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Financial Institution Objectives & Auto Loan Pricing: Evidence from the Survey of Consumer Finances

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Abstract

Prior studies of interest rate differentials between nonprofit credit unions (?financial cooperatives?) and for-profit commercial banks generally find that credit unions offer lower loan rates and higher deposit rates. However, these studies likely suffer from selection bias since they rely on data at the level of the financial institution or branch which cannot account for demand-side (individual or household) or loan-level characteristics. We use household-level data from the Survey of Consumer Finances from 2001 to 2016 to compare auto loan rates for households that borrow from credit unions, banks and other financial institutions (captive lenders and auto finance companies). This allows us to control for important household- and loan-level characteristics, such as income, net-worth, education, age, marital status, ethnicity, home ownership, employment status, prior bankruptcies and delinquencies, and loan term and amount. We find that?after accounting for these household- and loan-level characteristics, and loan origination year fixed effects?households that receive new auto loans from credit unions pay 0.75 percentage points less on interest rates for new vehicles?and 1.47 percentage points less on used vehicles?relative to households that receive auto loans from banks. The credit union-bank interest rate differential is generally smaller than naïve estimates using institution-level interest rate data, but remains statistically significant and economically meaningful. Households that use captive lenders and auto finance companies generally pay rates that fall between banks and credit unions for new vehicle loans, but pay the highest rates for used vehicles. We provide a back-of-the-envelope estimate of the aggregated savings to credit union members borrowing from credit unions relative to banks and find that the savings from auto loans alone are larger than the entire value of the estimated credit union tax exemption. Therefore, we argue that credit unions charge lower auto loan rates due to both lower income taxes and their member-oriented objectives as nonprofit cooperatives. We argue that alternative explanations for lower rates at credit unions?such as the extent of indirect auto lending, auto refinancing, informational advantages, and cross-subsidization across loan products and services?are unlikely to explain the results.

Credit Union and Bank Subprime Lending in the Great Recession

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Abstract

We develop a theoretical model that predicts that credit unions will offer relatively less risky loans (e.g., fewer ?subprime? mortgages) compared to similar commercial banks due to credit unions? focus on member utility as nonprofit financial cooperatives. The model also predicts that banks will increase subprime lending more than credit unions during economic expansions and decrease subprime lending more than credit unions during recessions. We use the financial crisis and Great Recession period of 2007 ? 2009 to test our model and find that, as predicted, commercial banks engaged in approximately five times more subprime lending relative to credit unions during the period leading up to the financial crisis (2003 ? 2006). Banks also had delinquency and charge-off rates that were two to three times higher during and immediately following the crisis. We also find that banks were about two-and-a-half times more likely to fail and were significantly more likely to receive TARP government assistance funds. The results are robust to controlling for important differences between credit unions and banks besides structure and incentives, including asset size, portfolio concentration, market share, earnings, liquidity, leverage, mortgages sold to the secondary market, core deposits, and state-level indicators of economic performance and housing prices. We argue that the findings explain why credit unions often appear more risk averse relative to commercial banks, and hold important implications for researchers, policymakers and regulators.

Is Sustainable Investing Driven by Altruism: Evidence from Substitutability with Philanthropy

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Abstract

We examine the response of charitable giving and sustainable investing flows to exogenous shocks to altruism. We find that while philanthropy responds strongly and significantly, sustainable investing flows do not. Our results contribute to understanding the channels behind sustainable investing and suggest that altruism is not as an important determinant as previously suggested.

The debt adjustments of family firm capital structure: The role of gender and succession

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Abstract

This study studies the role of gender in the financing behaviour of family firms (FF), as well as the succession phenomenon on the financing behaviour of FFs, considering the GMM system estimator to analyse a panel data sample of FFs. The results show that gender has influence on the FFs speed of adjustment of the actual debt level towards the target debt ratio. In addition, we observe that the speed of adjustment is lower for FFs with female ownership than for those with male ownership. Second and further generations influence positively the speed of adjustment towards the debt level of FFs. Moreover, the evidence shows that the effect of generational on the FF speed of adjustment towards the target debt ratio is faster in FFs with female ownership than in the ones that present male ownership. This study adds contribution on the role of gender and succession on FFs financing behaviour.

Insider trading, risk aversion, and gender

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Abstract

We provide comprehensive, gender-based estimates of the performance of primary insiders' non-routine trades on the Oslo Stock Exchange. Regardless of gender, the time-series of insider holdings fail to indicate that insiders "buy low and sell high". However, there is evidence that the dramatic increase in the network of female directors following Norway's 2005 board gender-balancing law has increased the market reaction to female insider purchases. Moreover, female insider purchases spike following the market crash in 2008, both absolutely and relative to male insiders, which contradicts the conventional view that females are more risk averse than males.

Distressed Firm Valuation: A Scenario Discounted Cash Flow Approach

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Abstract

Valuation of a distressed company is a very tricky issue, for which many approaches and methods have been provided by the literature. Unfortunately, many of the more suitable proposals from a theoretical point of view (i.e., those based on option pricing theory, and even integrated with game theory) are very difficult to apply to real cases. To face the many contingencies emerging in a real case valuation, a scenario discounted cash flow (SDCF) model is provided here. The focus is on companies at an advanced stage of distress, where their ability to operate as a going concern is in question, and maintenance or the recovery of business continuity requires significant interventions in the firm?s strategic, operational, and financial structure. In this context, SDCF, with a number of arrangements elaborated here, appears useful for valuing assets, debt, and equity - from current or potential new investors - and the interactions between them, which are particularly critical for distressed companies. At the same time, SDCF takes into account a firm?s liquidation option, not only at the valuation date but even after a restructuring plan has been launched. Going-concern value including the liquidation option should be the reference point for judging the suitability of business continuity compared to liquidation. In presenting the model, the key concepts and methodology adopted are set out following a numerical example inspired by a real case.

Systemic Risk in the Chinese Banking Sector

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Abstract

We examine the evolution of systemic risk in the Chinese banking sector over the last decade from the perspective of international investors. We apply the SRISK measure of systemic risk to a representative sample of listed Chinese institutions and utilize the Granger-causality network-based approach to demonstrate the extensive and complex interlinkages among Chinese banks beyond the largest nancial institutions. Firstly, we show and explain a dramatic increase in systemic risk after 2011. Then, we identify a common pattern between systemic risk and the booming Chinese housing market, as well as shadow banking activities, reminiscent of the US economy prior to the global nancial crisis. We also show that economic policy uncertainty and systemic risk are closely connected. According to our results, international concerns about the stability of the Chinese banking system are well justi ed and a systemic event with interna- tional impact could be caused by distress in a Chinese nancial institution outside of the group of the largest banks.We examine the evolution of systemic risk in the Chinese banking sector over the last decade from the perspective of international investors. We apply the SRISK measure of systemic risk to a representative sample of listed Chinese institutions and utilize the Granger-causality network-based approach to demonstrate the extensive and complex interlinkages among Chinese banks beyond the largest nancial institutions. Firstly, we show and explain a dramatic increase in systemic risk after 2011. Then, we identify a common pattern between systemic risk and the booming Chinese housing market, as well as shadow banking activities, reminiscent of the US economy prior to the global nancial crisis. We also show that economic policy uncertainty and systemic risk are closely connected. According to our results, international concerns about the stability of the Chinese banking system are well justi ed and a systemic event with interna- tional impact could be caused by distress in a Chinese nancial institution outside of the group of the largest banks.

