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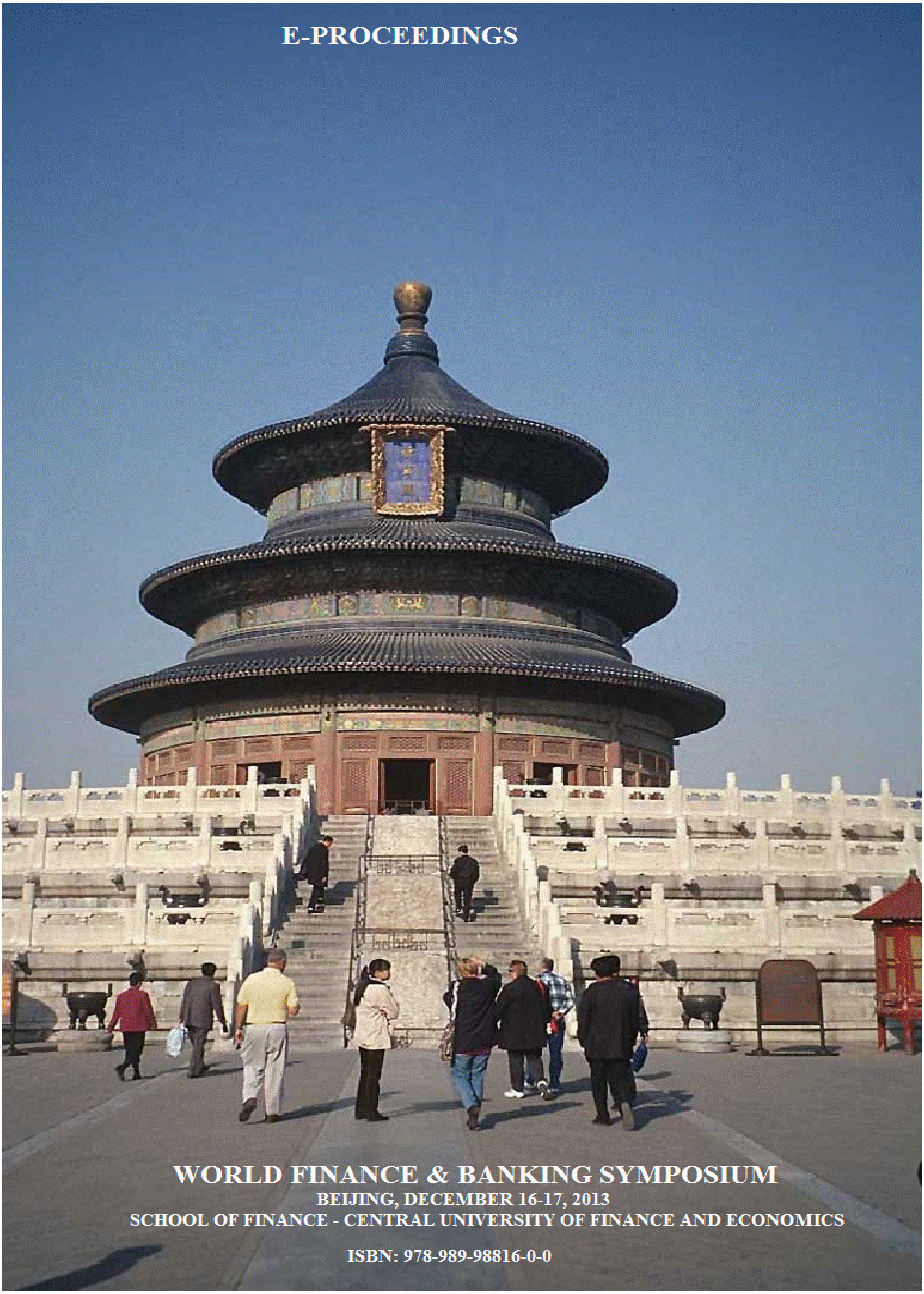

WORLD FINANCE & BANKING SYMPOSIUM

BEIJING, DECEMBER 16-17, 2013

SCHOOL OF FINANCE - CENTRAL UNIVERSITY OF FINANCE AND ECONOMICS

ISBN: 978-989-98816-0-0

INDEX

Factor Vector Autoregressive Estimation of Heteroskedastic Persistent and Non Persistent Processes Subject to Structural Breaks: New Insights on the US OIS Spreads Term Structure

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Abstract

In the paper a general framework for large scale modeling of macroeconomic and financial time series is introduced. The proposed approach is characterized by simplicity of implementation, performing well independently of persistence and heteroskedasticity properties, accounting for common deterministic and stochastic factors. Monte Carlo results strongly support the proposed methodology, validating its use also for relatively small cross-sectional and temporal samples. By means of the proposed approach, new insights on US money market dynamics during the subprime and euro area financial crises are achieved. Moreover, three common factors, bearing the interpretation of level, slope and curvature factors, are extracted from the term structure of OIS spreads; we find the latter conveying additional information, relatively to commonly used credit risk measures like the TED or the BAA-AAA corporate spreads, which might be exploited, also within a composite indicator, for the construction of a risk barometer and real-time macroeconomic forecasting.

Corporate Governance Impact on Capital Structure : A Multivariate Analysis of Listed Kazakh Companies

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Abstract

The paper explores the influence of corporate governance on capital structure of listed companies in an emerging CIS equity markets, Kazakh stock Exchange (KASE) during the period of 2006-2011. Over the last decade the corporate governance is as very actively analyzed in the behavior finance of corporations. The purpose of this research is to find the relationships between Ownership Structure and Capital Structure on the example of Kazakh listed companies. Good corporate governance practices may have significant influence on the strategic decisions of a company, e.g. external financing, that are taken at board level. Therefore corporate governance variables like size of board, composition of board, skill set at board and CEO/Chair duality may have direct impact on capital structure decisions. Analysis of this study is very important for Kazakhstan since most of all listed on KASE have high concentration of ownership. This research employs firm level data for 65 randomly selected non-financial listed on KASE companies by using multivariate regression analysis under fixed effect model approach. Measures of corporate governance employed in this study are board's size, board's composition, and CEO/Chair duality. Also this study examines the impact of shareholding on financing decisions by using managerial shareholding and institutional shareholding variables, and influence of controlled variables like firm size and profitability on firms' financing mechanism. Results of this panel study showed that only institutional shareholding is significantly negatively correlated with debt to equity ratio. Also findings showed that board size is significantly negatively correlated with number of independent directors and managerial shareholding, but positively correlated with the institutional shareholding. Corporate financing behavior is influenced by CEO/Chair duality and the presence of independent directors in the Board of directors. Duality is positively correlated with the institutional shareholding and the board size and negatively correlated with managerial shareholding. However, control variables firm size and return on assets do not have significant effect on capital structure. Therefore found results suggest that corporate governance variable like institutional shareholding has important role on decision about the leverage of the firm.

.Earnings Management Choice in an Environmental Crisis Scenario: A case Study of Zijin Mining Group

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Abstract

This paper examines the earnings management choice immediately after Zijin Mining Group (ZM) suffered a major environmental crisis in 2010, the manuscript aims to examine the effects of ZM's earnings management strategy on its accounting and stock market performance. Our results show that ZM's operating performance and stock performance seem to be superior subsequent to the crisis, and, importantly, the firm uses income-increasing accruals management techniques to boost reported earnings. Further data investigation indicates that several specific accruals evidence the use of upward earnings management: i.e., change in provisions for asset impairment, change in accounts receivables and change in inventories, In addition, a few real earnings management items have been examined, but the findings are mixed. On the other hand, we have investigated an industry matching firm BP (British Petroleum), which also faced an environmental crisis at roughly similar levels in 2010. The results show that BP may overly recognize crisis-related expenses in the year of crisis and then partly reverse the expenses and push up reported earnings in the subsequent year, suggesting that BP is likely to use the income-decreasing earnings management (e.g., big bath accounting etc.) as a response to the crisis. Consistent with Ball et al. (2003) and Han et al. (2010), financial accounting quality is an endogenous function of a nation's institutional environment and cultural values, this manuscript advocates that earnings management choice (income-increasing vs. income-decreasing) may be influenced by national values and political propaganda. This study extends the earnings management literature and crisis management literature.

Bid-Ask Spreads, Quoted Depths, and Unexpected Duration between Trades

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Abstract

We examine the intra-day informational effects of unexpected duration between trades on bid-ask spreads and depths. The difference between realized duration and the prediction from an autoregressive conditional duration model is used as a proxy for unexpected duration. We find that unexpected short duration increases the quoted spread as well as the adverse-selection component of the spread. Unexpected duration accompanying buyer-initiated trades has a larger impact on the quoted spread than that accompanying seller-initiated trades. These results are consistent with both information uncertainty in Easley and O'Hara (1992) and the effect of short-sales constraints in Diamond and Verrecchia (1987). Moreover, we find some weak evidence that unexpected short duration increases quoted depths, suggesting that the overall liquidity impact of information asymmetry is more complicated than previously thought.

Algorithm for Multi-Level Management in Commercial Bank

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Abstract

A new methodological approach is proposed for the arrangement of the effective corporate governance system of commercial banks based on the use of the multilevel Balanced Scorecard system specific for the banking sector. An algorithm for the formation of commercial bank balanced indices has been elaborated, which enables to implement the transfer from the strategic level of management to the day-to-day supervision. A list of internal documents is given including the disclosure of their qualitatively new contents, which are required for the implementation of the said Balanced Scorecard system and provide for the corporate governance effectiveness.

Market Crowd's Trading Behaviors, Agreement Prices, and Volume Implications

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Abstract

It has been long that literature in finance focuses mainly on price and return but much less on trading volume. In the past decade, finance has explored the behavioral implications of trading volume such as overconfidence, disagreement, and attention etc. Here we show that trading volume probability represents the frequency of market crowd's trading action in terms of behavior analysis. By empirical tests in China stock market, we find that market crowd trade in simple heuristics and adaptation, generate an outcome and stationary equilibrium in interaction among themselves, and achieve agreement on an asset price widely on a trading day no matter whether it is highly overestimated or underestimated, suggesting that asset prices include not only a fundamental value but also private information, speculative, sentiment, gamble, and entertainment values etc. In addition, market crowd adapt to gain and loss by trading volume increase or decrease significantly in interaction with environment in any two consecutive trading days. Our results demonstrate how interaction between information and news, the trading action, and return outcomes, which includes various internal and external causes, produces excessive trading volume. We reconcile market dynamics and crowd's trading behaviors in a unified framework by Shi's price-volume differential equation in stock market where, we assume, investors derive a liquidity utility expressed in terms of trading wealth which is equal to the sum of a probability

weighting utility and a reversal utility in reference to an outcome.

History of Financial Crises and its Impact to Current Regulatory Development of Basel Committee and How Can Bank Improves the Capital Adequacy Ratio and Current Development in Czech Republic

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Abstract

This paper is summarizing all major crises and is trying to give an answer to few questions: a) what are possible mitigants of financial crises if any; b) does the new regulation help us to do that; c) what is potential impact of new regulation to the sector. In more detail this paper is summarizing the history of financial crises from 17th century to the present. Furthermore this paper is also discussing current views on the proposed regulation plus putting in place few potential outcomes how to deal with current crisis. Additionally this paper tries to elaborate on how Czech banking market is reacting to upcoming new set of regulatory rules.

Speculative Bubble in IPOs: Evidence from Malaysian Fixed-Price IPOs

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Abstract

This paper examines the issue of speculative bubble in the pricing of Malaysian IPOs, using a sample of 283 Malaysian fixed-price IPOs from January 2004 to December 2011. I hypothesize that in a fixed-price offering, when there is no stabilization activities taking place, the post-listing price movement behaves in accordance to a speculative bubble, especially in IPOs with high pre-listing investor demand. High pre-listing investor demand will create a temporary speculative bubble where the IPO's price is pushed up high above its true value, and later stabilizes as the bubble bursts. In general, the findings indicate that it takes shorter period of time for prices of fixed-price Malaysian IPOs to stabilize as compared to book-built IPOs in the US (Boome et al. (2010)), and the bubble bursts almost immediately in the after-market.

