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Financial stress transmission in EMU sovereign bond market volatility: A connectedness analysis

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Abstract

This paper measures the connectedness in EMU sovereign market volatility between April 1999 and January 2014, in order to monitor stress transmission and to identify episodes of intensive spillovers from one country to the others. To this end, we first perform a static and dynamic analysis to measure the total volatility connectedness in the entire period (the system-wide approach) using a framework recently proposed by Diebold and Y?lmaz (2014). Second, we make use of a dynamic analysis to evaluate the net directional connectedness for each country and apply panel model techniques to investigate its determinants. Finally, to gain further insights, we examine the time-varying behaviour of net pair-wise directional connectedness at different stages of the recent sovereign debt crisis.

Value at Risk (VaR) as a Risk Measurement Tool in the Indian Mutual Funds Industry

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Abstract

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Extreme daily returns and the cross-section of expected returns: Evidence from Brazil

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Abstract

This paper examines whether extreme (positive) daily returns predict the cross-section of monthly stock returns in Brazil. We find a negative effect of the maximum (MAX) daily return on future performance in line with recent studies in the U.S. and Europe. High MAX stocks appear to cater to some investors that look for lottery-like stocks as extreme positive returns stocks offer the potential of substantial gains with a low probability. Increased demand leads to overpricing and ensuing lower returns to lottery-like stocks. Other proxies for extreme returns like idiosyncratic volatility and skewness play a much weaker role (if any) as cross-sectional determinants of stock performance. We document that the MAX effect is significant only during economic contractions suggesting that gambling behavior in the stock market exacerbates during economic downturns.

Macroeconomic News Announcements, Systemic Risk, Financial Market Volatility and Jumps

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Abstract

This paper studies the financial market responses to macroeconomic news announcements, in the form of volatility and jumps. Both the first moment of news surprises and the second moments of disagreement and uncertainty in news forecasts are modeled to affect the market responses. Moreover, both volatility and jump responses are allowed to vary over time, based on real economic situation, financial system stress level, or the monetary policy of zero lower bound. Using two decades of high-frequency data, this paper finds that there are significantly more jumps on news days than on no-news days, with the bond being more responsive than the equity market, and non-farm payroll employment being the most influential news. Both news surprises and disagreement or uncertainty affect financial market responses, with impact significance changing over different markets and different response types. Meanwhile, market responses to news vary over the time with economic situations, financial systemic risk or the monetary policy of zero lower bound. Positive and negative news surprises may exert asymmetric influences on financial markets, in terms of the response magnitudes and the jump hazard rate.

(In)Efficient Asset Trade, Differential Borrowing Cost And Central Bank Policy

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Abstract

This paper studies how differential borrowing cost can lead to inefficient real investment due to the feedback effect of asset trade. In addition, it designs a Central Bank policy which can alleviate the inefficiency. Therefore, I consider a model in which a large asset trader has superior information about a firm's investment opportunity. The large trader, through his purchase of assets from uninformed shareholders, signals (separating equilibrium) or does not signal (pooling equilibrium) available information. Consequently, the asset price reflects available information in a separating equilibrium and does not in a pooling equilibrium. The firm's manager bases the investment decision on the asset price. If the asset price is (not) revealing available information, the manager adopts an (in)efficient level of investment. The welfare analysis shows that information revelation is always valuable and hence the separating equilibrium welfare dominates the pooling equilibrium. Then there exists a Central Bank policy which decreases the large trader's gains from asymmetric information such that the inefficient pooling equilibrium ceases to exist.

Comparative Study of Exchange Rate Performance: South African Rand versus Currencies of Selected Emerging Economies

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Abstract

Exchange rate is an important determinant of economic growth and serves as an international measure of economic competitiveness. The choice of exchange rate policy impacts the balance of payments, flows of capital and many other macroeconomic indicators. The question that this study seeks to answer is how the South African rand has performed in comparison to currencies of emerging Economies such as Brazil, China, Morocco, Thailand and Turkey for the period 1994-2013. A basic plot of South African exchange rate series shows about four pikes since 1994, suggests a considerable amount of volatility. We explore the relative performance of the South African Exchange rate in nominal and real terms and find that the South African exchange rate did not perform all that poorly when measured against its peers. The South African Rand (in its nominal and real terms) experiences high volatility as a result of it being a small open economy and an emerging market, with a weak current account. However, the Rand is not the most volatile currency in the group of peers and only comes about the third when ranked by volatility measures. The real effective exchange rate (REER) of the Rand moves in line with its peers, which means that it provides South Africa along with its peers to enjoy an improving competitiveness position.

An Empirical Analysis of Exchange Rate Dynamics and Pass-Through Effects on Domestic Prices in Ghana

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Abstract

As a small open economy with high dependence on the external sector, the Ghanaian economy has over the years remained susceptible to external shocks, as fluctuations in commodity prices such as gold, cocoa and crude oil has implications for government revenue. More so, the economy has experienced several episodes of currency crises with dire consequences for maintaining fiscal balance and macroeconomic stability. To this end, this paper investigates the exchange rate dynamics in Ghana via identifying the sources of the exchange rate movements and their implications for price stability. Using a battery of tests, we find supply, demand and nominal shocks as significant drivers of exchange rate movements in Ghana albeit with varying magnitude and direction. The results also reveal a high but incomplete pass-through effect of exchange rate movements on domestic prices. The policy implication from the main findings from the paper is that a mix of demand management policies (responsible fiscal and monetary policies) and structural policies (e.g. tax and labour market reforms, property rights protection to encourage innovations, among others) are recommended to ensuring exchange rate and domestic macroeconomic stability. Further, reduction in excessive dependence on primary commodities as a major source of foreign exchange has the potential of reducing the exposure of the economy to disturbances in the international commodities markets.