Stock Picking with Machine Learning

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Abstract

We combine insights from machine learning and finance research to build machine learning algorithms for stock selection. Our study builds on weekly data for the historical constituents of the S&P 500 over the period from 1999 to 2019 and includes typical equity factors as well as additional fundamental data, technical indicators, and historical returns. Deep Neural Networks (DNN), Long Short-Term Neural Networks (LSTM), Random Forest, Boosting, and Regularized Logistic Regression models are trained on stock characteristics to predict whether a specific stock outperforms the market over the subsequent week. We analyze a trading strategy that picks stocks with the highest probability predictions to outperform the market. Our empirical results show a substantial and significant outperformance of machine learning based stock selection models compared to a simple equally weighted benchmark. Moreover, we find non-linear ma-chine learning models such as neural networks and tree-based models to outperform more simple regularized logistic regression approaches. The results are robust when applied to the STOXX Europe 600 as alternative asset universe. However, all analyzed machine learning strategies demonstrate a substantial portfolio turnover and transaction costs have to be marginal to capital-ize on the strategies.

EXECUTIVE COMPENSATION, FIRM PERFORMANCE AND OWNERSHIP STRUCTURE

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Abstract

Purpose- This study investigates relationship between executive compensation and 1) firm performance, and 2) ownership structure. Further pay-performance sensitivity and persistence in executive compensation in emerging economy is also analysed. The study also examines the impact of ownership concentration on executive compensation and relationship between firm performance and executive compensation. Design/methodology/approach- The pay-performance relationship was analysed for NSE 500 companies using the Panel fixed effects estimator and generalized method of moments (GMM) model, developed for dynamic panel estimation. Data for the study was extracted from PROWESSIQ and NSE INFOBASE and consist of 422 INDIAN firms. A ten-year data period was used for analysis from 2009 to 2018. Findings- Firm performance and firm size appeared to be significantly influencing executive compensation. Small boards positively influenced executive compensation whereas large independent boards negatively influenced executive compensation. Executive compensation was also observed to be influenced by past compensation. Ownership concentration by promoters negatively influences executive compensation whereas ownership concentration by non-promoters positively influences executive compensation. Originality/Value-There is very little research on the relationship between executive compensation and 1) firm performance, and 2) ownership structure in the emerging economies. This study is an attempt to model these important relationships in corporate finance in order to explain how executive compensation is determined in the emerging economies

Loan Funding to Female Entrepreneurs in North Africa: Self-selection vs. Discrimination

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Abstract

Is loan funding to female entrepreneurs in North Africa (Egypt, Morocco and Tunisia) a matter of self-selection from borrowers or discrimination from lenders? First, empirical literature review displays mixed evidence. Second, the sample of 3,896 businesses in the three North African countries drawn from the World Bank Enterprise Survey (WBES) includes some selection biases and overweighing; it provides descriptive statistics upon gender ownership and gender management regarding human capital characteristics and data on the finance issue. Third, two regression logistic models investigate loan demand and loan granting with respect to self-selection vs. discrimination. There is neither self-selection nor discrimination for female owners, whereas female managers do self-select themselves. However, the subsample of female owners and managers the WBES is strongly biased. Fourth, in order to overcome this selection bias, investigation is extended to the non-surveyed informal sector, which includes most businesses, and loan funding provided by the microfinance industry to these businesses in the three North African countries. Microfinance fills the gap for working capital but not for fixed assets.

ON THE FITTING OF THE TERM STRUCTURE SHORT-END

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Abstract

This paper evaluates the performance of two traditional term structure fitting models versus a modified version of the exponential flat forward. This modified version puts vertices at the dates of Central Bank Meeting, where they possibly change the target and consequently the short-term interest rate may jump. The resulting goodness-of-fit in pricing market contracts are significantly better than traditional Nelson-Siegel or Cubic Spline. The pricing errors are a fraction of the errors produced in the two other model. This new framework overcome and explain the very low accuracy of the traditional term structure fitting models at the short end of the yield curve. This new model provides a more realistic tool for bond?s mark to market and the impact of monetary policy on interest rates.

EFFECTS OF BANK CREDIT ON INDUSTRIAL PERFORMANCE IN TURKEY

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Abstract

The purpose of this article is to analyze whether state-equity bank group or private-equity bank group credits affect Industrial Production Index more in Turkey for the period from 2010:01-2019:06 and identify the banking sector total credit type (total credits, living loans, non-performing loans) that will be most affected. In order to arrive at a conclusion, the ARDL analyses from banking sector credits (total credits, living loans and non-performing loans) to net SME formation, from net SME formation to Industrial Production Index, and from Industrial Production Index to banking sector credits (total credits, living loans and non-performing loans) are performed. In addition, analyses for the credits of state-equity and private-equity bank groups are undertaken. Analyses show that private-equity bank group credits affect Industrial Production Index more positively than state-equity bank group credits. In addition, living loans of the banking sector, total credits of the banking sector, and non-performing loans of the banking sector affect Industrial Production Index positively (from more to less in the same order).

Better Fewer but Better. Stock Returns and the Financial Relevance and Financial Intensity of Materiality.

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Abstract

This paper investigates the role of the intensity and relevance of ESG materiality in equity returns. Adopting the classifications of materiality provided by the Sustainability Accounting Standards Board (SASB), the paper introduces the concept of the financial relevance and financial intensity of ESG materiality in order to estimate how it explains equity returns. The results of the analysis, based on a large sample of U.S. compa-nies included in the Russell 3000 from January 2008 to July 2019 show that not only do ESG rating chang-es (ESG momentum) have a consistent impact on equity performance, but also that the market seems to re-ward more those companies operating in industries with a high level of ESG materiality concentration. The implication is that the equity premium of listed companies is better explained by the concentration of mate-rial issues (i.e., the Gini index) than by the ESG momentum.

Understanding Volatility-Managed Portfolios

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Abstract

Contrary to the intuition that the standard risk-return tradeoff should lead to underperformance of a portfolio that scales down exposure during volatile periods a recent paper by Moreira and Muir (2017) actually shows that volatility-managed portfolios produce robust and significant alphas. The present paper investigates the mechanisms that lead to the outperformance of volatility management. By implementing timing regressions and relating returns of a volatility-managed portfolio to discount-rate, cash-flow and expected volatility news we provide evidence that volatility management outperforms by levering up good times without increasing downside exposure to fundamental risk drivers. On the contrary, during the most severe cumulative news shocks (either to cash flows, discount rates or expected volatility) the scaling strategy suffers less than the buy-and-hold portfolio and, thus, increases investor utility.

TERM STRUCTURE FITTING AND THE EXPECTATION HYPOTHESES: A STUDY FOR BRAZIL

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Abstract

This is the first Expectation Hypothesis Theory (EHT) study to address the problem of term structure fitting. Three different fitting models are used: flat forward, Nelson Siegel and Cubic Spline. The overall results regarding EHT do not differ from other studies, but we do find differences in the EHT tests for long term rate.

The Role of Competition on Equity Crowdfunding

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Abstract

Using a unique hand-collected database of 66.180 daily observations from 1,487 campaigns from the two major platforms of equity crowdfunding in the United Kingdom, between 2015 and 2018, we find that competition has a strong effect on the investment amount and number of investor that each campaign raises daily. Moreover, the relevant competitors are not only the campaigns running in the same platform and from the same industry but all the equity crowdfunding campaigns that are active in the market.

Banking Stability and Financial Freedom: Post reform Indian Banking.