What Drives Pension Indexation in Turbulent Times? An Empirical Examination of Dutch Pension Funds

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Abstract

This paper identifies the key factors driving indexation in turbulent economic times within defined benefit plans using a unique panel dataset of 166 Dutch pension funds from 2007 to 2010. Key drivers of indexation are the funding ratio, inflation and real wage growth. The type of pension fund and the interest rate exposure are also statistically significant, although the latter effect is nonlinear. The asset allocation has no significant effect on the level of provided indexation as this is already captured by the funding ratio. We also examine the relation between policy ladders and the actual level of provided indexation. This study finds that a policy ladder with an upper limit equal to a 100 percent real funding ratio is able to predict the actual level of indexation more accurately than a ladder with an upper limit based on a pension fund's required funding ratio.

Diversification and Home Bias in International Investments: Evidence from ADRs of Chinese Firms in US Markets

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Abstract

This paper takes a close look at US institutional investors' investment behavior on foreign assets by studying the ownership after considering all the transaction costs, including capital control in the foreign countries, explicit transaction costs and implicit transaction costs, and confirms there is still clear home bias existing among US institutional investors. Further tests on the sources of such bias show that US investors fail to predict stock to earn excess returns from US stocks and thus the irrationality of investment behaviors, such as neglect of diversification benefits and choosing stocks by familiarity rather than information advantage, are the main causes for home bias.

The European Twin Sovereign Debt and Banking Crises: An Assessment

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Abstract

This paper discusses several key issues regarding the European twin sovereign debt and banking crises. The shift of the current financial crisis into a European sovereign debt crisis is tackled by analysing how was it that via the banking system the contagion was extended from the US to Europe. The explanation focuses on the imbalances of European Monetary Union countries balance-of-payments. These are difficult to adjust because of the new experience of a monetary Union of independent political countries which maintain different, and not completely convergent, fiscal policies: a situation which differs from traditional monetary unions of States belonging to the same political Union, such as the US. The European crisis has shown that it can spread quickly among closely integrated economies, either through the trade channel or the financial channel, or both. The crisis has exposed a major deficit of executive decision-making capability in the EU and Eurozone institutional framework, which helps to explain the insufficient policy response. It can thus be said that the banking and sovereign debt crises are compounded by a further crisis of the EU institutions themselves. Therefore, a successful crisis resolution requires more political integration, which will need to include: first, a mechanism that ensures that fiscal policies in the Eurozone are partly centralized; and second, a framework for banking policy at the European level that credibly supports the vision of a single European market for financial services.

Asia's Giants: Risk in Banking in China, Japan and India

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Abstract

This paper compares the relative risk of publicly-traded banks in the three largest Asian economies and summarizes the first step in a line of research that will look at risk in Asian banking. It measures risk using both equity and asset betas, on both an equally-weighted and asset-weighted basis, in order to examine the relative contributions of financial leverage and operating risk to the overall risk of the groups of banks in each of the three countries. Key findings are that Japanese banks exhibit the lowest levels of risk but also have the highest leverage. The findings will be of interest to regulators and central banks since they can potentially contribute to better allocation of supervisory resources and more appropriate intervention strategies, such as requiring riskier banks to hold higher levels of capital.

Changing Dimensions of Financial Inclusion in India: The Role of Postal Network

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Abstract

Changing Dimension of Financial Inclusion in India: The Role of Postal Network Abstract: Financial inclusion is being regarded as an important factor for development and hence policymakers around the world are trying to achieve it. Experience and evidence reveals that financial inclusion will not happen on its own and more importantly, mere provision of financial services, that is tackling supply side of the problem is also not enough. Therefore the onus has come to the policy makers not only to tackle the supply side of the problem but to handle the demand side as well. The Reserve Bank of India is pursuing a multipronged strategy to enhance the level of financial inclusion in India by harnessing the entire spectrum of financial service providers, comprising various financial institutions, the Self Help Groups, the Micro-Finance Institutions and above all the Post Offices whose role has been re-emphasised very recently with a vision to approve Post Banks. As per the findings of Universal Postal Union (UPU), "There are more than five million postal employees around the world and 670,000 post offices" who besides providing postal services, "provide valuable financial services aimed at narrowing the financial inclusion gap". Presence of post offices in rural areas is unmatched by any other logistic and banking network with 500,000 branches in developing countries alone a greater percentage of them being in rural areas. India has the largest postal network in the world with 1,54,866 Post Offices, of which 1,39,040 (89.78%) are in rural areas. Based on that enormous net work, the Government of India, very recently decided to convert the post offices to Indian Post Bank so that this under-utilised huge potential can be tapped and utilised for financial inclusion purpose. This paper takes a look at the host of financial services being offered by India Post and examines its strength and weaknesses in this endeavour, suggesting a way forward. It also examines various business models through which financial services are being offered in different countries across the world through postal network vis-a-vis the model adopted in India and attempts a critical appraisal of the same. India Post plays a complimentary and supplementary role to the other financial institutions in ensuring financial inclusion. Keeping this in mind it is decided to develop a strategic model which will play a major role in enhancing their efficiency and effectiveness in bridging the financial inclusion gap. Keywords: Financial inclusion, Financial inclusion gap, Postal network, Post Bank, Business model.

Are Global Systematic Risk and Country-Specific Idiosyncratic Risk Priced in the Integrated World Markets?

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Abstract

Empirical evidence showing significant effects of local factors on international equity returns while failing to find significant effects from global systematic risk seems counter-intuitive in today's integrated world markets. This paper uses the conditional second moments estimated from an asymmetric dynamic conditional correlation model to measure the time-varying world beta and country-specific idiosyncratic risks, and tests the relationship between country-level index returns and world beta risk conditioned on positive and negative world market returns. The results show that the conditional dynamic world beta risks significantly predict the cross-country variation in expected index returns, while country-specific risk is not significantly priced.

Uncertainty in an Interconnected Financial System, Contagion, and Market Freezes

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Abstract

This paper studies contagion and market freezes caused by uncertainty in financial network structures, and provides theoretical guidance for central banks to tackle them. We establish a formal model to demonstrate that in a financial system where financial institutions are interconnected, a negative shock to an individual financial institution could spread to other financial institutions and cause market freezes, due to creditors' uncertainty about the financial network structure. Central bank policies to alleviate market freezes and contagion such as information policy, bailout policy and the lender of last resort policy are examined.

Financial Flexibility Across the Euro Area and the UK

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Abstract

We use a novel database of more than 685,000 European firms to show that financial flexibility attained through conservative leverage policies is more important for private, small, medium-sized and young firms and for firms in countries with lower access to credit and weaker investor protection. Further, using the recent financial crisis as a natural experiment, we show that financial flexibility status allows companies to reduce the negative impact of liquidity shocks on their investment decisions. Our findings support the hypothesis that financial flexibility relates to companies' ability to undertake future investment, despite market frictions hampering possible profitable growth opportunities.

Corporate Governance and Financial Performance

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Abstract

Relationship between corporate governance and financial performance of firms has been a hotly debated topic. More particularly, the direction of the relationship, whether better corporate governance leads to better financial performance or the vice versa has been often debated. More often, firms decide whether to have better governance standards within the company and this self-selection gives biased OLS regression results. In this paper, we adjust for this endogeneity and find that corporate governance is related to financial performance. Using the two-stage regression suggested by Heckman (1979), we also find that it is corporate governance that leads to better financial performance and not the other way round. We finally find that the average ROA of poorly governed firms increases by almost 70% if they become well-governed.

Volatility Dynamics of Global Stock Returns

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Abstract

The main goal of this paper is to capture the co-movement and spillovers among global stock markets. A dynamic factor model is designed to decompose volatility of stock returns into three orthogonal factors: world factor, region factor and local factor (idiosyncratic component), which are assumed to well suit to explain all variation of volatility in stock markets. Fourteen countries are included in the empirical study in order to cover both developed stock markets and emerging stock markets. All parameters and unobserved factors in the model are estimated by Markov Chain Monte Carlo methods. Empirical results show that there does exist a worldwide co-movement of volatility in global stock markets, and such world factor is able to account for more than 50% of variation of volatility for most of countries. The world factor, particularly, is significant for North America and Latin America, nevertheless the region factor plays an important role in European and Asian stock markets. Spillovers analysis shows that the U.S. has been persistently holding a dominant position on world stock markets, but direct spillover effects between countries or regions are lack of evidence, at least on a monthly basis. Lastly, the impact of financial globalization on the stock markets is also investigated.

Exploring Diversification Benefits in Asia Pacific Equity Markets

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Abstract

Following the recent financial crisis and the European Sovereign debt crisis, Asia-Pacific equity markets seem to be the focus of investors seeking safe havens. This paper investigates the benefits an investor can gain by holding a portfolio of assets from the region in comparison to holding a global portfolio. Unlike previous studies, the regional portfolios comprise sectoral indices rather than aggregate market indices and are grouped into three classifications according to performance. The paper finds that the benefits from holding an Asia-Pacific portfolio made up of assets from high or moderate performing sectors are only realized after the sub-prime crisis. For investors with assets from low performing sectors, adopting a global strategy is beneficial in all respect than investing only within the region. In terms of return improvement, the evidence largely shows that, holding a global portfolio adds significant returns above the regional portfolio whiles reducing volatility concurrently.

Factor Analysis Approach to Explore Dimensions on Precautions for Safe Use of Internet Banking

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Abstract

The advent of Information Technology (IT) and its convergence with communication technology have drastically changed the landscape of banking services across the globe. The use of IT in the banking sector has contributed to the emergence of more flexible and user friendly Self Service Banking Technologies (SSBT) to address the rapid and changing needs of banking customers. Internet Banking (IB) is one among them. IB is the use of internet by banks to deliver banking services to customers irrespective of their geographical location. The present study explored the various dimensions on the precautions for the safe of use of IB and examined the adequacy of the precautions taken by IB users in Kerala (India). The study found that comparatively high precautions are taken on dimensions such as (i) Secrecy of password and proper log off (ii) Website access and (iii) Careful use of IB account. But the precautions taken on dimensions such as (i) Phishing protection (ii) Browser updation and use of safe computers (iii) Repeated use of password and password noting are not adequate. The implication is that when users do not take adequate precautions, they are vulnerable to the risk associated with the use of IB. Although the study has been conducted in Kerala (India), the findings would also provide insights to the global markets as IB defies geographical boundaries

Order Cancelations Across Investor Groups: Evidence from an Emerging Order-Driven Market

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Abstract

Employing comprehensive limit-order data which identify investor groups, this paper examines the order-cancelation behavior across investor groups in the Taiwan Stock Exchange. Evidence shows that, first, facing a trade-off between the monitoring cost and the limit-orders risks, such as the non-execution and the free-trade-option risks, significant differences exist across investor groups. Foreign investors closely monitoring the market cancel their limit orders most actively, while individual investors with the highest monitoring cost do least actively. Second, over the year of financial tsunami, 2008, the levels and the sensitivities to the selected variables of order cancelations (particularly by institutional investors) rise.

A World Without Money Needs no Banks and no Rating

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Abstract

The USA narrowly escaped state bankruptcy in January 2013. Cyprus is on the verge of bankruptcy and many other European states require the extension of public sector loans or debt rescheduling to sustain the confidence they enjoy in the money and capital markets. Politics is reacting in a Pavlov-reflex manner by further tightening the knot on the regulation of credit institutes and is already debating Basel IV – a long-known separation of loan and deposit businesses by banks. It is becoming clearer in the process that an ever-stricter and thus more bureaucratic and transaction-cost-generating process of regulating banks is quickly reaching its limits. The system of money and capital markets is therefore questioned by scientists while alternatives are being sought. Alternatives can be free banking, regional currencies, bartering systems or Iring Fischers 100 percent money. This article will show us this alternatives and the opportunities in the future.