Investigating the Nexus Between Stock Exchange and Economic Growth in Ghana

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Abstract

Stock markets mobilises long term capital for firms to facilitate economic growth. There however exist different conclusions on studies of the relationship between stock exchange development and economic growth. This has provided the basis for a further empirical investigation on the nexus between stock market development and economic growth in Ghana. By the use of ARDL model, this study uses secondary data for the period 1991 to 2011. The results revealed a negative relationship between stock market development and long-run growth of the economy. This was confirmed by the granger causality test that there is no nexus between stock market development and economic growth in Ghana. The study then recommends macroeconomic stability and friendly private sector development policies to enhance the performance of companies in the country. In addition, the mobilization of capital should be intensified to enhance stock market liquidity to facilitate long-run economic growth.

Did Quantitative Easing affect interest rates outside the US? New evidence based on interest rate differentials

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Abstract

The paper at hand explores the effects of non-standard monetary policies on international yield relationships. Based on a descriptive analysis of international long-term yields, we find evidence that long-term rates have followed a global downward trend prior as well as during the financial crisis. Comparing interest rate developments in the United States and the Eurozone, it appears difficult to find a distinct impact of the Fed's QE on US interest rates for which the global environment – the global downward rend in interest rates – does not account. Motivated by these results, we analyze the impact of the FED's QE1 programme on the stability of the US-Euro long-term interest rate relationship by using a CVAR and, in particular, recursive estimation methods. Using data between 2002 and 2014, we find limited evidence that QE1 caused a breakup or a destabilization of the transatlantic interest rate relationship. Taking global interest rate developments into account, we thus find no significant evidence that QE had an independent, distinct impact on US interest rates.

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The Nature of Organizational Hybrids: Exploring the Evolutionary Dynamics of Israeli Business Groups, 1995-2008.

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Abstract

Business groups are one of the most prevalent modes of organizing and managing economic activities through inter-firm coordination and cooperation. The extensive empirical literature on this phenomenon is focused primarily on presenting cross-sectional evidence, and much less on analyzing its developmental pattern. This paper provides an in-depth empirical examination of factors determining the evolutionary dynamics of business groups in a well-developed economy. Building on the unique data set, covering 13 years of business groups restructuring activity in Israel, I test groups' organizational boundaries in a dynamic setting. The results show that Israeli business groups' acquisition and divestiture activities, as observed between 1995 and 2008, are explained mostly by "unrelated"/conglomerate diversification and risk reduction motives. By contrast, I find a much weaker empirical support for classical transaction costs arguments, the resource-based view and the "missing institutions" approaches, broadly credited in cross-sectional studies.

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Is it possible to predict firm's earnings per-share surprises?

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Abstract

In this paper we construct a theoretical model that tries to explain why analysts make mistakes in forecasting a firm's quarterly earnings per-share. We test our model empirically and use it to try to predict future mistakes. We find that it is possible to predict earnings mistakes in all four quarters, with a focus on the first and the fourth quarters. We find that analysts are overly pessimistic with their earnings estimations for the first quarter and overly optimistic for the fourth quarter. Last quarter and last year same quarter earnings surprises were found to be an important influential factor in current quarter earnings mistakes. However, their influential direction varies across sectors. Other external factors such as firm growth rate, financial leverage and market capitalization were found to have a limited impact on quarterly earnings forecast mistakes and their impact varies across quarters and sectors.

Mimicking Credit Ratings by a Perpetual-Debt Structural Model

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Abstract

The aim of this paper is to fit Moody's default rates by a "Perpetual-Debt Structural Model". We show that a single economy-wide factor, V, is sufficient to describe Moody's data, given some parameters that contribute to measure firm's leverage, payout policy and business risk. The model allows to estimate default probabilities for any time horizon and any class of rating, conditioned on the current state of the economy. Banking, risk

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Risk diversification gains from housing assets: Evidence from dynamic optimal portfolios including metropolitan housing assets in the US

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Abstract

The study explores the roles of metropolitan housing assets in risk diversification by assessing intertemporal hedging demands for multi-asset portfolios, which include metropolitan houses, REITs, stocks, bonds, and riskless assets. Investors substitute housing assets of high-population MSAs for those in low-population cities, and they switch their holdings of housing assets to less-risky bonds in the 2007-08 housing bust. The results provide evidence for momentum reversal phenomena by showing that risk-averse investors substitute bottom metropolitan housing assets for top ones in the housing boom, and the GTTB index and the lagged REIT price return have negative impacts on various asset returns.

Do Exchange Rate Misalignments Really Affect Economic Growth? The Case Of Sub-Saharan African Countries

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Abstract

: In order to shed light on the debate concerning the exiting of the Franc Zone area, we address the issue of the growth effects of currency misalignments in Sub-Saharan African countries. To this end, we first assess misalignments which we include in a growth equation while taking into account uncertainty and "jointness" between growth determinants using recent Bayesian inference techniques. More specifically, exchange rate regimes, as well as cross-sectional error dependence, will be explored. We thus demonstrate that the gain related to undervaluation is almost zero regardless of the exchange rate regime.

Reducing Procyclical Collateral Requirements in Centrally Cleared Derivatives Markets

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Abstract

A major policy challenge posed by derivatives clearinghouses is that their collateral requirements can rise sharply in times of stress, reducing market liquidity and exacerbating downturns. Curbing procyclical collateral movements, however, increases risk sharing and moral hazard among clearinghouse members. In contrast to the existing literature, I show that less procyclical margining can destabilize markets by reducing trading in volatile periods. I find that the destabilizing effect depends on financial market volatility and the risk aversion of clearing members. I also propose a stabilizing policy based on a countercyclical variation of CCP default penalties, and show that it is welfare-improving when the default probability is sufficiently elastic to the default penalty.

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Informational Criteria for Positive and Negative Bubbles: an Experiment in Forensic Finance.