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Abstract

Banks play an important role in the economy by providing essential financial services and thereby lead to contribute to economic growth. Financial liberalization in the banking sector aimed to increase the efficiency of the banks, improve the allocation of credits, stimulate savings, and, thereby improve higher economic growth. The impact of financial freedom or more liberalization on the stability of the bank?s performance is one of the most debated issues over the years. This paper aims to examine the relationship between financial freedom and stability of the bank?s solvency and performance in the Indian banking industry in the post-reform period. The study finds that financial freedom improves the financial stability of Indian Banks in the post-reform period and suggests policymakers to improve the prudential norms for a more efficient and liberalized banking environment.

Two proposals to resurrect the Banking Union: the Safe Portfolio Approach and SRB+

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Abstract

Nearly eight years after its inception, the European Banking Union is crumbling. None of its two stated objectives?breaking future contagion between banks and sovereigns, and creating a true single market for banks?have been achieved. In fact, the banking market is more fragmented now than it was at the inception of the Banking Union, as home and host regulators for cross-border European banks fight to ensure sufficient capital and liquidity in each market that a bank might operate in. The reason for this state of affairs is that, of the planned ?three pillar? structure of the Banking Union, only its ?first pillar? (the Single Supervisory Mechanism), is working smoothly. The ?second pillar?, the Single Resolution Mechanism, is being circumvented, along with the bank resolution framework, while Member States continue to spend taxpayer money to prevent investors from incurring losses. The ?third pillar?, a European deposit insurance, has been paralyzed for four years. This paper aims to provide a politically and economically viable path to revive our Banking Union. This path rests on two legs. First, creating a model ?Safe Portfolio? and incentivizing banks to move toward it. Such ?Safe Portfolio? would be the basis for a market-provided European Safe Asset without joint liability. Second, empowering the Single Resolution Board by reforming the resolution framework and setting up a European deposit insurance.

CEO generational differences, corporate leverage and political connections: Evidence from Malaysia

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Abstract

This paper examines the impact of generational differences between the Chief Executive Officer (CEO) with regards to corporate leverage. Further, we investigate whether this relationship is exacerbated or attenuated by political connections. Using a Malaysian dataset for the period 2005 to 2016, we find that CEO Builders (Generation X) are positively associated with corporate leverage, while no significant results are obtained for CEO Seekers (Baby Boomers). In addition, the positive association is exacerbated if the Gen X CEOs are connected to top politicians in Malaysia. Our additional analyses show that the results are largely driven by the duration of political connections and the ownership structure of the politically-connected firms. This suggests that heterogeneous political connections influence CEO Builders? decisions on corporate leverage.

Risk governance, risk-taking behavior and financial performance of the public commercial banks of OECD

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Abstract

Risk governance in banks has evidenced to become growing important theme over the past two decades. The process of risk governance involves identifying, assessing, managing and communicating risk. Appropriate risk governance in place is an essential way to prevent the major and wide negative consequences caused by excessive risk-taking by banks. Risk governance, in turn, substantiate stable, more foreseeable, economic development to investigate the impact of risk governance on the financial performance and risk-taking behavior of public commercial banks of OECD (Organization for Economic Cooperation and Development) specifically during and around the financial crises. Financial performance indicates an overall financial health of the banks where risk-taking behavior is an attitude of the banks towards uncertain future financial outcome. This research paper will cover the research gaps in risk governance which is especially significant during financial turmoil. Two major functions of risk governance that are (i) RC (Risk Committee) and (ii) CRO (Chief Risk Officer) are focused within this research. The RC and CRO are critical functions central to risk governance, however, joint analyses of these functions is absent within the internal risk governance of banking industry of OECD. The RC is essential for a bank to introduce, develop, and execute risk policies and diagnostics. Concurrently, the CRO exclusively steers the RC and risk related matters. Empirics of this research involve characteristics of RC including size, independence and expertise of the directors, and qualifications, experiences, and age of CRO. Initially, three hypotheses will test the importance of these characteristics. A reasonable portion of the data has already been collected. Risk governance regulations vary accordingly from country to country; hence, to standardize the risk governance regulations across the OECD a reference framework of IRGC (International Risk Governance Council) will be utilized. The outcome of this research will contribute to the scant academic knowledge of the subject. Besides that, the outcome has the potential to contribute to regulators and managers especially in their risk-related tasks.

Sustainability and Sovereign credit risk

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Abstract

We investigate the impact of Environmental, Social and Governance (ESG) scores on sovereign credit risk. Sovereign credit risk is measured following a market-based, structural and analyst-based approach and ESG scores are obtained from three different rating agencies. The contributions of this paper are twofold. First, we find that sustainability significantly decreases market-based and structural sovereign credit risk, but has no consistent impact on analyst-based sovereign credit risk. Second, we show that the relationship between sustainability and sovereign credit risk differs across ESG rating providers, which confirms the general concern about the lack of standardization and comparability of sustainability measures.

FINTECH AND REGIONAL FINANCIAL INTEGRATION: EVIDENCE FROM SUB-SAHARAN AFRICA.

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Abstract

The study investigated the impact of fintech on regional financial integration in Sub-Saharan Africa with mobile money as the measure of fintech and cross border remittance flows as the de facto measure of regional financial integration. A quantitative research with aggregated data obtained from 41 countries in Sub-Saharan Africa was adopted. The panel fully modified ordinary least squares approach was applied as the estimation technique. Study findings showed that adoption of fintech innovation through mobile money has positively impacted cross border remittances and improved de facto regional financial links between countries. The study also uncovered the positive relationship between the stock of migrants and remittances. Study findings also support the view that better governance through control of corruption and political stability remove dependence on remittances. Policy recommendations included the need to integrate mobile money and other cross border remittance platforms to improve access to financial services for migrants and harness their savings into the mainstream economy.

Role of Culture and CEO Personality in Technological Firms

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Abstract

This paper investigates the impact of cultural values and chief executive personal characteristics (including education, experience, tenure, age, involvement in founding the company) on the sample of high-tech companies from the S&P BMI index in 1999-2018. High-tech companies best suit the research topic as they are often the most dependent on innovations ones. We have broadened the usual approach to culture inclusion into research distinguishing between three levels of culture ? country-specific, founder or company-specific, and one of CEOs. We conclude that founder`s involvement, as well as his heirs` results in higher R&D expenditures, CEO`s tenure, produces negative impact supporting myopia theory, however, age and education ? probably as estimates of knowledge and experience -- fosters risky money spending. In our research we show that most cultural values are insignificant on the country level, supporting the idea of inclusion of different CEO and founder culture into analysis.

A Stochastic Gordon-Shapiro Formula with Excess Volatility

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Abstract

Because stock prices fluctuate far more than dividends (excess volatility) one cannot assume that discount factors are constant. We are not aware of a simple or at least tractable model for handling such non-constant discount factors. We present such a model relying on a stochastic version of the Gordon Shapiro formula. We furthermore show that if discount factors (and in particular dividend-price ratios) are only time-dependent excess volatility cannot hold. Rather, discount factors need to be stochastic. Our stochastic Gordon Shapiro formula is proven within a discounted cash flow (DCF) framework using an autoregressive cash flows process with random coefficients. We show that this model is free of arbitrage and that the transversality condition is met, hence prices are unique. We show that our assumptions are compatible with a Lucas equilibrium.