Credit Scoring Models: A Psychological Approach

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Abstract

The purpose of this study was to investigate the contribution of psychological variables and scales suggested by Economic Psychology, in order to predict the individuals' default status. Therefore, for a sample of 555 individuals and using logistic regression, an application scoring model was tested with the inclusion of psychological variables and scales. In terms of results, the following psychological and behavioral characteristics were found associated with the group of individuals in default: a) negative dimensions related to money (suffering, inequality and conflict); b) high scores on the self-efficacy scale, probably indicating a greater degree of optimism and overconfidence; c) buyers classified as compulsive; d) individuals who consider it necessary to give gifts to children and friends on special dates, even though many people consider this a luxury; e) problems of self-control identified by individuals who drink an average of more than four glasses of alcoholic beverage a day.

Exchange Rate Movements, Stock Prices and Volatility in the Caribbean and Latin America

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Abstract

We analyse the interrelationship between stock prices and exchange rates in the only two Caribbean countries with stock market and floating exchange rates: Jamaica and Trinidad and Tobago in the period 2002-2012. We also study the same four Latin American countries as in Diamandis and Drakos (2011): Argentina, Brazil, Chile and Mexico, who employed the Autoregressive Distributed Lag (ARDL) model bounds test approach proposed by Pesaran et al (2001). Following Lin (2012), who examined the same issue in six Asian emerging markets, we also include interest rates and net international reserves variables in our analysis to avoid any omitted variable bias. We extend Diamandis and Drakos (2011) and Lin (2012) by expanding the ADRL model including a GARCH component to examine the impact of volatility. First, we use the structural break unit root tests of Zivot and Andrews (1992) and Clemente, Montanes and Reyes (1998) to show a significant structural break in the exchange rate, stock prices and our other control variables around the time of the 2008 crisis in all analysed countries, leading us to check our results in three periods: the full sample and in two subsamples before and after 2008. Our results from the bounds test showed a very mild relationship between both variables in Jamaica, Argentina and Brazil, but we cannot find any relationship in the other countries as in Diamantis and Drakos (2011). However, when we include the GARCH component in the ADRL framework our results changed drastically: stock prices significantly impacted the exchange rate in the tranquil subperiod and the full period for Jamaica, over all three periods for Trinidad and Tobago and in the tranquil period for Argentina, Mexico and Chile. This shows the importance of incorporating volatility explicitly in the model. Our results have the policy implications that governments in the previous countries should try to prevent a currency crisis by stimulating economic growth and the expansion of the stock market to attract capital inflow as in Lin (2012).

Foreign Institutional Investors and Stock Market Liquidity in China: State Ownership, Trading Activity and Information Asymmetry

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Abstract

The Chinese government has implemented the Qualified Foreign Institutional Investor (QFII) system in order to promote stock market liquidity by participation of foreign institutional investors. This paper is the first to explicitly identify the channels through which foreign institutional investors influence the liquidity on the Chinese stock markets. Firstly, we find that market participation by foreign institutional investors promotes liquidity both for state-owned enterprises (SOEs) and non-SOEs. Secondly, foreign institutions influence liquidity through the informational frictions channel, but not through the real frictions channel. Thirdly, as implied by these two results, foreign institutions are not informationally disadvantaged when investing in SOEs. Finally, the link between foreign institutional participation and liquidity remains strong before, during, and after the recent financial crisis.

Is Leverage a Determinant of the Asset Price? Evidence from the Real Estate Transaction Data

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Abstract

By exploiting the correlation between the legal type of a purchased property as collateral and loan to value (LTV), particularly the positive correlation between use of the property as revolving collateral and LTV as a strong and valid instrumental variable for LTV, we identify the positive effect of LTV on the property price with the observed negative reverse causality. We also find that the effect of LTV on the property price is far larger when unleveraged property transactions purchased by 100 percent equity finance are excluded than when they are included.

An Empirical Study of Profitability Determinants of Banks in India in Post Reform Era

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Abstract

This paper attempts to study the performance of public, private and foreign banks in India in terms of Profitability in the post reform era. The study is based on balanced panel data of annual financial statements of banks in India for the period 1999-2012. The results show that Capital strength, interest payment, NPA, size negatively affect profitability and are statistically significant. Liquidity risk has positive and significant relationship with profitability. Among macro-economic variables, GDP and inflation have positive relation with ROA. Public ownership is negatively associated with bank profitability and foreign ownership is positively associated with ROA.

Stock Price Delay and Business Cycle

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Abstract

Hou and Moskowitz (2005) use common stock price delay in reflecting market-wide information to measure market frictions each individual firm faces. In this study, to better understand how the price formation process is affected by business cycle, we examine the relation between the aggregate stock price delay and changes in the economy. Surprisingly, while the stock market liquidity declines and market frictions increase before economic downturns, we find that the aggregate price delay decreases before recessions; and it increases before economic expansions when the stock market liquidity increases and market frictions decrease. Aggregate institutional holdings and aggregate analyst coverage as proxies for information production cannot account for the behavior of aggregate price delay. Instead, we find that the flight-to-quality behavior of investors is most responsible for changes in aggregate price delay.

How Trade Restrictions Disperse: Policy Dynamics with Firm Selection

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Abstract

In this paper, I explore the aggregate effects of trade restrictions in a two-country, dynamic, stochastic, general equilibrium (DSGE) model with firm s election and variable adjustment of markup. As a response to the trade collapse in the global crisis of 2008 and 2009, temporary trade restrictions have emerged in several countries. With analyzing the dynamics of a negative macroeconomic shock in the home economy first, and the subsequent introduction of trade restrictions in the foreign economy second, I show that both economies are in a worse position than they were during the economic downturn. The follow-ups to the recession and trade restrictions are investigated through three mechanisms: a) variable markup as a new avenue of increasing competitive pressure for producers (e.g. more competitive firms lower their markups.); b) average individual firms' specific productivity cut-off, which induces their optimum export choice (e.g. an increase in the export productivity cut-off means exporting becomes more difficult than before.); and c) the movement of international relative prices (e.g. the real exchange rate and terms of trade).

The Spill-Over Impact of Liquidity Shocks in the Commercial Real Estate Market

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Abstract

Considerable anecdotal evidence suggests that the effects of liquidity shocks spread quickly throughout the financial sector. However, few studies have focused on the dynamics of liquidity across real-estate markets. This paper examines the liquidity spill-over impact across four markets linked by a common fundamental factor: the stock market, the derivative (Credit Default Swap (CDS)) market, the corporate-bond market, and the private real-estate (property sale-based) market. Given the fundamental link between the underlying assets of the private and public real-estate markets, liquidity shocks are especially likely to spill over across these particular markets -- a point that has important implications for investment allocation and portfolio management. Employing a Vector Auto Regression (VAR) methodology, we investigate the liquidity-shock spill-over across the four markets. The VAR results show that bond-market liquidity Granger Causes CDS market-liquidity with a 2-month lag. Furthermore, stock-market liquidity Granger Causes bond-market liquidity with a 2-month lag. Variance decomposition analysis also supports that bond-market liquidity fluctuates due to the liquidity shocks in the stock market. Shocks to underlying-asset liquidity also have a moderate impact on fluctuations in bond-market liquidity. Underlying asset liquidity Granger Causes bond-market liquidity and the relation holds vice versa.

Equity Returns in the Banking Sector in the Wake of the Great Recession and the European Sovereign Debt Crisis

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Abstract

This study finds that equity returns in the banking sector in the wake of the Great Recession and the European sovereign debt crisis have been driven mainly by weak growth prospects and heightened sovereign risk and to a lesser extent, by deteriorating funding conditions and investor sentiment. While the equity return performance in the banking sector has been dismal in general, better capitalized and less leveraged banks have outperformed their peers, a finding that supports policymakers' efforts to strengthen bank capitalization.

Ambiguity Aversion and the Equity Premium Puzzle in Stock Markets Worldwide

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Abstract

Stocks are riskier than bonds. This causes a risk premium for stocks. The size of this premium, however, seems to be larger than risk aversion alone can explain – the so-called "equity premium puzzle". One possible explanation is that there is an additional degree of ambiguity of stock returns and this causes an additional ambiguity premium whose size depends on the degree of ambiguity aversion among investors. In a global context, the magnitudes of equity premium are higher in countries which investors show more ambiguity aversion. Using the "fundamental" equity premium estimated with the Internal Rate of Return approach of Fama and French (1999) for N = 21896 companies worldwide and ambiguity aversion data from an international survey (INTRA), we provide empirical evidence to this theory and show that ambiguity aversion can indeed explain some of the variation of the equity premium in stock markets worldwide.

Changing Dimension of Financial Inclusion in India: The Role of Postal Network

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Abstract

Financial inclusion is being regarded as an important factor for development and hence policymakers around the world are trying to achieve it. Experience and evidence reveals that financial inclusion will not happen on its own and more importantly, mere provision of financial services, that is tackling supply side of the problem is also not enough. Therefore the onus has come to the policy makers not only to tackle the supply side of the problem but to handle the demand side as well. The Reserve Bank of India is pursuing a multipronged strategy to enhance the level of financial inclusion in India by harnessing the entire spectrum of financial service providers, comprising various financial institutions, the Self Help Groups, the Micro-Finance Institutions and above all the Post Offices whose role has been re-emphasised very recently with a vision to approve Post Banks. As per the findings of Universal Postal Union (UPU), "There are more than five million postal employees around the world and 670,000 post offices" who besides providing postal services, "provide valuable financial services aimed at narrowing the financial inclusion gap". Presence of post offices in rural areas is unmatched by any other logistic and banking network with 500,000 branches in developing countries alone a greater percentage of them being in rural areas. India has the largest postal network in the world with 1,54,866 Post Offices, of which 1,39,040 (89.78%) are in rural areas. Based on that enormous net work, the Government of India, very recently decided to convert the post offices to Indian Post Bank so that this under-utilised huge potential can be tapped and utilised for financial inclusion purpose. This paper takes a look at the host of financial services being offered by India Post and examines its strength and weaknesses in this endeavour, suggesting a way forward. It also examines various business models through which financial services are being offered in different countries across the world through postal network vis-a-vis the model adopted in India and attempts a critical appraisal of the same. India Post plays a complimentary and supplementary role to the other financial institutions in ensuring financial inclusion. Keeping this in mind it is decided to develop a strategic model which will play a major role in enhancing their efficiency and effectiveness in bridging the financial inclusion gap.

The Relative Efficient Markets Hypothesis: Information Space and Refutable Models

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Abstract

The concept of information is not specified with an information space in the conventional proposition of Efficient Markets Hypothesis (EMH). As a result, due to the "joint-hypothesis problem" (Fama, 1991), the EMH is not well-defined and empirically refutable. Nonetheless, the EMH or its accompanying model of equilibrium becomes well-defined and empirically refutable once the concept of information is confined to some particular information space. The EMH hence can be deciphered either way: the traditional none-refutable way or the information-specified refutable way. The former is what we call the absolute EMH and the later the relative EMH. By virtue of a Hilbert space we demonstrate how an information space alternative to the neoclassical one is characterized and how its relative efficiency is compared against the neoclassical information space in terms of viable price systems or pricing kernels.

Why Club Goods Proliferated in Investment Finance

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Abstract

Why are there many club goods, and club good market structures, in investment finance? Why has there been such a proliferation of these types of goods and transaction structures in modern finance? The answers lie in the motivations and methods of financial firms to segment, package and offset risk and to increase profit potential. This paper presents a theoretical argument as to why, and how, financial products may migrate toward a club goods nature, differentiating between financial goods as a unitized state-space contracts while "financial products" consist of a set of these unitized state-space contracts in Arrow's state-space construct. To develop this idea, I employ a goods typology matrix developed by the Ostroms and refined by McNutt. I introduce the concept of transmutation, in which actors employ technology and developments in theoretical finance to package financial goods into new financial products whose resultant property rights shift their good type in this typology matrix. Financial firms are active agents in this process through innovation, commonly called financial engineering. I then track the concurrent development, over the last half-century, of mortgage-backed securities and of financial "engineering"—the application of advanced mathematical techniques to develop new financial products. Financial firms are self-designing organizations whose organizational fluidity and capacity to financially engineer not only permits, but encourages and rewards, the design and redesign of financial goods. Property rights structures may change as a result, shifting along either or both dimensions of the financial goods typology. Pulling conceptual scaffolding on club goods from public choice and environmental economics gives us a new structural perspective on financial goods and empowers us with better governance ideas from these extensive literatures.