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Abstract

The notion of bubbles is ubiquitous in the public discussion of finance. Yet, the empirical discovery of bubbles is notoriously difficult. The main shortcoming of the current approaches is that they rely on the estimation of the ?fundamental value of an asset?, which is hard to estimate and interpret. In 2006-2007, Jarrow, Protter and Shimbo (JPS) proposed another approach to bubbles, one, which does not rely on the notion of the fundamental value of an asset. In 2008, the author developed two hypotheses (or theorems) connecting the JPS approach with the serial correlations in returns of specially designed assets. These hypotheses were tested by the author on a proverbial example of the Nasdaq index in 1999-2001—the time of a hypothetical dot-com bubble. In this work, I continue this study by applying informational criteria to the cases of a sharp drop in oil prices in the end of 1980s and the beginning of 1990s. The sharp drop in oil prices can indicate unknown fundamental factors in oil prices, or a negative bubble. While the application of JPS theory to negative bubbles is tenuous, a sheer possibility that the subject of a negative bubble can be empirically studied for commodities, offers a fascinating glimpse into the market behavior.

Do all investors behave myopically? An Experimental examination

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Abstract

The two incentive-compatible multi-stage investments games examine whether investors behave myopically. The first experiment indicates only participants with an initially low risk-taking level behaved myopically. The second experiment manipulates the "statuesque" level by forcing participants to hold a minimum portion of their portfolio in equity. Once again, myopic behavior exists only for subjects with level of risk taking. However, participants who were forced to allocate a minimum portion of their portfolio to stocks eventually allocated above 30% more to equity relative to participants who did not have such a constraint.

When Time Is Not on Our Side: The Costs of Regulatory Forbearance in the Closure of Insolvent Banks

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Abstract

In this paper we empirically estimate the costs of delay in the FDIC's closures of 433 commercial banks between 2007 and 2014. We find that the costs of delay could have been as high as $13.6 billion, or 27% of the FDIC's estimated costs of closure of $49.8 billion. We believe that these findings argue for a more aggressive stance by the FDIC with respect to the write-downs of banks' non-performing assets. These more aggressive (and earlier) write-downs would allow the concept of "prompt corrective action" (PCA) to play the role that it was meant to play in reducing FDIC losses from insolvent banks.

Timing of Banks' Loan Loss Provisioning During the Crisis

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Abstract

We estimate a panel error correction model for loan loss provisions, using unique supervisory data on flow-of-funds into and out of the allowance for loan losses of 25 Dutch banks in the post 2008 crisis period. We find that, in the long run, these banks aim at an allowance of 49% of impaired loans. In the short run, however, the adjustment of the allowance is only 29% of the change in impaired loans. The deviation with respect to the long-run target is made up by (a) larger additions to allowances in subsequent quarters and (b) smaller reversals of allowances when loan losses do not materialize. After one quarter, the adjustment towards the long run target is 34%, after four quarters 81%. For individual banks, there are substantial differences in timing of provisioning for bad loan losses. We present two model-based metrics that inform supervisors on the extent to which banks' short-term provisioning behaviour is out of sync with their long-run targets.

Financing Asset Sales and Business Cycles

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Abstract

Using a dynamic model of financing, investment, and macroeconomic risk, we investigate when firms sell assets to fund investments (financing asset sales) across the business cycle. The model reveals that financing asset sales entail a lower wealth transfer from equity to debt than otherwise identical but equity financed investments. Exploring the dynamics of this motive across business cycles helps explain novel stylized facts about asset sales and their business cycle patterns that cannot be rationalized by traditional motives for selling assets.

Cognition, emotion and perceived values in crowdfunding decision making

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Abstract

Crowdfunding has turned out to be a viable alternative in directing external capital to entrepreneurial ventures. Although the number of the academic studies in this area is increasing, the literature is still in its infancy. We draw upon neuroscience and consumption value theory to shed more light on crowdfunders' decision making process and the factors that have a significant impact on their choice. For this purpose we employ a factorial survey, using three different vignettes. The results of 309 participants demonstrate that decision making differs among equity, loan and presales crowdfunding. While in equity crowdfunding, perceived financial and informational benefits, namely cognitive values, seem to play an important role, in loan and presales crowdfunding both cognitive and affective elements were identified to determine the decision making. Similar to equity, in loan crowdfunding financial and informational values were significant, along with the affective dimension, namely the emotional value. In presales crowdfunding financial value did not seem to play a significant role. Instead the functional and emotional ones determined the decision making. Finally, the study established the importance of information trustworthiness, credibility and completeness in crowdfunding.

Diversification Intensive of Risk Premia

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Abstract

A long criticism on the usefulness of the traditional CAPM model has been raised in the asset pricing literature that proposes several risk factors (Fama and French (2004)). Our paper addresses misspecification issues in the empirical formulations of these multifactor models due to asymmetric diversification effects within portfolios and proposes a new model that accounts for the diversification intensive of risk premia. Using data from US exchanges we find that strategies on size, value, liquidity and financial distress contain greater risk than what is actually dictated by a conventional self-financing strategy while the opposite holds for the momentum factor.

Personal Trading by Employees of Financial Institutions

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Abstract

Personal stock market trading by brokers, analysts, and fund managers is highly profitable over short windows up to a month. These financial experts earn particularly high abnormal returns for their own account when they trade simultaneously with other experts, and when they trade ahead of earnings announcements, revisions of analyst recommendations, and large price changes. They also engage in profitable front-running ahead of corporate insider trades and ahead of institutional buying or selling pressure. In sum, financial experts appear to benefit handsomely from their privileged access to material private information.

A Practitioner's Defense of Return Predictability

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Abstract

Revisiting the issue of return predictability, we show there is substantial predictive power in combining forecasting variables. We apply correlation screening to combine twenty variables that have been proposed in the return predictability literature, and demonstrate forecasting power at a six-month horizon. We illustrate the economic significance of return predictability through a walk-forward simulation, which takes positions in SPY proportional to the model forecast equity risk premium. The simulated strategy yields annual returns more than twice that of the buy-and-hold strategy, with a Sharpe ratio four times as large. To eliminate look-ahead bias, we perform additional simulations including variables only as they are discovered in the literature. Results show similar annual returns and Sharpe ratios. While a market-timing strategy outperforms the market, it is difficult to implement.