The Secret Ingredients to Doing Good in Hybrid Organisations: Evidence from Microfinance

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Abstract

Using microfinance institutions (MFI) as examples of hybrid organisations, we quantify the proportion of hybrids that succeed in combining the best social and financial performance. We find that 16.5% succeed in harmonising both dimensions, hence not all microfinance institutions are successful, however, they do exist. Moreover, these institutions reach some of the best social as well as financial performance with an average ROA of 10%, more than 4 different loan types, over 80% female clients, an average loan size of approximately 200 Dollar and they are able to sustain themselves without donations. A machine learning model with 87.84% accuracy predicts that MFIs between the ages 10 and 30 with an outstanding quality loan portfolio that are not financed through debt and ask high interest rates and are located in politically unstable low-income countries are more likely to harmonise both institutional logics. Additionally, large MFIs can afford to reach the poorest of the poor and to offer a wide gamma of financial products while remaining financially strong. Moreover, top performing microfinance institutions can found over all legal types, however, they are less likely to be a non-bank financial institution.

The Effect of Oil Spills on Stock Markets

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Abstract

In this paper, we analyze the reaction of stock returns of firms in the oil industry and the alternative energy industry with respect to a large sample of oil spills by using both the event study methodology and a GARCH model. The results indicate that the average abnormal returns after the oil spills events for the oil industry company sectors are positive and the average abnormal returns for the alternative energy company sectors are negative. Our analysis also suggests that the size of oil spills, location of oil spills, the number of articles in the journal about each oil spill, and the oil spills which have belonged to the countries that are in the demand side compared to oil spills which have belonged to the countries that are in the supply side of oil is the main factor that influences the response of oil industry portfolio to oil spills accidents.

On ambiguity-seeking behavior in finance models with smooth ambiguity

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Abstract

Ambiguity-seeking behavior is universally disregarded in a rapidly growing theoretical finance literature with smooth ambiguity preferences. This paper questions the three rationales for this practice. First, smooth ambiguity models are not ill-defined under ambiguityseeking. Second, a representative investor need not be ambiguity-averse when an average individual trader is ambiguity-averse. Third, individual traders need not be ambiguityaverse when a representative investor is ambiguity-averse. Our constructive suggestion is that researchers should calculate the allowed levels of ambiguity-seeking for which their model is well-posed, and then let the data speak for themselves whether ambiguity-seeking or ambiguity-aversion can better explain empirical evidence.

Institutional Trading on Information Diffusion across Fundamentally Related Firms

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Abstract

I document a strong cross-predictability of stock returns driven by institutional investors' private information about firms' fundamental relations. A value-weighted arbitrage portfolio yields a monthly alpha of 1.65%. The magnitude of predicted returns increases with firm size, number of institutional shareholders, and institutional trading intensity while not changing with analyst coverage. Further evidences confirm that institutional investors strategically trade a stock in response to shocks to its peers, which subsequently causes permanent price movements. Overall, my results suggest that institutional trading propagates the diffusion of value-relevant information across firms but only gradually due to information asymmetries among investors.

What determines Initial Coin Offering success: A cross-country study

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Abstract

Using data on 503 well documented ICOs from 60 countries that took place between 2015 and 2018, we investigate the determinants of ICO campaigns? presence and success. Both individual project perspective as well as country-wide perspective are taken into account. Using logit models we show that signaling theory well describes ICO?s determinants at individual-project level. Expert ratings, insider retention and resource-related signals, i.e. the number of team members and advisors contribute positively to ICO funding success and post-ICO activity. On the other hand, organizing presale and bonuses contribute negatively, as they probably created impression of excessively aggressive marketing. Moreover, in the subsequent phase of the research, using negative binomial regression models, we show that technology and financial markets advancements as well as ICO-related legal certainty boost the market. More importantly, we also show that high power distance and long-term oriented cultures fosters ICO markets (similar to IPOs) due to potentially lower agency costs coming from lower expectations of minor shareholders as far as dividends and transparency are concerned.

Rise of Domestic Banks in EME Cross-border Credit Intermediation

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Abstract

While the volume of cross-border capital inflow to emerging market economies (EMEs) has been increasing since 1970s, the last three decades have witnessed a more pronounced change in the structure of these cross-border capital flows. In this paper, we document the rise of domestic global banks in EMEs and the growingly important role they have played in channeling cross-border capital since the 1990s. We further provide evidence that this structural change in the cross-border capital flow to EMEs is likely to be driven by the transformation of the U.S. money market since the end of the 1980s. Using detailed documentation on cross-border loans, we demonstrate that foreign and domestic lenders have drastically different preferences on lending bases when extending credit to corporations in EMEs: foreign lenders exhibit a much higher reluctance to lend against hard assets as collateral. On the basis of differentiated lending technologies, we show that the rise of domestic global banks in channeling cross-border capital to EMEs has had a profound impact on i) who receives the capital and ii) how the capital is received. Inspired by these micro-level findings, we conduct a cross-country analysis and find that the rise of domestic global banks in transmitting cross-border capital to EMEs can have a far-reaching impact on these economies at the aggregate level. In particular, we find that the rise of domestic global banks in EMEs can greatly i) reshape the industry structure of these economies and ii) increase the economies' susceptibility to global financing cycles.

Corporate investor relations strategy under short-selling pressure

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Abstract

We study how firms implement corporate investor relations (IR) strategy under short-selling pressure. Exploiting the staggered short-sale deregulation in China as a quasi-experiment, we document that firms proactively engage in IR activities in the form of higher frequency of investor company visits when their stocks become shortable in the financial market. In addition, pilot firms increase their response rates on online IR platforms. The results are consistent with our hypothesis that firms adopt a more active IR strategy to covey positive signals to the market participants and offset the potential downside risks from the short selling. Moreover, we document that firms with more IR activities do experience less subsequent short sales on stocks indicating an effective role of IR on discouraging short sellers. The prior studies suggest that short sales on stocks result in negative information dissemination and lead to firms? financial constraints. We further document that IR efforts reduce information frictions of additional external financing and subsequently facilitate corporate investment for firms subjected to short selling pressure.

Optimal Portfolio Using Factor Graphical Lasso

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Abstract

Graphical models are a powerful tool to estimate a high-dimensional inverse covariance (precision) matrix, which has been applied for portfolio allocation problem. The assumption made by these models is a sparsity of the precision matrix. However, when the stock returns are driven by the common factors, this assumption does not hold. Our paper develops a framework for estimating a high-dimensional precision matrix which combines the benefits of exploring the factor structure of the stock returns and the sparsity of the precision matrix of the factor-adjusted returns. The proposed algorithm is called Factor Graphical Lasso (FGL). We study a high-dimensional portfolio allocation problem when the asset returns admit the approximate factor model. In high dimensions, when the number of assets is large relative to the sample size, the sample covariance matrix of the excess returns is subject to the large estimation uncertainty, which leads to unstable solutions for portfolio weights. To resolve this issue we consider the decomposition of low-rank and sparse components. This strategy allows us to consistently estimate the optimal portfolio in high dimensions, even when the covariance matrix is ill-behaved. We establish consistency of the portfolio weights in a high-dimensional setting without assuming sparsity on the covariance or precision matrix of stock returns. Our theoretical results and simulations demonstrate that FGL is robust to heavy-tailed distributions, which makes our method suitable for the financial applications. The empirical application uses daily and monthly data for the constituents of the S&P500 to demonstrate superior performance of FGL compared to the equally-weighted portfolio, index and some prominent precision and covariance-based estimators.