Gender Patterns of Brain Activity Associated With Financial Decision Making

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Abstract

This investigation is among the first to analyze if male and female patterns of brain activity associated with financial decision making are different or not. We analyze if these differences exist when they make decision of buying, selling or holding stocks. The investigation was done with 40 volunteer (20 male and 20 female) that played an investment simulation with hundred decisions and, during all the decision process we capture, based on Electroencephalogram technology (EEG) brain electric activity. We find that male and female use different parts of the brain to make investment financial decision. When the analyze was done to decisions of buying, selling or holding we find that male use the same neural circuits to make these decisions but female not

Ownership Structures, Capital Structures and Firm Performaces: An Implication on Privatization of Vietnamese State-Owned Entreprises

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Abstract

Only when the privatization of Vietnamese State-Owned enterprises results in appropriate forms of ownership structures and capital structure can these enterprises achieve superior performance. In the context of Vietnamese stock market, privatization should transform State-Owned firms into public companies with Dominant Outsider Ownership structures, in which Dominant Foreign Ownership structure is the most preference. Moreover, since the presence of Dominant Outsider Ownership or Dominant Foreign Ownership may not weaken the adverse impact of leverage on firm value, a low level of debt would be superior in all cases.

Empirical Tests of CAPM Theory with a New Model Based on SSAEPD Errors

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Abstract

This paper proposes a new capital asset pricing model with errors distributed as Standardized Standard Asymmetric Exponential Power Distribution (denoted as CAPM-SSAEPD). Simulation data is analyzed by MatLab. Method of Maximum Likelihood Estimation is used. US stock returns are studied. Sample period is from 2002 to 2011. Empirical results show 1) with SSAEPD errors, the capital asset pricing theory of Sharpe(1964), Lintner(1965) and Mossin(1966) is still alive in US stock market. 2) CAPM-SSAEPD has better in-sample fit than CAPM-Normal by Akaike Information Criterion (AIC), Schwartz Information Criterion (SIC) and Hannan-Quinn Criterion (HQ).

Empirical Test for the CAPM Theory in French Stock Market

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Abstract

Based on the CAPM-AEPD model proposed by Jin(2011), this paper tests the theory of the Capital Asset Pricing Model(CAPM) of Sharpe (1964), Lintner (1965) and Mossin (1966) with empirical data. Method of Maximum Likelihood Estimation is used. 20 stocks from France are analyzed. Sample period is from 2006 to 2010. Empirical results show even with AEPD error assumption, CAPM theory is still alive in French stock market.CAPM-AEPD has better in-sample fit than CAPM-Normal by Akaike Information Criterion (AIC). Our findings are similar to those documented at other stock markets such as US, China, UK, Singapore and Hongkong.

Ambiguous Jumps, Fears and Robust Portfolio Strategies

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Abstract

A number of empirical and theoretical studies have documented that jump risk has a substantial impact on portfolio selection. Given that jumps are inherently infrequent, it is difficult to estimate jump models with adequate precision. This paper presents a novel approach to the optimal portfolio selection problem in a potentially large financial market for an investor who faces both diffusion and jump risk and who is averse not only to risk of loss but also to the uncertainty associated with jumps. More specifically, we develop a pathwise optimization procedure based on martingale methods and minimax results to solve for the probability of the worst scenario and for the optimal portfolio strategy in a jump-diffusion model. More importantly, our method avoids the curse of dimensionality and hence significantly helps to solve a portfolio selection problem in a model with jump risk for an investor with ambiguity aversion. Finally we apply our theoretical results to a model to examine the properties of the optimal portfolio choices. In striking contrast to a pure diffusion model, our model indicates that the ambiguity aversion of an investor with regard to jump parameters may not reinforce the investor's risk aversion. Then we show an investor can mitigate her fears of jumps by trading derivatives.

Ambiguity Aversion, Information Uncertainty and Momentum around the World

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Abstract

This paper examines how the differences of investor's attitude towards ambiguity influence the profitability of momentum in country dimension. Ambiguity aversion index is measured from INTRA (International Test of Risk Attitude) database by Wang et al. (2010), and the attitude towards ambiguity differs across country. We find that people who are more sensitive with uncertainty tend to be less overconfidence and self-attribution bias, which will further affect the momentum profits according to Daniel et al. (1998). Using data of 45 countries we show that (1) the momentum profits in countries with high ambiguity aversion index tend to be weaker or even not exist, (2) there is an interaction effect of ambiguity aversion and information uncertainty on momentum profits across country. In addition, other possible determinants do not reduce the explanatory power of ambiguity aversion to momentum profits across country.

Household Financial Risk Attitudes: Large Panel Data Evidence

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Abstract

This paper employed panel data from the 2001–10 waves of the Household, Income, and Labor Dynamics in Australia (HILDA) survey to investigate the financial risk attitudes of 10,000 individuals across 6,839 households. Ordered logit models including individual and household random effects tested for changes in risk tolerance while focusing on the impact of transitory macroeconomic conditions and controlling for individual demographic and socioeconomic characteristics. We found Australians generally reduced their tolerance for risk, though higher levels of education, wealth, good health, and being self-employed indicated the increased likelihood of risk tolerance. We found macroeconomic conditions jointly significant in determining financial risk attitudes. However, the innate demographic and socioeconomic characteristics of individuals were more important at the margin.

Bank lending responses to the official cash rate: Asymmetric and coordinated behavior in residential mortgage rate setting

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Abstract

This paper examines the short- and long-run relationships between the official cash rate used by the Reserve Bank of Australia (RBA) in the conduct of monetary policy and the standard variable mortgage rates of Australia's Big-4 banks using weekly bank-level data from January 2001 to March 2012. For each of the banks included in the analysis (ANZ Bank, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation) we specify an asymmetric short-run model in which deviations from the long-run path are corrected by three feedback coefficients capturing the three different types of disequilibria, namely, large and positive, large and negative, and small positive/negative. The results provide convincing evidence of both amount (size) and adjustment (speed) asymmetries in each bank. On average, we find that the Big-4 banks immediately passed on 120 percent of each rate rise but only 85 per cent of each rate cut. Further, when mortgage rates are substantially above the equilibrium path, we find no evidence of a significant attempt to lower lending rates. However, when the mortgage rate is markedly below its equilibrium value, we find that banks eliminate the gap by raising their rates by an average feedback coefficient of between –0.148 per week, with the National Australia Bank (–0.161) and the ANZ (–0.132) being typically the fastest and slowest to respond, respectively. We also find evidence of synchronized rate-setting behavior among these major banks.

Asset Pricing under Keeping up with the Joneses and Heterogeneous Beliefs

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Abstract

This paper provides an alternative approach to modeling “Keeping up with the Joneses” (KUJ) in which two agents who are heterogeneous in their preferences and beliefs maximize their expected utility of relative consumption to their peers. First, we find that under this peer effect, agents’ optimal portfolio/consumption decisions are co-dependent. Second, long-run survival of the agents only depend on their beliefs, not on their risk aversions. Third, in a stationary market when both agents survive in the long-run, heterogeneity in risk aversions and beliefs can justify the excess stock volatility, high equity premium, and low risk-free rate observed in financial markets.

Ethics Index, Ethical Performance, Financial Performance and the Quality of Financial Reporting

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Abstract

This research examines the economic impact of firms acting ethically on financial reporting performance and quality. We assess the impact of quarterly changes in the Covalance Ethics Index (CEI) rankings compared to firm financial performance (FP) and financial reporting quality (FRQ). A significant positive (negative) stock market reaction to CEI upgrades (downgrades) is observed. Further, the results of correlation and logistic regression analysis suggest that a positive association between increased firm ethical behaviour and performance exists. Finally, multivariate analysis consistently shows that CEI ranking downgrades reflect both lower FP and FRQ rankings. Collectively, these results suggest that corporate measures taken to increase ethical performance are associated with positive benefits to shareholders.

Strategic Investors' Investment Behavior

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Abstract

In this paper we study the strategic investors' investment decision behavior of the listed companies by analyzing the whole process: from investment decision-making, promotion of the listing, reduction of the shares, to the final exit. The decision process is divided into two stages: one is the strategic investors' going into the investment decision-making, another is initial public offering (IPO). Applying the real option and two-stage game theory, we have had the strategic investors' optimal timing and equilibrium amount of investing and IPO respectively.. This paper studies the strategic investor's theoretical behavior of the IPO cycle and the impact of reduction on the market since it develops nine factors that affect the strategic investor's investment decisions and the IPO decision.

The Cost of Political Tension: An Anatomy

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Abstract

The paper examines how increased political tension in Taiwan's sovereignty debate has affected stock returns and identifies the channels through which this occurs. Non-violent, historical events harming the Taiwan-China political relationship are associated with an average drop of 200 basis points in daily Taiwanese stock returns. Survey data on the Taiwanese public's perceived political tension yields consistent results. Examining the source of this cost shows a more severe impact on Chinese firms located close to the potential conflict zone (within missile range). Additionally, the effect varies across political connections, with Taiwanese firms politically supporting the pro-independence party being particularly negatively affected. This result concentrates on those economically exposed to mainland China through either investments or exports. Thus, the paper concludes that the cost of political tension originates not only from the risk of military action, but is also attributable to strategic and selective economic pressures imposed by the Chinese mainland authorities.

Assesing Abnormal Returns: The Case of Chinise M&A Acquiring Firms

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Abstract

The principal objective of this paper is to employ newly developed modified Corrado test to assess the abnormal returns earned by Chinese M&A acquiring 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. Using recently developed non-parametric techniques (Ataullah et al., 2011) enables more robust empirical analysis to be conducted. Our study contributes to the M&A literature in three ways: i) Chinese acquirers overall have positive abnormal returns surrounding the takeover announcement date. This contrasts with the vast majority of prior western literature. ii) Alternative modes of consideration have higher abnormal returns than cash deals. This also contrasts with prior western literature. iii) The modified Corrado (1989) test of Ataullah et al. (2011) detects abnormal returns that are significantly different from zero more frequently than the widely employed original Corrado (1989) test and the Patell (1976) test.

Price Band, Offer Price Adjustment and Initial Listing Returns: Evidence From the Indian IPO Market

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Abstract

Extant research on developed markets shows that investor sentiment plays a prominent role in IPO markets. There is sparse work in the context of emerging markets. We fill this lacuna by studying the Indian IPO market. We examine the determinants of offer price band and its influence on offer price adjustment and subsequent listing performance. Offer price band is a crucial component of the book building process and has not been studied in the context of emerging markets. Our work fills this void. We hypothesise that retail demand which is a proxy for investor sentiment will positively influence offer price band. We also posit that the profitability of a firm will be inversely related to offer price band. Our empirical tests support these hypotheses. We also find that offer price adjustment is positively related to offer [rice band.

Momentum Phenomenon in the Chinese Class A and B Share Markets

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Abstract

This paper empirically investigates the momentum phenomenon in two market segments of the Chinese stock market—the Class A share market and Class B share market over time period spanning from January 1996 to December 2008. Further, armed with various behavioural models in behavioural finance and experimental evidence from the field of psychology, we find compelling evidence showing a dichotomy of the momentum phenomenon exists in the two market segments of the Chinese stock market. Specifically, the momentum phenomenon is pronounced in the Chinese Class A share market, yet is largely subdued in the Chinese Class B share market Further, the results from a sub-period analysis reassure the resilience of our empirical findings.