Stock Return Asymmetry: Beyond Skewness

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Abstract

In this paper, we propose two asymmetry measures of stock returns. In contrast to the usual skewness measure, ours are based on the tail distribution of the data instead of just the third moment. While it is inconclusive with the skewness, we find that, with our new measures, greater upside asymmetries imply lower average returns in the cross section of stocks, which is consistent with theoretical models such as those proposed by Barberis and Huang (2008) and Han and Hirshleifer (2015).

Financial Inclusion of Women Through Self Help Groups in Thane District of Maharashtra State

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Abstract

India is developing country. Larger number of persons are living in rural parts and they are not familier to the banking and other financial services. Government of India has several schemes by which these rural people are brought under the fold of financial services which is financial inclusion. Similar such scheme is called as Swarn Jayanti Gram Swarojgar Yojana for rural poor women to form women Self Help Groups (SHGs) and undertake small business activities to make money for the family. Thane District of Maharashtra State in India has extreme rural population living below poverty line and the primary data of 701 women members of SHGs has been collected by undertaking extensive questionnaire survey to identify the quantum of financial inclusion of these representative samples. And attempt is made to study the financial inclusion by applying following parameters: 1. Monthly Income of SHG Families. 2. Women SHG Members with their own Saving Bank Account. 3. Women Involvement in Financial Activities of Families. 4. Business and Management Expertise among SHG Members. 5. Use of Technology for SHG Business. 6. Increase in the Capacity to Start New Business for SHG. The responses received from the women SHG members on above parameters wre analysed and conclusions have been drawn which indicates sizable financial inclusion of rural poor women in the study area.

Earnings Announcements, Stock Price Reaction and Market Efficiency-The Case of Saudi Arabia

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Abstract

This study examines the stock market reactions to quarterly earnings announcements for the Saudi stock exchange (Tadawul). The study covers Tadawul All Share Index (TASI) listed companies for the period from first quarter of 2009 to last quarter of 2014. The stock market response to quarterly earnings announcements is empirically tested by using event study methodology and Efficient Market Hypothesis (EMH) on Tadawul is also tested. The market model is used to measure the expected returns and to draw abnormal returns around the event date. The results showed that Saudi Stock Market does not hold semi-strong form of EMH and we found evidence of significant abnormal returns and post-earnings announcement drift around earning announcements dates.

Can Online Annual General Meetings Increase Shareholders' Participation in Corporate Governance? Evidence from China

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Abstract

We find that annual shareholder meetings conducted online can greatly increase the participation of shareholders, especially retail shareholders. This finding is more evident when the cost of physically attending such a meeting is higher and when the firm's ownership is more dispersed. We further document significant positive stock returns when firms initiate online annual meetings. We also find that retail shareholders indeed actively voice their concerns by voting against the proposals that potentially hurt their interests. Overall, we provide evidence that online shareholder meetings provide shareholders a cost-effective way to participate in governance issues.

New Financial Tools for Small Business: A commitment Mechanism, Bank Finding, Binary Options Market and Purchase Contract Securitization

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Abstract

We suggest new tools for financing small business. We focus on firms that sell goods and are struggling to overcome the banking system's unwillingness to finance their entry to the market and several years risky manufacturing, and established buyers' reluctance from signing their purchase contracts. The buyers fear the risk of willful litigation, namely the risk that the newcomer seller will breach the contract in order to postpone his financial expenditures to a later period, and the high risk of newcomer's bankruptcy. The first financial tool we suggest is a commitment mechanism that sellers and buyers may add to their purchase contracts. The seller undertakes a commitment to pay a bank the amount of the buyer's damages if the seller will not deliver the good on the delivery day in accordance with the contract and the law. With the mechanism the bank reports to loan officers and credit bureaus the newcomer's failure to pay the buyer's damages to the bank, and this dramatically increases the costs to the newcomer from willful litigation. This potential increase in cost makes the newcomer obligation to deliver the good reliable, and thus enables newcomer sellers to overcome the entry barrier created by the risk of willful litigation. We also show, using option pricing theory, that the purchase contract can be priced as a put option to sell the same good with an exercise price that is equal to the purchase contract price together with a binary option that entitles its owner to receive expectation damages in a case of non-delivery, and that the obligation to a bank we use in the mechanism is a theoretical equivalent to that binary option. This analysis provides the bank new tools to determine the newcomer's financial risk, to screen between newcomers and to finance the promising ones. We also discuss of the conditions for using an options market to spread the risk of newcomers' bankruptcy by selling the obligations to a bank we use in the mechanism as binary options. We further consider the possibility and terms, that with the commitment mechanism, securitization of the purchase contracts will be plausible now that they have a more accurate and high value, and willful litigation is being eliminated.

IPO Timing: An Option to Expand

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Abstract

The existing literature dealing with the Initial Public Offerings (IPOs) shows that these market operations generally go along with the undervaluation of the candidate company and a significant increase of market prices of listed companies belonging to the same sector. Based on this observation, we propose a stochastic model to determine the optimal timing of IPOs by considering this investment decision as a real option to expand. Since investors evaluate the candidates from observed market prices of peer firms, IPO may be delayed when market prices go down. Our results show that the launch of an IPO can be viewed as the exercise of an expensive real option. Moreover, we prove that the optimal exercise of this option perfectly coincides with the optimal timing for IPOs when there is a positive market trend. Finally, our conclusions also lead us to explain the clustering of IPOs.

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Socially Responsible Investment Portfolios: Does the Optimization Process Matter?

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Abstract

This is the first study to investigate the impact of the choice of optimization technique when constructing Socially Responsible Investing (SRI) portfolios, and to highlight the importance of the selection of the optimization method within this specialized industry. Using data from MSCI KLD on the social responsibility of US firms, we form SRI portfolios based on six different approaches and compare their performance along the dimensions of risk, risk-return trade-off, diversification and stability. Our results indicate that the more "formal" optimization approaches (Black-Litterman, Markowitz and robust estimation) lead to portfolios that are both less risky and have superior risk-return trade-offs; but at the cost of unstable asset allocations and lower diversification. More simplistic approaches to asset allocation (naïve diversification, reward-to-risk and risk-parity) are less effective in producing well-performing portfolios, but are associated with greater diversification and asset stability. While the three formal approaches have higher transactions costs, their net returns are appreciably larger than those of the three more simplistic approaches. Our main conclusions are robust to a series of tests, including the use of different estimation windows, stricter screening criteria, and 14 different metrics for evaluating portfolio performance. While there are some differences in performance when individual aspects of corporate social performance are used to select the sample companies, our conclusions are broadly confirmed.