Controlling shareholder Stock Pledge, Aggravated Expropriation and Corporate Acquisitions

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Abstract

We examine the effects of controlling shareholder stock pledge on corporate acquisition decisions and associated performance. Using the sample of listed firms in China, we find that pledging firms, consistent with our aggravated expropriation hypothesis, initiate more takeovers, but acquisitions conducted by pledging firms experience lower announcement returns. To establish causality, we adopt the difference in differences and the instrumental variable approaches. Channel tests further reveal that pledging acquirers overpay in the deals and are more likely to be involved in related party transactions. Cross-sectionally, we find that the relationship between the share pledge and returns is stronger for non-SOEs and firms with high-level free cash flows. Lastly, we document that pledging acquirers underperform in the long-run in terms of lower ROAs and a greater likelihood of goodwill impairment. Overall, our findings indicate that controlling shareholders increasingly expropriate minority shareholders through self-serving corporate takeovers after the stock pledge.

The Case of Fleeting Orders and Flickering Quotes

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Abstract

The literature controversially discusses the ambiguous motives and driving forces behind fleeting orders and flickering quotes. In particular, manipulative and dysfunctional characteristics are feared. We show with an ultra-low latency derivative data set that none of these properties have to be dreaded. Fleeting orders are associated with liquid market environments. The prices of fast flickering order books improve by 3:90% before trades. The results of our Cox proportional hazard rate, logistic, and linear regressions reveal that flickering quotes are likely due to beneficial price discovery processes and inventories of HFTs offered at a discount to other participants.

CSR EFFORTS AS A NON-FINANCIAL INVESTMENT: IS IT REALLY INTENDED TO MAKE A DIFFERENCE?

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Abstract

Addressing social issues is very crucial for government and thus government is primarily expected to create an enabling environment for raising awareness and stimulating public debate for the existing social challenges and issues. Indian government is proactive to encourage legal mandates in various dimensions enabling responsible business practices. What organizations do with their money is being increasingly caught on the public radar leading to bringing ethical issues to the forefront. The paper is an effort to understand how financial responsible effort is playing out in the State Owned Enterprise (SOEs), and also the efforts towards handling CSR across SOEs in India. Quantitative and qualitative approach has been used to interpret the perspectives of companies on CSR spent being an non-financial investment. The paper elaborates whether Non-financial investment is a form of social responsibility in organizations and elaborates the status of responsible financing of SOEs in India.

Leveraged Loans, Systemic Risk and Network Interconnectedness

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Abstract

Especially among those who lived the global financial crisis of 2007-2008, it is likely that few regulators will instinctively be careless about the above pre-crisis level achieved by the global syndicated leveraged loans. We introduce global syndicated leveraged loans to study the relation between systemic risk, syndicated leveraged loans, and networks interconnectedness. We gather our daily deal-level loans from SDC Platinum Database, and analyze the U.S. and European syndicated loans, which together account for almost 80\% of global syndicated market and, if we consider only the leveraged loans, they account for almost 90% of the global amount outstanding during the historical period from 1988 to 2019. Distinguishing between leveraged and other syndicated loans, we develop a new measure to compute the monthly share of leveraged loans that each lead arranger holds. We make the following contributions. First, we show that leveraged loans have already exceeded the pre-financial crisis level, which may pose financial stability concerns. Second, we relate our novel measure with the lead arranger monthly interconnectedness and measure of systemic risk and find a significant correlation. Finally, what makes the syndicated loan market unique, is the joint collaboration among different financial institutions to provide a loan to a specific borrower. We consider the syndicated loan market a "natural" network, where the linkages and nodes are based on real collaborations among lead arrangers. We provide new insights about the most central source of connectedness in the syndicated loan networks and their proportion of highly risky loans.

Determinants on ETF Launching Decisions

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Abstract

This paper studies the decision by an asset manager to launch an exchange-traded fund (ETF). Using U.S. data, I find that fund families are concerned with profit maximization when making launching decisions through both revenue generation and cost reduction. ETF launches are more likely to be driven by investor demand, rather than based on past performance. Further, there are significant economies of scale and scope in the ETF industry, allowing larger families to benefit from specialization. Families tend to follow the behaviour of the three largest ETF providers, though they are less likely to launch in less liquid or highly concentrated objective markets. Finally, a time-to-event analysis shows that ETFs launched by larger and higher-fee families and whose initiation is not driven by excessive flows into the family are more likely to survive for longer.

Impact of Interest Rate Changes on Costs and Benefits of Reverse Factoring

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Abstract

This article studies reverse factoring where in a supply chain model the buyer corporation facilitates its cheaper short-term financing rates due to a better credit rating to the supplier corporation in return for payment term extensions. We explore in our paper the effect of interest rate changes, rating changes and the macroeconomic business cycle in return to payment term extensions on the cost and benefit trade-off. We utilize a combined empirical approach, consisting of a case-study methodology in step one and a simulation tool in step two. The case-study identifies the quantitative effects of interest rate and rating changes on corporate bond spreads. The rolling-window simulation methodology computes the daily cost and benefits of reverse factoring from 2010 to 2018. Our major finding is that changes of crucial financial variables ? such as interest rates, ratings or news alerts ? will turn former win-win situations into win-lose situations for the supplier contingent to the business cycle. Overall, our results exhibit sophisticated trade-off?s under reverse factoring and consequently a careful evaluation in managerial decisions.

Charting By Machines

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Abstract

We test the efficient markets hypothesis by using machine learning to forecast future stock returns from historical price plots. These forecasts strongly predict the cross section of future stock returns. The predictive power holds in most subperiods, is strong among the largest 500 stocks, and is distinct from momentum and reversal. The forecasting relation is highly non-linear and remarkably stable through time. Our research design ensures that our findings are not a result of data snooping. We conclude that the efficient markets hypothesis does not hold and that investment strategies based on technical analysis and charting may have merit.

The Information Role of Earnings Conference Call: How Earnings Calls Alter Demand for Financial Reports

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Abstract

This paper investigates how qualitative and quantitative information in earnings calls change the information acquisition for mandated filings via EDGAR. Using a large sample of earnings conference call from 2007 to 2017, I find that both qualitative and quantitative information in earnings call impede the information acquisition activities through EDGAR. To establish a causal relation, I use the weather condition on earnings call date as the instrument for information released during earnings calls. After implementing 2SLS regression, I confirm that more information within earnings calls leads to a reduction in information acquisition through EDGAR. I also examine this information acquisition activity on market reaction and find high information acquisition via EDGAR decrease short-term market reaction and delay in-time analyst forecast revisions. I confirm the increase in information acquisition via EDGAR is due to the processing costs difference between mandated filings and earnings calls by separating my original sample according to the level of processing difficulties of firm?s earnings calls.

The impact of promoter holdings on the textual component of Management Discussion and Analysis

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Abstract

We examine the influence of business groups and promoter shareholdings on the readability of the Management Discussion and Analysis section of the annual report amongst the Indian firms. Using the Fog index, length of the document as indicators of readability, we show that promoters tend to make reports more readable in order to project a better picture of the firm. However, business groups tend to make statements challenging to read. Using subsample analysis, we further report that promoters in a standalone firm are more inclined to make annual reports more readable. Collectively, our results indicate that textual content plays a vital role in the decision of the users of these statements and hence, serves as a tool for the managers to obfuscate information.