Individual Volatility Risk Premium: From Empirical Results To Theoretical Models

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Abstract

This paper examines the determinants of individual volatility risk premium. We perfor m panel data analysis on a data set including 1022 stocks. Our results show the market volatility risk premium can explain 16.41% of the individual volatility risk premium. Be sides, a set of firm-specific variables can jointly account for 31.16% of it. The volatility risk premium is significantly higher for small and low priced firms, less liquid options and more liquid stocks. Stocks with high return over the previous month, the past three months and low return over the past six months tend to have high volatility risk premium. Return volatility over the previous month has a negative relationship with the volatility risk premium as a result of the return volatility mean-reversion effect. We also prove that models omitting firm-specific risk factors have a poor performance in explaining the individual volatility risk premium, which is consistent with the empirical findings.

Characteristics, Monetary Environment and Performance of Mutual Funds: Malaysian Evidence

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Abstract

The objective of this research is to study the benefits of mutual funds for providing diversification of investment portfolios for domestics and international investors. Specifically, this research investigates the influences of mutual funds characteristics and monetary environment towards performance, and the ability of fund manager in making good decision. This research uses information from a sample of 420 mutual funds for a period of 2000(M1) - 2012(M6). This research applies regression analysis for panel data. In this study characteristics were divided by objective category. Mutual fund objective were divided into fixed income, balance, growth, and multi-sector and asset allocation. Monetary environments were divided into restrictive and expansive monetary policies. As market benchmarks are Malaysia Gold Shariah Price Index and KLSE Composite Index for Islamic mutual funds and Conventional mutual funds. Results state that performance of fixed income, balance and multi sectors are over than benchmark in monetary expansion environment due to the positive alpha but growth and asset allocation funds show under performance. The results suggest that mutual fund characteristics cause differences in performance. In addition, the monetary environment results state that different monetary environment will differently affect fund performance and differently affect benchmark through differences in the monetary environment. Analysis on non-linier model, results state that all funds manager may not be able to get information and through their expertise the investment decision could reach an abnormal return. Implication of this finding is the selection investment objectives and taking risk reflected in objective will influence the performance of mutual fund.

Herding Behavior in the Chinese Stock Market. A Comparative Analysis with Other BRICS Countries.

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Abstract

The presence of herding behavior undermines the hypothesis of market efficiency, which requires the complete rationality and the possession of the same information for all individuals. This paper brings new empirical evidence in order to verify the presence of gregarious behavior in the China stock market using a 20 year-long time series. The paper differs from previous studies in several aspects. First, given the limited number of contributions focused on the Chinese stock market in relationship to the importance of its economy on a global level, the paper seeks to bridge the gap that currently exists. Then, this study not only tests the presence of herding behavior in China, but also carries out comparisons with similar countries, the socalled BRICS (Brazil, Russia, India and South Africa). Besides, we investigate the influence of the U.S. market on these emerging stock markets, and finally we examine the presence of herding behavior in bullish and bearish market conditions, and in pre- and post- financial crisis. Our analysis does not allow to clearly identify the presence of herding behavior in the Chinese market; this anomaly is in fact more likely in markets where information are more disclosed and foreign investors are more willing and free to enter (India and South Africa). The results show the intensification of this behavioral occurrence during bear markets and extreme market conditions, reducing diversification benefits of financial portfolios accessible through investment in international markets.

Impact of Corporate Governance Score on Short-term Performance of Mergers and Acquisitions

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Abstract

The present study attempts to investigate whether differences in the quality of firm level corporate governance influence short-term performance of acquiring firms for a sample of companies by creating a corporate governance index. The study is based on a survey of sample of 155 companies having completed mergers and acquisitions deals announced during January 2003 to December 2008. We document a positive relationship between corporate governance score and short-term abnormal returns by constructing broad corporate governance Index (CGI) for Indian public listed companies. We use a broad, multifactor corporate governance score, which is based on the responses to objective survey questions supplemented with interviews of senior management, directors, CFOs, board members, company secretaries, compliance officers, and investor relation officers. The questionnaire is designed on the basis of major standard qualities relevant to measure the corporate governance. The present study concludes that companies with higher rank for corporate governance score have better short-term performance which is revealed from positive and higher abnormal returns during the event windows. A strong correlation has been observes between the returns of cross-border acquisitions financed with cash payments. Regression results indicate that board size has negative and CEO equity has positive impact on short-term performance of acquiring firms. Large size board hinders effective communication and delays decision making; are less likely to monitor effectively. It seems that large fraction of equity stake owned by CEO align shareholders' interest with managers' interests and minimize agency problems.

Conventional Monetary Policy and the Term Structure of Interest Rates during the Financial Crisis

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Abstract

There is a growing literature on whether the unconventional policies of the Fed during the financial crisis have been effective. However, the literature is relatively silent on the effectiveness of conventional monetary policies during the financial crisis, a rather surprising fact given that conventional policies were the Fed's initial response to the financial crisis. This is a nontrivial question due to problems associated with the existing methods of identifying conventional monetary policy shocks in the context of the financial crisis. In this perspective, our paper analyzes the effectiveness of conventional monetary policy in changing the term structure of interest rates during the financial crisis. Our identification strategy based on the conditional heteroskedasticity of the structural innovations allows us to specify flexible structural vector autoregressive (SVAR) processes that do not suffer from the problems associated with existing methods. Comparing results based on sample periods excluding and including the financial crisis, we find that conventional monetary policy as measured in our SVAR has lost its effectiveness in changing the term structure of interest rates during the financial crisis.

Equities' Exposures to Currencies: Beyond the Loglinear Model

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Abstract

It has been surprisingly difficult to demonstrate non-zero currency exposures for individual stocks. We argue that the value of the international-trade option should be convex in the exchange rate so that exposure depends on the exchange rate level. Since spot rates move slowly, exposure could then differ substantially across samples. Many large companies, in addition, must be ambidextrous — positively exposed in some activities, and negatively in others. We derive a class of tractable multi- regime regression models and apply it to three samples: 145 country/sector indices, 110 individual U.S. multinationals, and 50 individual Chinese firms that are internationally active. We find that the standard loglinear regression is invariably beaten by the proposed alternative. However, too often we detect at least a partial concavity. This problem is most pronounced in the sector data, less so in the MNE sample, and least of all in the Chinese data.

Can Firms Learn by Observing? Evidence from Cross-Border M&As

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Abstract

Given the significant volume of M&As and the mixed results of the outcome of M&As, we attempt to study whether firms learn by observing others to acquirer or not. Using a sample of cross-border M&As conducted by U.S. acquirers and controlling for the firms' learning by doing experience, we show that there are significant and positive relationships between observational learning and firm performance, and that such relationships are particularly strong when the observable signals originate from their U.S. peers. The effects of learning by observing, however, are more important and significant when firms acquire targets from non-advanced economies, non-English speaking countries, and countries with cultures that are very different from the U.S. Our robustness tests suggest that the differences in the effects of learning by observing are not caused by the differences in the target countries. We show that there is a group of firms that appear to be better learners; these firms are substantially larger and have rich experiences in both advanced and non-advanced economies. Our results also suggest that there is a significant number of firms who do not learn by observing the signals. They appear to imitate others' actions more, a behavior that may explain the significant amount of cross-border transactions that have taken place in advanced economies even though the multidisciplinary literature finds no or even negative outcomes of such transactions.

Fragmentation, Liquidity and Stock Price: Evidence from the Flash Crash

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Abstract

The extreme price movements that happened in the U.S. financial markets on May 6, 2010, the so-called "flash crash", raised a concern that fragmentation of equity trading impairs liquidity and worsens price stability under abnormal market conditions. We conjecture that some degree of fragmentation helps to mitigate the piling-up of orders on one side of the order book and should have a beneficial effect during the flash crash. We study quotes and trades with millisecond timestamp from individual trading centers during the flash crash, and quantify the degree of fragmentation by both the trade volume Herfindahl index and the best quote intensity Herfindahl index. Consistent with our conjecture, we find that stocks with medium level of pre-crash fragmentation experienced significantly smaller changes in fragmentation and stock price during the flash crash than stocks with high or low level of pre-crash fragmentation. The effects are stronger for volume-based fragmentation than for quote-based fragmentation.

Asymptotic Inefficiency of Incomplete Asset Markets and Symmetric Event Trees

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Abstract

Demonstrate theoretically the possibility that the financial market, albeit incomplete, has equilibrium and that this equilibrium is efficient has been an important topic at the frontier of the research on general equilibrium for financial markets. This paper proposes to make a critical survey of the literature on general equilibrium with incomplete financial markets that discusses in which condition it is possible to demonstrate the asymptotic properties. In particular, we examine whether each equilibrium that ensues with additions of securities are or not constrained Pareto optimum. The constrained optimality analysis runs into the difficulty that it is hard to proceed sensibly without tackling the difficult problem of the determination of the asset structure. With incomplete markets, the asset structures matters. The paper offers and solves an example where a structure of Arrow securities relates to the asymptotic inefficiency. For this, the paper is organized into three sections, besides the introduction. The first one sets out the arguments found in the literature for asymptotic inefficiency. Special care is taken to point out specific conditions that result on this inefficiency in each case. The second section discusses the idea of symmetrical date-event trees and it presents an example where a specific asset structure entails asymptotic inefficiency. We show that for four Arrow securities it eliminates aggregate uncertainty in the context of two consumers and a simple event thee of two stages. It is argued that the aggregate uncertainty in event trees is generally associated with asymptotic inefficiency. Since in this example the financial market without securities can be better in terms of welfare, then the condition of efficiency in a restricted set of feasible choices can be achieved here. Finally, the conclusion section shows the importance of this result to the literature of general equilibrium in incomplete markets, arguing that even if still incomplete market can present optimal welfare properties when considering certain date-event trees for models with two individuals and Arrow securities.

Productivity Growth in GCC Banking Industry 1999-2007: Conventional versus Islamic Banks

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Abstract

This study examines the impact of financial liberalization on banking productivity growth in the Gulf Cooperation Council (GCC) countries during the period 1999-2007. Employing a non-parametric approach (DEA), productivity change has been measured by computing Malmquist's total factor productivity index and its components for two groups of banks, conventional and Islamic. Our findings indicate that during the period of deregulation, GCC banks have experienced a gain in productivity of about 1.8 % attributed mainly to technical progress rather than efficiency increase. We also found that for most productivity measures, conventional banks tend to outperform Islamic banks. In this paper we also investigated the determinants of bank productivity. The results show that the bank's size has a positive impact on productivity growth for all models, while capitalization is negatively related to changes in efficiency for Islamic banks only. Finally, the regression also demonstrates the strong links between bank productivity and macroeconomic & financial sector indicators.

The Impact of Financial Globalization in the Brazilian Financial System Through Institutional Lenses

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Abstract

From the 1991's economic crisis to investment grade status in 2008, the Brazilian economic underwent an institutional revolution. The purpose of this article is to use the institutional framework to discuss the transformation process that made Brazil one of the most attractive countries in the world. This process also involved changes in people's views who now consider along with credit rating agencies that Brazil is a safe place to invest. With this purpose, the paper is divided in the following sections: the first one is a brief introduction about the institutional evolution of Brazilian financial markets in historical perspective, detailing that the key points that led Brazil to the investment grade status and so, at least theoretically, to attract more investments since then; the second part discusses briefly the theory underlying financial globalization and also give some evidence that the phenomenon took place in Brazil; the third part explains the trend of financial globalization using the institutional literature; the next section is used to explicit the research hypotheses that are tested empirically with Brazilian data; in the penultimate part the empirical results are presented while the last one is dedicated to conclusions relating empirical results and institutional theory with financial globalization in Brazil. The theoretical references are composed basically by traditional authors of institutional logics as Meyer and Rowan (1977) and DiMaggio and Powell (1983) mixed with sociological literature as Machado-da-Silva, Fonseca and Crubellate (2005) presented in their paper. Giddens (1986; 1991) offers the sociological terms as reciprocity, recursivity. In this sense, this literature is related to financial systems when investors pursuing intentionality, ability and power, represented by capital, decide to invest in institutions which use this capital as a mean to change or simple reproduce social and economic reality. The output given by these institutions is used in future investors' decision. Legitimacy is created in the interdependency between institutions and investors through investing and trusting more in the country. The empirical analysis uses data from the Brazilian Central Bank to investigate the factors which explain the inflows of Foreign Direct Investment (FDI) as long term capital and the real value of listed companies in the Brazilian Stock Exchange to measure the inflows of speculative capital. Our estimates are obtained using ordinary-least squares, following Greene (2003), using robust estimation. The results point out that not only the investment grade announcement by credit rate agencies was important in the institutionalization process of Brazilian financial system, but also political and economic stabilization. Besides, investors do have the ability to follow and anticipate some events in financial markets foreseeing successful options to invest. The conclusion is that institutional logics must be used with its keys concepts to research

further about financial systems and institutionalization and legitimacy can be achieved through many paths. The paradigms in financial systems are changing in a long process.