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Does Liquidity Risk Premium Affect Optimal Portfolio Holdings of U.S Treasury Securities?

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Abstract

Over the last fifteen years, foreign official holdings of U.S. Treasuries reached unprecedented levels, being central banks, especially in developing countries, the first to significantly increase their holdings; which calls for an analysis of risk-factor portfolio allocation to U.S. government bonds. This paper focus on examining how changes in the liquidity differential between nominal and TIPS yields influences optimal portfolio allocations in U.S. Treasury securities. Based on a non-parametric estimation technique and comparing the optimal allocation decisions of mean-variance and CRRA investor, when investment opportunities are time varying, I present evidence that liquidity risk premium is a significant risk-factor in a portfolio allocation context. In fact, I find that a conditional allocation strategy translates into improved in-sample and out-of sample asset allocation and performance.

'Tis the Season! Mood-Based Cross-Sectional Return Seasonality

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Abstract

Existing research has documented cross-sectional seasonality of stock returns – the periodic outperformance of certain stocks relative to others during the same calendar month or weekday. We document that relative performance across stocks during the calendar months or weekdays with high aggregate returns (e.g., January, Friday, the best-return month realized in the year, the best- return day realized in a week) tends to persist in future calendar months or on weekdays when high aggregate returns are expected (e.g., January, Friday), but reverse when low aggregate returns are expected (e.g., September, Monday). We present a model based on investor mood to explain the findings. As a direct test of the model, we use anticipation of an upcoming holiday to identify periodic investor positive mood swings and document strong persistence in the cross-section of stock returns during the two to three days immediately preceding or on a holiday. This pre-holiday seasonality is long lasting, is robust to controlling for a host of firm attributes, is present in foreign equity markets and only among firms with a retail clientele, and tends to reverse in the immediate, post-holiday period. Collectively, this evidence suggests that investor mood swings are important sources of stock return seasonality in the cross section.

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Determinants of Colombian Household Debt

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Abstract

This document studies conditions of indebtness. Its main objective is the creation of a profile that helps illustrate the characteristics that influence the situations of households' over borrowing and defaulting on credit. The methodology is based on the use of a probabilistic model in which financial and socioeconomic variables were included as determinants of over-borrowing and default conditions. The principal contributions of the article lie in its disaggregated analysis that is which is based on the classification of types of credit and the evolution of the determinants over time. According to the above, it was concluded that both financial and socio-demographic variables are stronger in explaining the conditions of consumer credit rather than mortgages. Moreover, the importance of variables such as income, debt balance, the number of members in a household, age, and marital status were confirmed as being important in explaining the behavior of household indebtedness.

The Debt Tax Shield, Economic Growth and Inequality

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Abstract

We study the implications of the corporate debt tax shield in a growth economy that taxes household income and firm profits and redistributes tax revenues in an attempt to harmonize the lifetime consumption opportunities of households that differ in their endowments. Our model predicts that the debt tax shield (1) increases the risk-free rate, (2) leads to a higher growth rate of the economy, and (3) increases the degree of disparity in households' lifetime consumption opportunities. The goals of achieving a high growth rate of the economy and a low degree of inequality trade off against each other.

Walking the Walk: Inside Ownership and Selective Hedging

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Abstract

Firms' derivative portfolios are largely unpredictable, in the sense that the previous year's portfolio is a poor predictor of the current one. This unpredictability partly reflects a common corporate practice known as 'selective hedging', i.e. adjusting the timing and size of hedging programs based on market views. In this paper I examine if corporate governance arrangements influence the extent of selective hedging using hand-collected data from the oil and gas industry. The most robust result I find is that selective hedging increases in inside ownership, suggesting that managers hedge more selectively when outside monitoring is weak. It also suggests that managers are confident. Since they are betting with their own money, these managers and directors are, in an important sense, not only talking the talk but also walking the walk. The evidence also indicates overconfidence, however, since selective hedging is associated with lower realized derivative cash flows and lower firm value.

Pricing and Usage: An Empirical Analysis of Lines of Credit

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Abstract

According to economic theory, fixed spread credit lines provide firms with interest rate insurance and, hence, the usage of this type of credit line is expected to increase as corporate creditworthiness deteriorates. We test this hypothesis. The unavailability of data at the credit line level is probably one of the reasons why this analysis has not been previously performed. Indeed, we use a unique, hand-collected dataset with data on usage at this level. Our empirical analysis is also based on a fact that has been ignored by academic research: Most credit contracts (about 90% in our sample) allow choosing between borrowing at an interest rate based on LIBOR or another base rate but the spreads over these base rates are not necessarily of the same kind. This feature implies that the standard dichotomy between fixed and performance-based spreads is not enough to analyze credit line usage. Additionally, our dataset raises concerns about the DealScan database

What Drives the Interest Rates in the P2P Consumer Lending Market? Empirical Evidence from Switzerland

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Abstract

Traditionally, the lending of money in a bank-based financial system is controlled by banks. The internet has enabled new forms of credit businesses, challenging the classical bank loan through the availability of a platform for Peer-to-Peer lending markets that unite non-institutional borrowers and lenders. By using a unique data set on loan contracts between borrowers and investors from Switzerland, we analyze the determinants of the P2P loan interest rates – a research question that has yet to be analyzed empirically. In addition to the loan-specific and macroeconomic factors that have a significant impact on the interest rates, we also find some discrimination from the lenders. Furthermore, our results reveal that borrower-specific factors such as the borrower's economic status significantly influence lender evaluations of the borrower's credit risk and thus the interest rates.

