.e. National Stock Exchange of India. From the analysis of the empirical results obtained, it may be concluded that there are abnormal stock returns for companies on the event of announcement of dividend which depicts the volatile stock behavior of investors and traders on the occurrence of this important corporate event of dividend announcement. The results highlight that the abnormal returns of not all the companies were significant but there were some companies which have consistently shown significant abnormal returns on announcement of dividends. The abnormal returns also varied from sector to sector as per the study results. Sectors like IT, FMCG and Banking did not depict any significant abnormal returns for many companies .At the same time Sectors like ENERGY and INFRA(Infrastructure) depicted that there were significant abnormal returns for many companies under these sectors during the 3 year period 2009-2011. A comparative analysis of CARs (Cumulative Abnormal Returns) & T-Statistic values for companies respective sector index and the market index (NIFTY) showed that most of the companies in the sectors like Banking, IT, FMCG and Energy were similar in terms of abnormal returns and stock volatility, but the results for INFRA sector differed from the Sector Index to the Market Index (NIFTY).

Half a Nation! - Financial inclusion lessons for India

Nazuk Kumar
Indian Institute of Technology, Delhi, India
nazuk17@gmail.com

Abstract

Today India may boast of 7-8% GDP growth but still 50% of the population lives below the international poverty line. The economic success of India is a representation of less than half the nation. Imagine the growth possible if the other half is integrated into the mainstream economy. Financial inclusion is the key for this. Here a cross-country comparison of different financial inclusion strategies has been made. Further results of a door-to-door survey carried out in three relatively prosperous villages in Panchkula district of Haryana have been presented. Right from the policy level the aim should be "usage" with better implementation and not mere "access". Tackling this a model for India has been suggested. The model has 5 chief points:Intergration with Poverty Alleviation Programmes;Financial literacy and awareness generation; Customization;Regulation and targets; Check mechanism;Financial inclusion is a crucial aspect of inclusive economic social development and an effective policy is a must.