An Analysis of Long-term Acquirers' Returns of Cross-border Mergers and Acquisitions by Chinese firms

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Abstract

This study investigates the long-term acquirer returns of Chinese cross-border mergers and acquisitions over the period of 1998-2008. Using Buy and Hold and Calendar Time methods, we find that Chinese acquiring firms experience negative returns ranging from -0.0292 in 12-month post-event period to -0.1080 in 60-month post-event period. Regarding factors influencing returns, state ownership, interaction between R&D and SOE, formal institutional distance, acquirer size have positive and significant impact on the long-term acquirer returns. However, interaction between tangible resources and SOE and acquirer cash holding appear to have negative and significant impact on long-term returns.

Currency Futures Trading in India

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Abstract

Indian Rupee has been witnessing highly volatile trends during the recent past primarily driven by the unstable investment flows into and out of the country. These high volatilities not only exposed the vulnerability of Rupee but also emphasised the need for appropriate risk management measures. While OTC forwards have widely been used for covering the price risk in foreign exchange market in India, introduction of exchange traded currency futures has given new opportunity for hedging. However, early studies indicated there is no notable shift in hedging positions from OTC to exchange traded futures due to the standardisation of contracts in terms of time of maturity, size etc., In this context, an attempt is made to study the effectiveness of futures as an alternative choice for hedging the price risk in foreign exchange markets. Further, an attempt also made to study for the presence of time varying risk premium in the Indian currency futures markets. Results indicated that the hedging effectiveness of currency futures is significantly lower than that of OTC forwards. The study of basis indicated that the UIP holds at shorter maturities.

Do Private Equity Investors Conspire with Ultimate Owners in the IPO Process?

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Abstract

This paper provides evidences that PE increases the probability of firms' IPO application being approved by regulators when ultimate owners' excess control rights are high. However, these PE backed firms have a higher IPO fee, lower initial returns, and lower long term post-IPO performance. We argue that instead of playing a monitoring role, PE in emerging markets actually conspire with the ultimate owners because the ultimate owners enable PE to invest in their firms with low investment costs, and in return PE helps these firms access the IPO market which destroys the interests of minority shareholders. (JEL G30, G38)

Inventory Investment, Global Engagement and Financial Crisis in China: Evidence from Micro Data

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Abstract

The main focus of this study is on the effects of the global engagement on the Chinese firms' financial health and whether these effects would be affected by the ongoing financial crisis. This research exploits the error-correction inventory investment equation to capture both the influence of a long-run relationship between inventories and sales and the response of inventory investment to financial pressure in the short-run. It seems that the exporters tend to have a lower inventory investment to financial constraints sensitivity which indicates a healthier financial condition than non-exporters before the financial crisis. However, this crisis makes the result different: the better financial condition that is exhibited by exporters disappears in the post-crisis period. This is possibly due to a decline of foreign demand and a fewer amount of fund provided by foreign financial companies. Accordingly, we recommend that the government should not only motivate the exporting activities but also need to encourage firms expand their business into new target market in order to eliminate the risk of over concentration on the US and EU markets. For the exporters' part, it is necessary to improve their risk management ability so that they can better cope with the complicated global business environment.

Corporate Governance and Firm Performance: An Agency Cost Perspective from Pakistan

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Abstract

This study evaluates the effectiveness of corporate governance mechanism which controls the level of agency related costs and of agency costs among companies listed on the Karachi Stock Exchange (KSE) over the period from 2005 to 2008. Four alternative measures are used to represent the agency costs namely; asset utilization ratio, free cash flow and growth, discretionary expenditure ratio and Tobin's Q ratio. The Attributes that empirically influence the level of agency costs include corporate dividend policy, the degree of board independence, and existence of CEO & board chairperson duality, board remuneration and the level of institutional ownership. The results indicate that corporate governance attributes, CEO-chair duality, board remuneration, audit committee reduces discretionary expenditure ratio. From control variables, the results highlight that leverage reduces the asset utilization ratio; dividend ratio increases the asset utilization ratio, reduces the free cash flow and enhances the performance of the managers (Tobin's Q ratio). As the risk increases the free cash flow and Tobin's Q ratio, the larger firms faces lower level of asset utilization ratio, reduction of free cash flow, higher level of discretionary expenditure ratio and hence lower level of Tobin's Q ratio. In terms of ownership attributes the findings indicates that director ownership seemed effective in controlling the free cash flow and reducing the discretionary expenditure ratio. Moreover, the institutional ownership and external ownership are effective to enhance the asset utilization ratio, reduce the free cash flow and that controls the discretionary expenditure ratio. An index measure representing firm internal governance structure is found to be negatively related to the level of agency costs, and internal governance and external ownership influences are shown to be substitute mechanisms in influencing the extent of agency costs observed.

Measuring the Performance of Hedge Funds Using Two-stage Endogenous Benchmarks

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Abstract

This is the first paper studying the performance of hedge funds using the concept of endogenous benchmarks. A two-stage endogenous benchmark approach is used to investigate a number of alternatives for measuring hedge fund performance. Our findings support the use of orthogonalized endogenous benchmarks as compared to models with no benchmarks or non-orthogonalized benchmarks. In general, our findings indicate that endogenous benchmarks should be orthogonalized against all exogenous factors. However, the form of orthogonalization affects the rankings of the hedge funds within the main-strategies of the hedge funds studied. Consequently, rankings can be significantly different at the sub-group level with different orthogonalization methods for the endogenous benchmarks. Therefore, depending on the nature of the examiner's need, endogenous benchmark might be employed after the orthogonalization 'without group alphas', which ranks the funds with reference to the exogenous factors considered, or the orthogonalization 'with group alphas', which ranks the funds with reference to both the peer group and the exogenous factors.

Interrelation Between Capital Structure, Economy Sectors, and A Firm's Financial Performance in Indonesia: Partial Lease Squares-Structural Equation Modelling (PLS-SEM)

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Abstract

This study examines the simultaneous interrelation between capital structure, economy sectors, and the extent of the performance level in Indonesia. This study discusses knowledgeably such interrelationships in a comprehensive way. First, since the theories in capital structure has not been quoted in one single accounting measurement for capital structures' attributes, this study will captured by many possible proxies or indicators to present one attribute of interest. Second, by investigating the simultaneous technique of capital structure and the firm's financial performance in varied classes of economy sectors; namely, primary, secondary and tertiary sectors through mediation effect analysis (Sobel Test). Third, it examines the interrelationship between capital structure determinants and a firm's performance within economy sectors in moderation effects. This study uses a factor-analytical technique of Partial Least Squares –Structural Equation Modelling (PLS-SEM) procedures, and as an extension the Partial Least Squares-Multi-Group Analysis (PLS-MGA) approach. It is capable of providing a greater understanding of the prediction for the construct relationship among each other with simultaneous techniques with only one time. This study speculates noattribute in the secondary sector was significantly mediated by leverage compared with the Indonesian primary and tertiary sectors. It is also can be summarised that almost of the capital structure determinants (firm- and country-specific attributes) cannot concisely reject the null hypothesis for the sectors comparison to be equal. However, some attributes are equal across two sectors (e.g., primary and tertiary sectors) that asector's path coefficient is not necessarily equal for all capital structure choices.The implication from this relationship is that some determinants of capital structures cannot only directly enhance a firm's performance. It also is influenced by how the firm's capital structure from the product category in the particular sector has been financed.

Do Islamic Stock Indexes Outperform Conventional Stock Indexes? A Stochastic Dominance Approach

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Abstract

This paper uses stochastic dominance (SD) analysis to examine whether Islamic stock indexes outperform conventional stock indexes. The paper uses nine conventional and nine Islamic stock indexes: Asia Pacific Index, Canadian Index, Developed country Index, Emerging markets Index, European Index, Global Index, Japanese Index, UK Index and US Index. Over the second sub-period (2001-2006) and entire period (1996-2012), we find that almost all conventional indexes stochastically dominates Islamic index at first, second, and third orders in all markets except for the European market. However, the Islamic indexes dominate conventional indexes in global, European, and US stock indexes during 2007-2012 period. The results indicate that Islamic indexes outperform the conventional indexes during the global finance crisis. Thus, ethical investing performs better than unethical investing during meltdown economy.

A Missing Link in FX Reserve Management: Global Needs for ACU-Denominated Reserve Assets

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Abstract

We recognize that lack of regional reserve assets has been one of the contributing factors toward the current financial turmoil and regional financial instability. Core problems are attributable to excessive dollar dependence and excessive financial short-termism at the expense of securing sustainable financial foothold, not a lack of requisite institutions per se. Some rebalancing necessarily involves supplying regional reserve assets. Regional financial arrangements of CMIM, ABMI need to be strengthened further for Asia to issue ACU indexed bond that would qualify for legitimate reserve assets. This would take the burden off the current international financial system and would contribute to a more sustainable growth in a highly globalized environment.

Group-Wide Supervision

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Abstract

New developments and the enhancing of financial sector have led to blurring of borders between the various sub-sectors of financial systems and to the creation of large financial groups which gives services in different financial sectors, such as insurance, banking, securities market and etc. It has been applied by the national economies in many parts of the world and also in the Republic of Azerbaijan with its new statehood and dynamic economy. We can denote such financial groups as financial conglomerates (holding company, group of companies etc.). Despite this mechanism is the base of economical development, social life, it brings about certain challenges. One of them is how supervise these financial conglomerates. The solution of this problem is group-wide supervision. Albeit some financial professionals do not consider group-wide supervision efficient enough it still yields significantly in different aspects of economy.

Copying Existing Discount Certificates: Does it Pay Off?

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Abstract

More than 20,000 discount certificates were issued between 2008 and 2010. 6,200 of them were identical to certificates that were already available to investors for a while. We call the former type companion certificates, the latter one copied certificates. We investigate whether issuing companion certificates pays off for their issuers. We find that margins and trading activity are higher for companion certificates than they are for certificates that offer new alternatives to investors. To copy an already existing certificate is advantageous, because issuers copy more often successful than unsuccessful certificates. We also investigate whether companion certificates create price pressure for copied certificates. We document that copied certificates' margins drop when their companion certificates are issued. Combining the various pieces of our empirical analyses provides important links necessary to understand how competition works.

Causes of Global Imbalances: A global VAR Analysis

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Abstract

We develop a Global VAR (GVAR) model for current account analysis. The model includes major economies involved in global imbalances and a few key macro variables to comprehensively examine the relations between these economies and the causality of the variables. We estimate the GVAR model based on current account data. Our approach improves panel regression on the causes by detecting both long-run relationship and short-run dynamics. We further apply the model to illustrate the evolution of the current account balance under different sources of shocks. Contemporaneous effects and variance decomposition are used to complement our findings from the impulse responses to the shocks. We find strong support for the low interest rate of the US as the main driving force of the current account imbalances. In particular, long-term interest rate decrease provides consistent mimic of the surpluses in China and Japan, and the deficit of the US. Undervaluation of yen is also evident, but the dynamics of the current account under renminbi depreciation do not consistently capture the stylized facts observed. The effects of real GDP growths and oil price on the imbalances are also mixed and thus not conclusive. Our variance decomposition confirms our findings by detecting substantial contribution of both US interest rates and yen/dollar exchange rate.