The European Crisis and the Accumulation of TARGET2 Imbalances

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Abstract

Abstract In the context of the European financial crisis, TARGET2 payment system of the European Monetary Union (EMU) countries became crucial, reflecting funding stress in the banking systems of most crisis-hit countries. This paper analyses the role displayed by TARGET2 in the EMU. Until now, the ECB has assumed a crucial role to overcome the European financial crisis. Anyway, to promote a full economic recovery in Europe, it is necessary a strong interconnection between single countries fiscal policies and the ECB's autonomous monetary policy. In this regard, we conclude that, in the medium term, a successful crisis resolution requires more political integration of EMU countries, which should include a fiscal union and a banking union. However, in the short run, a prompt recovery is essential to get out of the trouble, and this requires that surplus countries (specially Germany) expand aggregate demand and let domestic wages and the ensuing internal inflation rate increase.

Does Firm Age Moderate the Relationship between Debt and Stock Returns?

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Abstract

Firm-age is widely added as an explanatory variable when investigating the relationship between debt and stock returns; however, the theoretical motivation for adding firm age as a determinant of stock returns is unclear. This paper investigates the moderating effects of firm age on the relationship between debt and stock returns. The panel system generalized method of moments results indicate that firm age has a positive moderating effect on the relationship between debt and stock returns. Moreover, firm age has direct positive effects on stock returns. The results are consistent using four measures of debt ratios. The results suggest that as firms grow older, they use their experience to make effective capital structure decisions such as the optimal debt-equity mix to maximize the debt interest-tax-shield and increase stockholders' returns.

Help or Hinderance? Boardroom Network Connectivity and Firm Performance

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Abstract

While boardroom networks should act as a conduit for resource sharing between firms, and in doing so improve firm performance, recent evidence on the value of connected boards is limited and inconclusive. This study aims to provide additional evidence on the impact of board connectivity on firm performance by exploring Australian listed firms between 2001 and 2011. We employ four dimensions of connectivity; measuring the quantity, speed and quality of information flow and resource sharing, and a firms access to the best-connected boards. We also employ a factor of the four connectivity dimensions. Our findings show more connected boards have lower firm performance, measured with Tobin's Q. The results remain consistent after controlling for alternative measures of firm performance, and model specifications. The results suggest that boardroom networks are not a value-enhancing tool for boards.

WORLD FINANCE CONFERENCE

Family Ownership and Firm Performance: Evidence from India

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Abstract

Despite the dominance of family owned firms over other form of ownership throughout the world and considerable research directed to study the impact of family ownership on firm performance, there is little empirical evidence documenting the same for India. This paper examines the relationship between family ownership and firm performance on a large sample of 1,100 non-financial firms listed on BSE during 2007 to 2014. We employ panel data feasible generalised least squares estimation method to control for firm heterogeneity and heteroscedasticity. We find that family owned firms have poorer performance than non-family firms. Our results suggest that family ownership has negative impact on accounting and market performance of the companies. We also find that family ownership is non-linearly related with performance suggesting that at higher levels of ownership convergence-of interests hypothesis may be useful in explaining the positive relationship between family ownership and performance of the companies. We also find that non-family promoters have a positive impact on market performance but have a negative impact on accounting performance.

Scale Economies in Pension Fund Investments: A Dissection of Investment Costs Across Asset Classes

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Abstract

Using a unique dataset of 225 Dutch occupational pension funds with a total of 928 billion euro of assets under management, we provide a comprehensive cross-sectional analysis of the relation between investment costs and pension fund size. Our dataset is free from self-reporting biases and decomposes investment costs for 6 asset classes in management costs and performance fees. We find that a pension fund that has 10 times more assets under management on average reports 7.67 basis points lower annual investment costs. Economies of scale differ per asset class. We find significant economies of scale in fixed income, equity and commodity portfolios, but not in real estate investments, private equity and hedge funds. We also find that large pension funds pay significantly higher performance fees for equity, private equity and hedge fund investments.

Venture Capital Performance Under Funds of Funds Monitoring

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Abstract

Our paper seeks to highlight the crucial role played by fund of funds (investors or Limited Partners) in monitoring the behaviour of funds managers (venture capitalists or General Partners) in a world characterised by asymmetric information and uncertainty. By mean of portfolio diversification at both level of sector and location, institutional investors commit money to funds of funds in order to select on their behalf top quartile managers. We show that the opportunistic behaviour of fund manager is reduced by both monitoring and profit sharing strategy called "carried interest ". As a result, the investor's performance is enhanced.

How to make finance more responsible? The case of applications of exotic options in corporate finance

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Abstract

The unprecedented progress made by financial markets over the past decades has led to a certain "gap" between financial markets and corporate finance. Many financial instruments become so complicated that they are mostly used for market speculation and arbitrage, while they are nearly not known and even less understood by firms. To make finance more responsible, we need to bring financial markets back to their track by reducing the gap between these two worlds. For this, it is important to elaborate applications with real economic foundations for financial market instruments. This article focuses on exotic options which are known for their flexibility and accuracy to meet with investors' specific needs in risk management. We strive to show how exotic options can be used in corporate finance where real economy makes sense. Our work presents a two-fold interest. First, it provides an overview on the main applications of exotic options in corporate finance. Then, it makes academic researchers aware of the importance of developing corporate applications to ensure the longevity of their ingenious products.

What does the tail of the distribution of current stock prices tell us about future economic activity?

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Abstract

This paper proposes three leading indicators of economic conditions estimated using current stock returns. The underlying idea is that current asset prices reflect the available information about future states of nature. Each indicator is a measure of the tail of the cross-sectional distribution of stock returns. The results show that the leading indicators have high correlation with future economic conditions and usually make better out-of-sample predictions than two traditional competitors (random walk and the average of previous observations). Furthermore, quantile regressions reveal that the leading indicators have significant connection with low economic activity.