Credit Rating, Banks' Capital Structure and Speed of Adjustment: A Cross-Country Analysis

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Abstract

Recent studies examining the effects of a credit rating on firms? capital structure and adjustment of capital structure to target have focused predominantly on non-financial firms, with virtually no attention given to financial institutions. Using an international sample of 391 rated banks from 76 countries, this study examines the effects of credit ratings on the capital structure of banks. We find that, on average, banks near a credit rating upgrade have a higher capital to assets ratio compared to banks not near a rating upgrade. Most systematically important ?too-big-to-fail? banks near a credit rating upgrade tend to have lower capital relative to assets than the rest of the banks in our sample. Furthermore, banks downgraded from an investment-grade rating to a speculative-grade rating, on average, hold 1 (3) percentage points less capital relative to assets in the short (long) run. Contrary to studies based on non-financial firms, our results show that credit ratings have relatively little economic effect on the speed at which banks? capital is adjusted. Our results suggest that while rating agencies exert influences on banks? capital structure, they are fewer in number and tend to be weaker, compared to those documented in non-financial firms.

Support for Small Businesses amid COVID-19

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Abstract

A sizeable proportion of enterprises, especially SMEs, in receipt of financial assistance from the government, will fail to repay. In this paper we asked whether, and to what extent, it may be beneficial to apply a screening mechanism to deter those mostly likely to fail to repay from seeking such financial assistance in the first place. The answer largely turns on the relative weights attached for the objectives of stabilisation as compared with allocative efficiency. For this purpose, we develop a two-sector infinite horizon model featuring oligopolistic small businesses and a screening contract in the presence of a pandemic shock with asymmetric information. The adversely affected sector with private information can apply for government loans to reopen businesses once the pandemic has passed. First, we show that a pro-allocation government sets a harsh default sanction to deter entrepreneurs with bad projects from reentering and improves aggregate productivity in the long run, but the economy suffers persistent unemployment in the near term. However, a pro-stabilisation government sets a lenient default sanction or provides full guarantees to reach full employment in the short term, but the economy will be shifted to a lower equilibrium in the long run. The optimal default sanction balances the trade-off between allocation and stabilisation. Then, we derive an analytic measure of ?Stabilisation Proclivity? and characterise the parameter space and the macro-financial frictions that render the government either more pro-allocation or more pro-stabilisation. Finally, we solve for the optimal default sanction numerically and conducts comparative statics for various policy analyses.

Hard law versus soft law in regulating board gender mix: Comparing the effects on board functioning

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Abstract

In 2011, Britain and France introduced regulations aiming at improving board gender mix in listed companies. While similar in terms of target and timing, these two regulations differ in nature: non-binding in the British case (soft law) and binding in the French case (hard law). We examine the differential impact on board functioning of these two distinct regulations, using company and director data over the 2007-2015 period. We show that the quota has induced a more drastic correction in gender mix as compared to the soft law, without inducing significant distortions in board composition. However, we report that the quota has been associated with a negative discount in the relative position of women within board, regarding the access to monitoring committees. This evidence suggests that the quota, while effective in fixing woman underrepresentation in terms of seats, comes at a cost when considering within board women influence.

Startups funding and capital structure dynamics: European evidence

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Abstract

This study examines the impact of bank debt policies on the entrepreneurial firms? growth over a period of 10 years after startup creation. We use data from several countries to investigate environment differences with respect to the quality of the institutional context in terms of capital market development. Our analysis is based on a large panel of European SMEs founded between 2007 and 2015. The study provides some useful advice for practitioners and managers regarding the controversial relationship between debt financing and life cycle. The study has three salient features. First, SMEs? financial behavior at startup stage differs from the ones at later stages or larger firms. We find that the debt policy?s impact on entrepreneurial firms? growth is remarkably instable over time. Specifically, debt is positively related to firm start-up stage growth with a decreasing pattern .. Second, we find that the effect of debt on firm growth at early-stage is moderated by industry external financial dependence. Finally, we find that the relationship between debt and firm growth is moderated by countries? financial development. We perform additional analyses to expand our baseline results and provide directions for future research.

On the extraction of cyber risks using structured products

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Abstract

The aim of this paper is to develop an approach to extract information about cyber risks from structured financial products. We consider decision makers that are interested in extracting information about the uncertainty of Cyber risks. The value of information can be evaluated using recently developed entropy approaches in Finance. The underlying idea is that what we call Arrow-Debreu Cyber Risk state prices can be extracted provided the right structured products be ?created?. It is shown that different market based approaches can be used to get a better idea of the shape of the loss distribution facing firms. This information is potentially of interest to evaluate the risk premiums of insurance products. Comparisons between extracted market expectations can also be informative for risk evaluation, notably the distribution of unexpected losses and the eventual shortfall calculations. Finally, recent information-theoretic approaches enable us to make the link between pricing and the value of information to investors.

Comparative analysis of non-performing loans affecting factors in the Baltic States

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Abstract

The deterioration of the economic situation in 2020 has raised the issue of the quality of banks' assets and, in particular, the growth of non-performing loans (NPL). This is a topical issue not only for banks which, in this context, incur additional costs for allowances and capital requirements but also for society as a whole, as credit availability is likely to be reduced. The Baltic States experienced a particularly severe financial crisis in 2008-2009, resulting in a rapid increase in NPLs. This study analyzes the factors affecting NPLs in the Baltic States, using information available from WB, Eurostat using regression analysis methods. The results of the study allow conclusions to be drawn on the necessary actions to mitigate credit risk.

What are the impacts of credit crunch on the bank-enterprise system? An analysis through dynamic modeling and an Italian dataset

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Abstract

There is an intrinsic and mutualistic dependence between the bio-economic performance of banks and that of enterprises. This supposition is supported by correlations identified in a comprehensive analysis of the Italian banking sector, which reveal particularly strong relations between financial intermediaries and smaller enterprises. Concentrating on developments within the bank-enterprise system (and by extension, in households), we discuss the positive effects, including on macroeconomics, generated when the banking sector supplies funding to productive infrastructure to understand how the industry remains healthy and efficient. The negative effects produced by the disappearance of such a cycle are also considered. This paper thus presents a mathematical argument through dynamic modelling to evaluate the structural trends in bank and company populations that result from more and less expansive credit strategies assumed by banks. Empirical observations of this data also reflect the critical stress factor of the (micro)enterprise population that allows it to generate positive economic variations as financial leverage decreases. The ensuing assessment of stable and unstable points of equilibrium as well as bifurcations and their irreversibility (hysteresis) reveals that banks have stagnating profits and increasing numbers of non-performing loans. Finally, we investigate the possibility of an optimal minimum level of credit leverage and how to improve the stabilizing measures that are conferred to the system itself, especially given the uncertainty caused by the COVID-19 pandemic.

Callable or Convertible Debt? Debt Overhang and Covenants

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Abstract

Many U.S. corporate bonds are either callable or convertible. While callable debt provides a premium to bondholders in exchange for the firm' repurchase option of its claim, convertible debt offers investors the option to exchange firms' debt to equity. This paper analyzes the firm's choice between these two debt contracts. Using a dynamic model, we show that firms that are more exposed to debt overhang and whose bonds have covenants attached issue callable bonds rather than convertible bonds. Moreover, firms issue callable bonds with a higher coupon and these bonds are held longer before they are called. Our empirical findings support the theory.

Duties of Directors: International Comparison vis-à-vis India

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Abstract

Corporate governance is the system by which companies are directed and controlled.Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed. These governance structures identify the distribution of rights and responsibilities among different participants in the corporation. Corporate governance includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. Governance mechanisms include monitoring the actions, policies and decisions of corporations and their agents. Corporate governance practices are affected by attempts to align the interests of stakeholders. There are many drivers which are encouraging countries to adopt convergence of governance standards. The present paper attempts to compare the Indian CG practices with five countries viz USA, UK, Australia, Singapore and Malaysia.