Long-Range Dependence and Nonstationarity in Pricing Options

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Abstract

The class of Gaussian processes is proposed in order to study the effect of some cognitive biases in pricing options. A Markovian approximation of such processes is computed in order to understand how the market corrects these distorsions in pricing contingent claims. A sub-fractional Brownian motion is selected to analyze the specific case where long-range dependence and nonstationarity affect prices. An empirical analysis on the S&P 500 index is performed, by running a regression on the option pricing errors, in order to the pricing accuracy and the error predictability of the approximation.

Financial Networks, "Too Systemic to Fail" and Regulation

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Abstract

This paper studies how financial regulation can affect interbank connections when the government has incentive to bail out systemically important bank. We argue that if interbank deposits are guaranteed, the equilibrium financial network may be different from the one under market discipline. We show that under market discipline, banks can collectively increase the interconnectedness of the financial network by using interbank intermediation. The new equilibrium network can effectively increase the severity of ex post contagious failure, hence increasing the government's desire to bail out the troubled bank. If intermediation is costly the network has core-periphery property. The paper implies that if the design of financial regulation takes the network structure as given, it may ignore the effect of banks' interaction such that the new equilibrium network may make the policy ineffective.

The Gap Between Assets and Liabilities of a Bond Portfolio

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Abstract

Each investor is interested in controlling changes in the value of a stream of future cash flows depending by changes in interest rates. So many researchers have examined this problem or by establishing some results for bond portfolio immunization or lower limits for portfolio net value variation, when the shock belongs to a certain class of functions. In general, these inequalities hold for portfolios in balance and duration-matching, and contain terms dependent on certain types of temporal dispersion. In this paper, by introducing a new risk measure that take in account the mismatching between values of assets and liabilities, we have established some inequalities for the percentage variation of the net value of the portfolio, when the shock belongs to L^1 and L^?.

Bank Connection, Corruption and Collateral in China

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Abstract

Using a sample of China's listed private firms we investigate the relationship between bank connection, corruption and collateral requirement. We find that when a firm is connected with banks, collateral requirement is significantly lower. More importantly we also find that bank connection is the channel through which corruption is exercised to benefit firms with favoured loan terms, in the form of lower collateral requirement. We argue that bank connection in emerging market facilitates rent seeking rather than reducing information asymmetry or monitoring costs observed in developed countries. We offer supporting evidence that legal and financial systems have consequence on credit market outcome and in emerging market firms rely largely on informal external financing based on relationship.

Diversification with Options and Structured Products -- Numerical Computations of Optimal Derivative Combinations

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Abstract

Different from diversification of stocks, there are two strategies to diversify portfolios consisting of derivatives: one is to combine derivatives where each one is based on a single underlying stock, and the other one is to buy a derivative based on the index of these stocks. Which one is better and more attractive to the investor? Since nowadays the addition of derivatives to investment portfolios becomes more accepted and commonplace, this fundamental question has large practical relevance. In this paper we analyse which diversification strategy is optimal for a classical rational investor with constant relative risk aversion who buy and hold the derivative portfolio for one year. We employ the Black-Scholes model and the stochastic volatility model of Heston for generating the processes of underlying stocks as well as pricing the derivatives. The results are developed first for options and then extended to some important classes of structured financial products.

The Impact of Arbitrageurs on Market Liquidity

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Abstract

Do arbitrageurs act as cross-market liquidity providers helping local market-makers to cope with temporary order imbalances or are they perceived as informed traders by local market-makers thereby increasing adverse selection costs? Using 5,985,983,368 bid and ask quotes on 69 US cross-listed stocks and their currency adjusted home market stock across 5 di erent countries and over 16 years I nd the following. A positive shock to arbitrage pro ts (an inverse measure of arbitrage activity) predicts a permanent increase in illiquidity, and order imbalance in the home and in the cross-listed market. Further, a positive shock to arbitrage pro ts predicts a stronger increase in illiquidity during than outside overlapping trading hours. This indicates that arbitrageurs are improving liquidity by trading against net market demand.

Productivity Performance Analysis of Banking Sector in India: A Non-Parametric Approach Analysis

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Abstract

Present Paper is an attempt to examine the total productivity growth in Indian Banking Sector during 1999-2000 to 2011-12. Data of Thirty banks (ten public, ten private, ten foreign sector banks) for thirteen years has been collected from the official website of Reserve Bank of India. Malmquist Productivity Index and Input oriented CRS data envelopment analysis are being used to measure the productivity of different sector banks over the years. Empirical results show that public sector banks has obtained highest mean TFP 1.025 and 90% banks have obtained score more than one which show that public sector banks are doing well in the industry. Private sector banks has obtained mean TFP of 1.011 and foreign sector banks 1.017. The study also reveal that the public sector banks can produce the same level of output by reducing 1.10% of input presently used and private sector can reduce the input by 2.04% and foreign banks by 3.86%. It reveals that there is more wastage of resources in foreign sector banks.

Volatility Spillover and Shock Effects from South Korean and Japanese Stock Markets

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Abstract

This paper investigates the spillover effect of volatility of Asian stock markets and their interdependence with other markets. ARMA-GARCH BEKK and GJR-Copula models were used to compare the effect of changes of profitability and volatility of the two largest stock markets in the region (Japan and South Korea) on volatility of some local markets in Asia as well as global financial markets.

Linkage of Stock Prices in Major Asian Markets and the Financial Crises

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Abstract

The Asian financial crisis of 1997 and the global financial crisis have had various impacts on Asian countries through exchange rates, stock markets, and other elements. A consideration of the linkage between stock prices in Asian markets is indispensable if we are to plan ahead for the future of the Asian economy. In this paper, the linkage between stock prices for Asian markets such as Japan, Singapore, South Korea, the Chinese mainland, Hong Kong, and Taiwan since the 1990s is analyzed, as are the impacts of the Asian financial crisis and the global financial crisis on the Asian stock markets. The analysis demonstrates that the effects of the Japanese stock market and the Singapore stock market on the Asian markets are great, but the Chinese mainland market is little affected by other markets. On the whole, it has been revealed that the interdependence in stock prices among the Asian markets has increased since the global financial crisis.

Commonality in Liquidity from the Long-term Perspective: Evidence from the Chinese Stock Market

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Abstract

This study examines the commonality in liquidity from a long-term perspective using a limited order book data of Shanghai Stock Exchange of China and Shenzhen Stock Exchange of China from 2000 to 2011. We find strong evidence of commonality in liquidity in a long term. Additionally, we also find a term effect on commonality in liquidity, that more stocks show commonality in liquidity as term increases. Commonality in non-standardized spread-related proxies has no size effects. Commonality in standardized spread-related proxies shows negative size effects, while commonality in depth-related proxies displays positive size effects. We also find that the industry liquidity plays a significant role in the liquidity of individual stocks in a long term. However, for most measures of liquidity diversification across industries does not decrease the liquidity volatility.

A Different Allocation of Resources After The Crisis and the Fear of the Credit Crunch: An Analysis of the Italian Regions

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Abstract

The trends of the granting of credit and the dynamics that led to the financial crisis of 2007, as well as the persistent consequences on the real economy, are considered in this paper referring to the condition of the Italian regions. The change in credit management was a major cause of the speculative bubble, grew up in an environment with low interest rates and high liquidity. After the bubble burst many banks have worsened the stability condition of their balance sheets. The granting of various types of credit is then declined for several reasons: the structural limits of the credit market, the necessary intervention of the authorities and the lack of liquidity. Persistent conditions of necessity have also imposed that resources were at least partially redirected, moving from businesses to households. The bad economic condition has, however, influenced the ability to repay loans and the opportunity to make new investments; the credit often had the role to maintain consumption constant in a context of decreasing of available wealth. In this paper are used data from Banca d'Italia with regional specificity (covering the period 2000-12) to observe differences, similarities and post-crisis changes in the level of grant of various types of loans in the Italian regions. In the first section a review of the relevant literature is proposed; in the second section the facts relating to the crisis of financial origin of 2007 and the impact on the financial and real markets in Europe and in Italy are highlighted; the last section represents an empirical study based on the analysis of credit variables concerning the Italian regions.

The Determinants and Profitability of Switching Costs in Chinese Banking

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Abstract

Using a sample of 151 banks over the period 2003 to 2010, this paper estimates a model that examines the effect of switching costs in the Chinese loan market on banking profitability. In keeping with the extant empirical literature it reports a positive relationship between bank profitability and switching costs. Furthermore it reports the estimation of a systems model of switching costs determination and profitability determination. The main result is that bank size measured by total assets is positively related to switching costs, while the ratio of deposits to assets is negatively related. The study also finds that banks that have higher cost-income ratios have a negative impact on switching cost.

The Smart Money Effect in Malaysian Equity Funds: Islamic Versus Conventional

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Abstract

This paper undertakes a comparative analysis of the smart money effect in mutual funds—whereby investors are able to identify funds that subsequently perform well—in Malaysian Islamic and conventional domestic equity funds. We find that Islamic equity fund investors are unable to identify funds that will outperform benchmarks in the future. However, these same investors have some ability in identifying poorly performing funds and reallocating their finances accordingly. This contradicts our findings regarding their conventional counterparts, such that conventional equity fund investors are generally able to identify better performing funds and modify their investments in light of this information. The main key implications are as follows. First, Islamic equity investors naively chasing recently highly performing funds only incidentally benefit from mutual fund momentum strategies. Second, fund managers may be able to benefit from a 'dumb money' effect found among Islamic equity fund investors in that they appear most concerned with only very poor performance in determining the flow of funds, not so much a lack of superior performance. Finally, we find high search costs may be one reason why investors naively chase past better performing funds.

Trust and Use of Covenants

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Abstract

This paper provides new evidences on how cultural norms would affect contract design under an international contracting frameworks. By using a comprehensive dataset on Yankee bond, we find that the bond contracts include more covenants when issuer comes from a country with higher trust value. This substitute effect holds even after controlling for geographic distance, language, legal systems and other firm-level controls. The findings suggest that foreign firms can write sophisticated contract that overcome the shortage of trust and facilitate access to global capital market.

Capital Structure Puzzle

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Abstract

We study the debt-capacity of market participants, including firms, in frictionless economies where price competition amongst suppliers and demanders of goods (including financial contracts) abound, and arbitrage can narrow, but not eliminate the spread in prices for each good on account of the scarce capital tied-up during transactions. We prove that under certain realistic assumptions, there is a maximum debt-capacity for any risk-caring solvent market participant. We consider the microeconomic and macroeconomic implications of this finding for the financial management of firms, including banks, and the Central Bank, insofar as it concerns the interaction of employment level and monetary policy.

Is Consumer Price Index Right for Inflation Targeting in Turkey?

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Abstract

The aim of this study is to empirically investigate whether the producer price index is an appropriate tool to be employed in inflation targeting attempts for the Turkish economy, since Frankel (2011, 2012) recently criticizes the consumer price index for its adverse impacts on the output in the developing economies. The empirical results, obtained from MS-VAR and frequency domain causality approaches by utilizing the data for the period 2003M2 - 2012M9, show that there is not a significant impact of producer price on the inflation rate during the expansionary period and it is also possible to talk about the effect of supply side shocks in the recession regime. Therefore, the consumer price index seems to be an appropriate instrument to target inflation rate, but the producer price index should also taken into account to target inflation during the recessionary period in Turkey.

Optimal Carry and Momentum Returns in Futures Markets: A Compensation for Capital Constrained Hedge Funds?