A Direct Test of the Scapegoat Model of Exchange Rates

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Abstract

We present a direct empirical test of the scapegoat theory of exchange rates. According to this theory, the change in the exchange rate can be written as the sum of an unobserved variable and a term containing observed macro fundamentals. The impact of these macro fundamentals on the exchange rate consists of a weighted average of time-varying structural parameters and expectations of these parameters. We show that this exchange rate equation can directly be put into state space form and estimated using Bayesian methods. To this end, we use quarterly data for ten currencies (i.e., 5 of developed economies and 5 of less developed economies) versus the US dollar over the period 1980Q2 until 2014Q4 where our choice of macro fundamentals is based on their presence in a number of standard exchange rate models. We obtain estimates for the time-varying structural parameters on the fundamentals and for the expectations of these parameters, as well as an estimated time series for the unobserved component. Hence, we avoid the limitations and potential shortcomings of using survey data when measuring parameter expectations and we avoid having to use proxy's for the unobserved variable. We find scapegoat effects for all currencies considered, i.e., parameter expectations deviate considerably from the underlying slow moving structural parameters and have a significant impact on the exchange rate.

Dynamics of Day-Ahead Trading of Electricity in India

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Abstract

Electricity is a commodity and has a characteristic of being non-storable; it must be consumed once it is produced. In India, the Electricity Act (2003) tries to promote competition by unbundling and treating generation, transmission and distribution as separate entities. In order to address the needs of the power sector, the last decade has seen the setting up of markets for bilateral trading of electricity followed by trading of power on power exchanges in 2008. Power exchanges are able to mitigate risks arising from price volatility for the participants to a large extent. Power exchanges offer short term trading of electricity, of which day-ahead electricity trading on power exchanges forms a significant component. Day-ahead electricity markets allow exchange of contracts with delivery of electricity for the twenty four hours of the next day. The study examines the trading of day-ahead electricity contracts in India.

Price Drift before U.S. Macroeconomic News: Private Information about Public Announcements?

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Abstract

We examine stock index and Treasury futures markets around releases of U.S. macroeconomic announcements. Seven out of 21 market-moving announcements show evidence of substantial informed trading before the official release time. Prices begin to move in the "correct" direction about 30 minutes before the release time. The pre-announcement price drift accounts on average for about half of the total price adjustment. These results imply that some traders have private information about macroeconomic fundamentals. The evidence suggests that the pre-announcement drift likely comes from a combination of information leakage and superior forecasting based on proprietary data collection and reprocessing of public information.

Reconsidering Stock Markets, Banks, and Economic Growth: A System Approach

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Abstract

This paper investigates whether ?financial development helps provide favorable evidence for the link between stock markets, banks, and economic growth as more homogeneous countries become involved. The issue of fundamental importance in this study is the extent to which the role of ?financial markets on economic growth across countries can be measured in terms of a degree of homogeneity controlling for the endogeneity problem. The system generalized-method-of moment (GMM) estimator is employed and comparisons are made with dynamic panel GMM using data averaged over three and ?five years, together with European and non-European countries as well as upper and lower mid-income countries. Our empirical results indicate that the role of banks and stock markets depends on the stages of economic growth, implying that ?financial market development appears to be crucial in explaining economic growth. This evidence seems to be more obvious as more homogeneous economies become involved.

Bringing the future forward: the impact of corporate social responsibility on the returns-earnings relation

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Abstract

In this article, we examine the association between Canadian firms' transparency and their corporate social responsibility (CSR) engagement. In particular, we empirically explore how CSR affects the amount of firm's future earnings information that is reflected in current stock prices. We consider that more transparent firms can "bring the future forward" so that their current stock prices track and reflect more information about future earnings. Most of our findings indicate that the relationship between CSR and firm's transparency is not statistically significant. One potential explanation of this neutral association is that Canadian firms already benefit from a richer information environment. Overall, our study suggests that many observers cynicism about CSR may be irrelevant. In fact, it appears that managers do not use CSR as a mechanism that advances their careers or other personal agenda.

Are Open Market Share RepurchasePrograms Really Flexible?

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Abstract

I use the recent nancial crisis and utilize the predetermined variations in stock repurchase program ending dates to show that open market share repurchase programs are not as exible as one might expect. My difference-in-difference estimator shows that once firms have announced such programs, they sacrifce real activities to finish them. Specifically, firms with open market share repurchase programs ending after December 2007 cut 1.9 percentage points more of capital investment, four employees more per million dollars of capital stock, and 9 percentage points more of R&D expense to fund the share repurchases than otherwise similar firms with programs ending before December 2007. The reductions represent a 7%-15% decrease of pre-crisis levels. The freed-up capital indeed goes toward the share repurchase programs: firms buyback on average 84% of the predetermined amount of the shares.

Risk Exposure, Liquidity and Bank Governance: Are They Different Before, During and After the Recent Financial Crisis?

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Abstract

In this paper we investigate the banks performance before, during and after the crisis and ask the question of why some banks performed so poorly during the recent financial crisis. We examine the performance of a group of 102 large and medium sized banks across the world, using the variation in the cross-section of stock returns of these banks. Previous empirical analysis reports that the fragility of banks financed with short-term funds raised in capital markets, as well as the insufficient capital are among the factors that can explain the poor bank performance during the crisis. Our analysis brings new evidences in support of these findings. We find that financial institutions with more deposits, more tangible equity and less funding fragility did perform better during the crisis. Differences in banking regulations across countries are generally uncorrelated with the performance of banks during the crisis. However, we do find that banks in countries with stricter capital regulations of bank activities but less supervisory power performed better. We find no support for analyses that attribute an important role to governance during the crisis; however, the ownership is strongly negatively correlated with bank risk taking. When we compare banks performance before, during and after the crisis, we find that different factors seem to be important drivers of bank behavior in each period, with the main difference seen in the role and impact of regulatory factors and bank risk taking activities.