Are Multinational Companies Involved in Profit Shifting through Tax Havens: Evidence from India

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Abstract

The purpose of this paper is to contribute to the international debate on tax avoidance and evasion in the context of India by examining how tax havens and profit shifting activities are interconnected. On examination of 5,514 Multinational companies operating in India for the year 2019, it was found that multinational enterprises (MNE?s) with tax haven links report less profits and pay less in taxes as compared to MNE?s with no such links. This leads us to conclude that MNE?s with tax haven links are involved in profit shifting enjoying the low tax rates and secrecy provisions offered by tax havens.

Economic uncertainty and bank stability: Conventional vs. Islamic banking

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Abstract

In this paper, we explore whether economic uncertainty differently affects the default risk of Islamic and conventional banks. Using a sample of 568 banks from 20 countries between 2009 and 2018, we take advantage of the World Uncertainty Index (WUI) proposed by Ahir et al. (2018) to conduct a cross-country study based on a comparable measure across countries. Our findings indicate that economic uncertainty increases the default risk of conventional banks while Islamic banks? default risk is immune to economic uncertainty. The results are robust to splitting the sample into Islamic and conventional banks, addressing endogeneity (GMM and IV estimations), and using alternative uncertainty index calculations. To shed light on why economic uncertainty differently influences the risk-taking behavior of Islamic and conventional banks, we explore the influence of religiosity and institutional environment of the countries. We observe that Islamic banks are immune to uncertainty in all types of countries. Conventional banks suffer more from a negative impact of uncertainty in terms of stability for the following countries: (1) Muslim majority (Muslim population share>90%), (2) High Importance of religion, (3) Sharia law, (3) Common English law, (4) GCC, and (5) Richer. We further dig into bank-level heterogeneity and find that such differences mainly hold for banks with higher non-interest income and larger size and for banks, which are publicly traded.

The Rise of Bond Financing in Europe

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Abstract

In the Euro Area, the share of corporate borrowing coming from bond markets doubled since 2000 at the expense of bank lending, leaving many firms exposed to the recent bond market turmoil. We use micro-level evidence from European public firms to dis- sect the steady rise of bond financing and document that it has reached well beyond the largest and safest firms. There is a constant stream of firms entering the bond market for the first time which are significantly smaller and less profitable than historical issuers, but have comparable levels of leverage. New issuers expand their balance sheet, instead of just repaying bank loans, and increase their debt maturity, partially mitigating their exposure to rollover risk. We argue theoretically and empirically that monetary policy and firms? risk are important drivers of bond financing. Unconventional monetary pol- icy lowers the bond-loan spread, with policies reducing long-term rates starting in 2012 having noticeable effects even before corporate bond purchases started in 2016. More- over, rating downgrades lead firms to issue more loans as their cost of bond financing increases. In light of the recent turmoil, our findings support broadening lender-of-last resort policies to include the corporate bond market.

Socio-Economic determinants of growth in the European Union

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Abstract

Economic growth is a key point of macroeconomic policy and is the subject of constant attention and debate by professional public and policymakers. Theoretical and empirical research indicates differences in the level and direction of determinants that influence the growth rate. The growth model in Europe continues to benefit the whole bloc both at the core and at the periphery. However, not all have benefited equally. The main goal of this paper is to construct a model of economic growth determinants in the European Union (EU) countries. We used a strongly balanced panel of 28 EU countries over the period 1995-2019. Our research managed to discover differences that exist between the founding group of EU countries with those who entered after 2004. In our model, we found that there is a positive and statistically significant relationship between trade openness, gross fixed capital formation, industry GDP, and advanced education on GDP growth. On the other side, unemployment, foreign direct investments, debt-to-GDP ratio, EMU membership, and crisis period all have a significant negative influence on GDP growth.

Zlb and beyond: real and financial (side)effects of low and negative interest rates in the euro area

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Abstract

This paper studies the effects of low and negative interest rates in the euro area on a wide range of macroeconomic and financial variables and documents the changes in the monetary transmission mechanism once the policy rate reaches the zero lower bound (ZLB). To that end, we employ a set of non-linear time series frameworks, namely a time-varying parameter structural vector autoregression with stochastic volatility and non-linear local projections and perform identification via both sign restrictions and high frequency information approaches. Our findings suggest that the policy rate has continued to support the aggregate demand in the euro area even in sub-zero territory. Despite that, we find that the reaction of inflation and its expectations has significantly deteriorated in the post-ZLB period. Regarding the transmission mechanism, we show that policy rate cuts below the zero have more persistent impact on the term structure and interest rate expectations. Besides, our results suggest that negative interest rates do not cause a contraction in lending despite the disconnect of lending rates from the policy rate. In general, our findings contribute to the growing list of literature which questions the empirical relevance of the ZLB.

De-risking of Green Investments through a Green Bond Market: Empirics and a Dynamic Model

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Abstract

A substantial increase of green investments is still required to reach the Paris Agreement's emission targets. Yet, capital markets to expedite green investments are generically constrained. Literature has shown that governments could de-risk such investments. Empirical beta pricing and yield estimates reveal some public involvement in the green bond market, especially for long maturity bonds. We provide empirical evidence that Governments and Multilateral organizations can de-risk green investments by supporting the issuance of green bonds in contrast to private green bonds - that show higher yields, volatility and beta prices -and conventional energy bonds, that are more volatile due to oil price variations. Since lower betas also mean lower capital costs, we use these empirical results and run a dynamic model with two types of firms, modeling the economic behavior of innovators (renewable energy fi rms) and incumbents (fossil fuel fi rms). The simulations of our model show that de-risked interest rates help to phase in renewable energy firms in the market and avoid a sharp debt increase. However, when the new entrants carry negative pay-offs for a longer time, it might not be sufficient to keep the debt low and to avoid a shake-out in the market. Subsidies and carbon taxation can complement the role of the de-risked interest rate and expedite the energy transition.

Effects of the past due receivables behavior on the financial performance of Colombian healthcare insurance companies

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Abstract

The Colombian healthcare system is immersed in a financial crisis and it is necessary to study some causes of this problem. In this research we study the financial situation of the Healthcare Insurance Companies (HIC), monitoring the impact of past due receivables behavior on their financial performance. We use panel data analysis of the accounting information of the HIC of the contributory regime, which has been published by the National Superintendence of Health between 2013 and 2018. This study concludes that there is a relationship between the past due receivables and the profitability of HIC, in such a way that the higher the growth of past due receivables the lower the return for shareholders. In addition, it is observed that the majority of HIC operate as financial intermediaries and they present a situation of technical bankruptcy, since they do not have enough technical equity to operate. Therefore, their solvency is not sufficient to manage health risks and dedicate themselves to healthcare promotion and to prevention of diseases.

Development of borrowers' solvency assessment model: logistic regression application

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Abstract

Borrowers' solvency assessment models can not only increase the company's profit but also potentially decrease the impact of the negative economic consequences of the crisis. However, there is no consensus on such models. Considering the flaws in scientific literature, the main aim of this paper was to develop the borrowers' solvency assessment model which can be applied in practice. The most appropriate method for developing such models was found to be logistic regression, and this research goal is to identify the best modelling approach to achieve the highest borrowers' solvency predictability. By implementing the best-chosen model, a nonbank lending company could provide a 42.5% lower total borrowers risk of default than without implementing such a model. Depending on the risk policy of the non-bank lending company, three methodologies were developed based on different assumptions about the significance of type 1 error and type 2 error in the company to determine the exact cut-off value.