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Abstract

We provide evidence that speculative capital of hedge funds is a key determinant for the profitability of optimal carry and momentum strategies in futures markets across asset classes. We construct optimal carry and momentum portfolios from the perspective of a utility maximizing risk averse investor. The investor trades off the risk presented in the moments of his expected utility against the predictive strength of the carry and momentum signal. We parameterize the portfolio choice problem and adapt it to accommodate asset classes with varying volatility levels. We find that the returns to optimal carry and momentum strategies yield high Sharpe ratios (above 1.2) which are not a compensation for traditional risk exposure or time varying risk due to macroeconomic cycles or funding liquidity. Including optimal carry and momentum portfolios in a diversified portfolio of traditional asset factors increases the Sharpe ratios of the portfolios by on average 0.6 and reduces skewness and kurtosis. However, the returns to optimal carry and momentum portfolios are significantly related to pro cyclical hedge fund capital flows. Contemporaneously larger capital flow lead to higher optimal carry and momentum returns, implying that expected returns decrease with the total amount of assets under management by hedge funds. We argue that the predictability of expected returns in futures markets reflects the scarcity of speculative capital and is consistent with the notion of limits to arbitrage. This finding has important policy and investment implications.

Rewar Beta Approach in Emerging Markets: Brazil Case Study

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Abstract

The present article aims to test and compare three models used to predict the expected returns in the Brazilian stock market: 1) the Sharpe-Litner-Mossin version of the CAPM; 2) the Fama and French Three-Factor model; 3) and the Reward Beta Model, presented by Bornholt (2007) The procedure adopted to accomplish the objective of this article was the two-step test methodology for general equilibrium models: the first step consists of determining the models parameters based on time series regressions, and in the second step the estimated parameters are used as explanatory variables in cross section regressions. All the procedures followed Fama and French's (1993) and Bornholt's (2007) methodology, and applied in two sub-samples of stocks with available data in the São Paulo Stock Exchange (BMF&BOVESPA): the ex-ante sample comprises the period from July 1995 to June 2007 and the ex-post sample the period from July 2007 to June 2012. The test's results show that, within the scope of the methodology and data employed, CAPM and Three-Factor model fail to explain the future returns. Nevertheless, the Reward beta approach was able to outperform both tests during the entire period of study.

Microfinance, an Attractive Dual-nature Investment Opportunity:

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Abstract

We analyze whether Microfinance Institutions (MFIs) use their capital as efficiently as the benchmarks set by the factor portfolios in the CAPM and the ICAPM. Rather than testing these theories, we evaluate whether the returns of MFIs conform to efficiency benchmarks set by these theories. Using a panel dataset for 312 MFIs, we run simulations with different bootstrap methods. An equally weighted portfolio of these MFIs would yield returns that are 6-8% higher than the models predict. MFIs in Africa and the Middle East on average conform to model expectations while average performance in other regions is significantly better than expected.

The Cross-Section of Expected Stock Returns in Brazil

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Abstract

In this article, we have shown that the size characteristic of individual stocks is the most powerful variable for explaining average returns in Brazil. Different from the US, the book-to-market characteristic does not seem to matter much in Brazil, once size is included. The market ?s do not play a convincing role in explaining the cross section of expected returns either.

The Size and Interaction of Call and Default Spreads and the Determinants of Changes in Spreads

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Abstract

The information content of the call and default components of the corporate yield spread is examined. We analyze the interaction between the credit and the call components of the yield spread and study the determinants of changes in spreads. The suggested structural model determinants, while controlling for bond contract-specific and liquidity variables, explain only 26% of the variation in credit spread changes. Analysing the residuals from the above regressions we find a single common factor responsible for the remaining variation in credit spread changes. We also find that contemporaneous and lagged changes in the credit risk component, as well as lagged changes in the call risk component of the yield spread, are important determinants of contemporaneous changes in call spreads. The inclusion of interest rate risk variables, market variables, and bond contract-specific variables to the list of determinants of call spread changes adds significantly to the adjusted R-squared only for high-grade bonds. This suggests that high-grade bonds behave more like government bonds. We identify several factors unrelated to the suggested traditional determinants that drive the remaining variation in call spread changes. Our results suggest that the unexplained portion of monthly changes in credit or call spread changes may be driven by firm-specific variables, macroeconomic fundamentals, or local supply/demand shocks that are independent of structural, bond contract-specific, and liquidity factors.

The Impact Of Weekly Options On The Stock Returns and Volatility

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Abstract

This paper examines the impact of weekly option introduction on the stock return from 2010 to 2012. Using event study methodology and market model as a benchmark, we calculate abnormal returns to ascertain the impact of the options introduction. We find that there are no statistically significant long-term abnormal returns associated with weekly options introduction. Furthermore, we find that stock betas are affected by the weekly option introduction.

China Within the Deepening of the Great Crisis' Concerto

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Abstract

China has played a determinant role as a detonator of economic the growth at an international level and up to before the great crisis. This may be shown through the evolution that the following economic indicators had. Average growth rates of the GDP, 11.7%; a monetary domain of reserves multiplied by six and commercial provider of manufactures whose exports tripled between 2003-2007. These data are the result of an economic model integrated to the international accumulation process whose economic cycle responded, at the time, to the economic and financial euphoria up to before the international economic imbalance of 2008. This growth's success was based on the control of the People's Bank of China and the Economic Reforms led by Deng Xiaoping during the last century's eighties and nineties. However, those sectors outside the international accumulation process generally had a diminished internal consumption, housing services, health, and education; especially the population in the rural area. This is a challenge that the new government should solve. Bankruptcy of United States' main banks, "too big to fail, to big to rescue", and the profound international decline of the GDP, generated the global evolution of the great crisis, which directly affected China's exports. Therefore, the basis of the economic model showed their frailty and their high degree of reliance on the outside. Chinese government immediately promoted a strong investment in order to avoid an economical, politic, and social conflict inside their territory during the last months of 2008. There was a strong impulse in China through the financial package promoted by the PBC , through their main state banks, promoting a series of investments in the intern market accompanied by major foreign investments outside their territory (UNCTAD, 2012:18) to mainly provide themselves of raw materials. During 2013, the PBC had 3.3 billion dollars in its reserves; a year before exports represented 1.9 billion, by 2007 the falling of the GDP's growth rate was equal to 14.2%, by 2008 it represented a 9.6%. They recovered and reached a 10.3% by 2010, but the years after, those numbers did not appear again. It is not casual, the package was granted by the PBC in order to recover the lost growth, but it had also been a lesson to rethink the economic model. The strong investments from their great enterprises in the extraction of raw materials in the exterior should not be forgotten. A characterization of this accelerated growth in the productive sector is the strong alliance between the State and the private property system, which has deepened the expansion of Chinese investments outside their territory. Up to now the productive and financial systems are still strongly regulated and, the latter, is facing the International Monetary Fund's (IMF) requests for a higher liberalization of the financial system in favor of the institutional investors of the international financial market. In addition, there is the threat of a financial bubble orchestrated by a vigorous shadow financial system (Mcmahon y Back, 2013) outside the regulated system. The latter represents a complex panorama, in which the global situation is the result of the perturbations during the crisis and its impact en China's economy. Therefore an economic development whose imminent demand is the reassessment of the frailty of the Chinese economic

model dependent of the process of international accumulation is presented. At the same time, the dominant position of the PBC, inside Xi Jinping's new administration, showed challenges in what refers to the awakening of a sovereign nation with imperialist desires. Starting from the great economical and financial crisis, whose central axis has been present in the United States and Europe, an old dispute is under discussion for international hegemony facing the United States. Many have compared it to the slope of the British Empire and the ascent of the United States after the Second World War (Subramanian, 2011). Regardless of that dispute, the so-called G-2, China, and the United States, have established an interdependent relationship and will have, at least during the first half of the present century, a close relation. "This codependency will probably, at some point, have a political form to the chagrin of every other international protagonist, particularly European" (Fischer, 2013). At the same time, market-based growth has driven China to become dependent of the vulnerability of economic cycles. Therefore, "…the country can no longer maintain its stability controlling the exchange rate and limiting capitals' movements, while Renmibi's (RNB) internationalization implies higher risks" (Yukon, 2013). In the present paper various considerations about the struggle for imperial domain facing the United States, Europe, and the countries that belong to Brazil, Russia, China, India, and South Africa (BRICS), will be presented. Perhaps it is of utter importance to debate China's role on the development of international economic and financial frailty, a process of financialization originated by the rentier capital represented by institutional investors, the economical behavior of a regulated financial system, and a shadow financial system infiltrated in the real estate bubble within a country of 1.3 billion inhabitants, which is not thoroughly recovered yet when referring to employment before the great crisis.

Factor Reversal in the Euro Zone Stock Returns: Evidence from the Crisis Period

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Abstract

The introduction of the common currency in the Euro zone has led to a shift in factor importance from country to industry effects. Nevertheless, there is overwhelming evidence that the recent spate of crises has engendered a reversal in factor importance, returning it to country effect. This factor reversal is caused by deteriorating macroeconomic fundamentals and institutional factor, and rising sovereign risks which were identified to play important roles in characterising country factor returns of the Euro zone member countries during the crisis. Moreover, fund managers who invested in Euro zone stocks during the crisis could have gained diversification benefits from the more traditional country portfolio approach.

The Impact of Institutional Factors on Capital Structure: Evidence from Chinese Private Listed Firms

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Abstract

This paper examines the impacts of institutions on capital structure, by using the sample of Chinese private listed firms. The empirical evidence obtained supports the view that institutions have impacts on firm's capital structure in China. We find that firm's leverage is positively related with the effectiveness of legal system to creditor's protection and enforcement quality, and with the developing level of stock market. In addition, we find that firm's leverage is positively related with the effectiveness of legal system and with the degree of government intervention in increasing the use of long-term debt.

The performance of State Owned Enterprises in BRIC countries during the GFC

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Abstract

State Owned Enterprises (SOEs) now account for a substantial and increasing fraction of global foreign direct investment. While emerging economy SOEs are often vehicles for state-directed economic growth policy, the relative efficiency and performance of SOEs compared with private enterprises is open to question, particularly during crisis periods. Here we estimate a four-factor model of BRIC-economy SOE performance relative to market and sectorial benchmarks for the period 2000-2012. We show that certain State Owned Enterprises (SOEs) industry sectors offered some protection to investors during the financial crisis of 2007-2009. Further, abnormal returns in SOE portfolios can be explained by country and industry level fixed effects.

The Comparison of the Impact Factors of Performance between the Commercial Banks and Securities Companies

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Abstract

This paper conducts a relatively comprehensive empirical analysis of the two vital components of the financial systems: the performance of the financial system and its impact factors. Firstly, we selected 20 listed companies as the sample: 10 Commercial banks and 10 securities companies and the researcher data period is from 2007 to 2011. Secondly, by using the panel data and a variety of statistical methods, we made a comprehensive conclusion and comparison of the influences of a number of micro- and macro- key indicators on the performance of the financial system of China. Finally, based on the empirical analysis results, we put forward a series useful suggestion.

Extracting Global Stochastic Trend From Non-Synchronous Data

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Abstract

We suggest Kalman-filter type model which extracts global stochastic trend from the discrete non-synchronous data on daily stock market indices returns from different stock exchanges. The model was tested for the robustness. We derive “most important” hours of world financial market and estimate relative importance of local and global news at different stock markets. The model provides the results which are in agreement with intuition.

Spatial Knowledge Flows and Stock Valuations

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Abstract

Using a sample of publicly-traded pharmaceutical companies in the United States, and matched with their pharmaceutical patent citations, we combine both quantitative and qualitative research methods to investigate the relationship between spatial flows of knowledge and innovation and stock valuations. We develop a spatial knowledge flow and innovation metrics to capture the key spatial innovation resources that have a positive impact on a firm's knowledge creation. We find that patent citations are geographically clustered and firms with higher scores tend to outperform other firms in terms of risk-adjusted returns. Our findings are further supported by our qualitative analyses, which show that spatial innovation factors have a significant impact on stock returns and valuation. Our results clearly indicate that the conventional asset pricing models should include a spatial factor.