Short-Term Inflation Projections Model and Its Assessment in Latvia

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Abstract

This paper develops a Short-Term Inflation Projections (STIP) model. We establish cointegration relationships between highly disaggregated consumer prices and their determinants using the autoregressive distributed lag (ARDL) framework. The ARDL framework is very flexible approach and allows capturing rich dynamic relationships among the variables, which is particularly useful in modelling highly disaggregated consumer prices in the short-term. Using STIP, we document a significant pass-through of domestic labour costs, crude oil and global food commodity prices to consumer prices in Latvia. Model simulations show that a 10% increase in crude oil prices, global food commodity prices and labour costs raises headline consumer prices in Latvia respectively by 0.6%, 0.9% and 3% in three years. We assess the accuracy of forecasts during 2014-2018 and find that the STIP model statistically significantly outperforms a naïve benchmark model in real time. Moreover, we show that inflation forecasts of STIP model outperform the forecasts of Latvijas Banka conducted during the official Eurosystem?s projection exercises over 2014-2018.

Alternative financing types on the example of Estonian alternative financing providers

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Abstract

Alternative financing has gained great popularity since new market players appeared to offer new types of financing models all over the world, as well as in Estonia. The extent of the alternative financing penetration across the population in Estonia was second highest in European countries after the United Kingdom, in 2016. In recent years, the Estonian market of alternative financing has grown and transformed, taking different complicated forms. The research therefore reveals major types of financing process of the licensed alternative financing providers of Estonia, highlighting its crucial elements, namely, possessors of funds, addressees of financing, legal forms of fundraising originators and their main features of financing process. The research goal was to reveal actual alternative financing types in Estonia. Generally accepted methods of economic research were applied, including a combination of monographic descriptive, qualitative, method of analysis and synthesis. The research was conducted in the form of review with primary data being gathered via multiple on-line resources, such as supervising institutions of Estonia, professional organizations and data bases of licenses issued by Estonian Finance Intelligence Unit (FIU) and Finance Supervisory Authority (FSA). The research findings demonstrate brief review of terminology of alternative financing, licensing aspects of alternative financing providers of Estonia, and major types of financing models in Estonia. The research findings demonstrat brief review of terminology of alternative financing, licensing aspects of alternative financing providers of Estonia, and major types of financing models in Estonia. The presence of banks? funds in certain alternative financing models was revealed as well.

Industry-based Structural Model and Idiosyncratic Volatility

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Abstract

In this paper, I introduce a new factor structure model that is based on the Fama-French benchmark model but modified to account for the specific dynamics of the industry groups in the market. I show that the stocks? average monthly returns are clustered around the industry groups used. I show that Idiosyncratic volatility calculated from the Fama-French industry-based model tends (I?VOL?_Ind) to be smaller than that created from the traditional Fama-French model (I?VOL?_ff). I also show that sorting portfolios by the newly calculated industry-based Fama-French model results in higher alpha.

The relationship between the holdout creditors? bargaining power and sovereign bond credit risks: evidence from NML v. Argentina

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Abstract

This paper investigates the relationship between the level of bargaining power held by holdout creditors and credit risk associated with sovereign bonds. I predict the increase in the holdout creditors? bargaining power in default can either increase the affected bonds? credit risk by increasing renegotiation costs and decreasing the recovery rate ex post a possible default, or decrease it by decreasing the projected probability of default ex ante. Empirical results using the exogenous shock from NML v. Argentina show the increase in holdout bargaining power increased the yield spreads for the bonds that were affected by the ruling. These results are robust to models using shorter time windows and alternate dependent variables such as bond prices and credit-default swaps. These results provide empirical evidence that increase in holdouts? bargaining power in sovereign debt market increases rather than decreases the level of credit risks for the affected bonds and issuers.

Analyzing the Effect of Share Repurchases on Liquidity under Changed Legal Framework

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Abstract

Indian capital market underwent changes in legal and taxation framework under Finance Bill, 2016. Bill levied an additional income tax of 10% on annual dividend in excess of INR 1mn in the hands of shareholders. Share repurchases, on the contrary, attracted no tax implications for repurchasing firms making it a tax-efficient means of surplus cash distribution. This brought multifold increase in buyback offer size of the seventh biggest stock market of the world. Present study aims to examine the impact of share repurchase announcements two ? years before and after the Finance Bill, 2016 on stock liquidity measures. We investigated 138 share repurchase announcements and found that buybacks enhance stock liquidity. Results also indicate that companies replaced dividend with tender offer repurchases during Post-Finance Bill, 2016 period. Moreover, enhanced stock liquidity in case of tendering shares witnessed a significant impact on stock returns.

Determinants of the dividend distribution policy of multinational and domestic companies

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Abstract

Over the past decade, the analysis of dividend distribution policy has been limited, basically, to its traditional determinants. Therefore, this study aims to expand the frontiers of knowledge on this topic, verifying the impact that multinational and domestic companies have on their corporate policies. this study aims at verifying whether MNCs pay less dividends than DCs, it seeks to identify whether among the main determinants of the dividend distribution policy of these companies are political risks, as well as diversification among countries. To this end, a sample composed of publicly traded companies from the OECD´s key-partners´ countries - Brazil, China, India, Indonesia and South Africa - between 2008 and 2019 is analyzed. The data are obtained from the Capital IQ base, being checked by means of logistic and Tobit regression models.

The Influence of Financial Crises on the Capital Structure of Multinationals

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Abstract

Objectives: To analyze the impact of financial crises on the capital structures of multinationals. Hypotheses: H1 - In a financial crisis, bankruptcy costs have less impact on the MNCs´level of leverage; H2 - In a financial crisis, reductions in interest rates stimulate the MNCs´leverage; H3 - In a financial crisis, the tax benefit has less impact on the MNCs´level of leverage. Main theory: Trade-off Methodology: Sample with OECD partner countries - Brazil, China, India, Indonesia and South Africa. The data are obtained from the base of Capital IQ, during the period of 24 years before (1996-2007) and after (2008-2019) the last systematic crisis - which begins in late 2007, in the United States. The econometric model considered refers to simultaneous equations. Contribution / differentials: Understanding the tax planning alternatives of multinationals, as well as public policies that may be applied by governments and / or OECD.

A multi-Objective Optimisation Metaheuristic Hybrid technique for Forecasting the Electricity Consumption of the UAE Saudi Arabia, BaHrain. Kuwait and Qatar: A Grey Wolf Approach

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Abstract

By applying multi-objective optimization approach in forecasting, we introduce three optimizing models combined with two conventional machine learning approaches to forecast the electricity consumption of the UAE. The three models used in this paper are grey wolf optimizer, a genetic optimizer and a differential evolution optimizer. Then, we assess their accuracy and efficiency in forecasting the electricity consumption of the UAE. The main contributions of the paper are of three fold. Firstly, it should be noted that we are one of the first to adopt such a sophisticated hybrid approach of combining multilayer perceptron neural networks and support vector machines with so many optimization approaches especially with the grey wolf optimizer. Secondly, for choosing inputs to our models, we apply two selection criterion such as Pearson correlation coefficient and the optimization approaches. Lastly, this is currently one of the broadest macroeconomic forecasts in the UAE that uses such multi-objective metaheuristic hybrid optimization approaches. For comparative analysis, we benchmark our combined models with a generic multilayer perceptron neural network and a generic support vector machine. Irrefutably, our empirical findings indicate that the grey wolf optimizer outperforms significantly all the other models followed by the genetic algorithm.