Stock Liquidity and Second Blockholder as Drivers of Corporate Value: Evidence from Latin America

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Abstract

This paper examines the relationship between firm value and blockholders in Latin America. Econometric results for a comprehensive data set of more than 550 firms listed in the six largest stock markets of the region support a positive effect of variables measuring the existence, contestability, dispersion and identity of blockholder on performance (Tobin's Q) only for highly liquid stocks. The identity of the second largest blockholder (family, foreign, financial or the State) emerges as critical for such effects. The study supports the voice and exit approach as a disciplinary mechanism on firm performance

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Financial Constraints, Government Subsidies, and Innovation: Evidence from the Chinese Automotive and Electronics Industries

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Abstract

In this study, we explore how government subsidies affect financial constraints and innovation at the firm level in two strategically important industries in China, namely the automotive industry and the electronics industry. We conduct empirical analyses using a sample of 492 listed firms from 2006 to 2014, and, at the same time, offer insights into our analyses through 22 interviews of entrepreneurs, managers, government officials and venture capitalists. We find that government subsidies play a key role in reducing financial constraints and promoting innovation. However, compared with state-owned enterprises, private firms are more efficient at utilizing subsidies to engage in R&D and invest more proportionately on R&D. More importantly, we provide strong evidence that firms located in SEZ enjoy the premium of regional clustering, are less financially constrained and more effective in innovation. Our findings contain rich policy implication and shed new light on the current debate on the institutional reform in China.

Prospect Theory and Migrant Remittance Decision Making

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Abstract

Foreign migrant remittances are a growing phenomenon in international financial flows. However, they are barely mentioned in discussions in international finance. The growth in migrant remittances to the developing world in the past decade amounted to $332 billion in 2010 and is forecast to reach $467 billion in 2014. A number of economic and ethical theories have been suggested in the literature to explain migrant remittance decisions. However, Yang (2011:140), rightly points out that very little is known about how migrants make their remittance-sending decision. This paper offers some theoretical insight into remittance-sending decisions and argues that prospect theory provide a better understanding of migrant remittance decisions than the current theories in the extant literature.

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Private Information in the Chinese Stock Market: Evidence from Mutual Funds and Corporate Insiders

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Abstract

I find evidence of valuable private information in the Chinese stock market. First, Chinese actively managed stock mutual funds outperform passive benchmarks including market, size, value, and momentum factors. Most funds appear to have skill, and much of that skill consists of stock-picking ability. Second, Chinese corporate insiders also outperform the market. Private information associated with insider trades is more valuable for stocks of state-owned enterprises and for more volatile stocks. Third, I find strong correlation patterns between the performance of stock funds and corporate insiders. Funds that trade more in the same direction as insiders perform better. Funds' larger shareholding positions correlate more with insiders and perform better. Funds with a higher portfolio concentration in these large positions outperform funds with a lower concentration. Finally, I find evidence of performance erosion for both stock funds and corporate insiders, a sign of improvement in market efficiency.

Risk Neutral Moments for Pricing and Hedging S&P 500 Options

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Abstract

For S&P 500 options, we examine the relative influence of the skewness and kurtosis of the risk-neutral distribution on pricing and hedging performances. Both the nonparametric method suggested by Bakshi, Kapadia and Madan (2003) and the parametric method suggested by Corrado and Su (1996) are used to estimate the risk-neutral skewness and kurtosis. We find that skewness exerts a greater impact on pricing and hedging errors than kurtosis does. The option pricing model that considers skewness shows better performance for pricing and hedging the options than does the model that considers kurtosis. All the results are statistically significant and robust to all sub-periods, which confirms that the risk-neutral skewness is a more important factor than the risk- neutral kurtosis for pricing and hedging stock index options.

Semiparametric estimation of multivariate GARCH models

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Abstract

The paper introduces a new simple semiparametric estimator of the conditional variance covariance and correlation matrix (SP-DCC). While sharing a similar sequential approach to existing dynamic conditional correlation (DCC) methods, SP-DCC has the advantage of not requiring the direct parameterization of the conditional covariance or correlation processes, therefore also avoiding any assumption on their long-run target. In the proposed framework, conditional variances are estimated by univariate GARCH models, for actual and suitably transformed series, in the first step; the latter are then nonlinearly combined in the second step, according to basic properties of the covariance and correlation operator, to yield nonparametric estimates of the various conditional covariances and correlations. Moreover, in contrast to available DCC methods, SP-DCC allows for straightforward estimation also for the non-symultaneous case, i.e., for the estimation of conditional cross-covariances and correlations, displaced at any time horizon of interest. A simple ex-post procedure, to ensure well behaved conditional covariance and correlation matrices, grounded on nonlinear shrinkage, is finally proposed. Due to its sequential implementation and scant computational burden, SP-DCC is very simple to apply and suitable for the modeling of vast sets of conditionally heteroskedastic time series.

Commodities, Financialization, and Heterogeneous Agents

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Abstract

The term 'financialization' describes the phenomenon that commodity contracts are traded for purely financial reasons and not for motives rooted in the real economy. Recently, financialization has been made responsible for causing adverse welfare effects especially for low-income and low-wealth agents, who have to spend a large share of their income for commodity consumption and cannot participate in financial markets. In this paper we study the effect of financial speculation on commodity prices in a heterogeneous agent production economy with an agricultural and an industrial producer, a financial speculator, and a commodity consumer. While access to financial markets is always beneficial for the participating agents, since it allows them to reduce their consumption volatility, it matters decisively with respect to overall welfare effects who can trade with whom (but not so much what types of instruments can be traded).

Inclusive Sustainable Development and Microfinance

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Abstract

This paper aims to determine the policy ingredients of inclusive sustainable development, as well as institutions and actors, in which it is based. We seek to explore the mechanisms and the determinants of adoption of economic agents of pro-sustainable development behaviour. More specifically, we study the determinants of transition from necessity-driven or opportunity-driven entrepreneurship to sustainability-driven entrepreneurship: (1) How does it occur? (2) Does it take place in the same way for both women and men? (3) Who are the key players? (4) What are their roles and responsibilities? (5) How microfinance can intervene in this process? Therefore, we focus on the concept of capability and concern. Our findings show that a major component of this process is the exit of vulnerability. In other words, microfinance institutions would contribute micro-entrepreneurs transition. First, they would allow the survival, and then the development of their activities. Second, they would support the increase of technicality and capacity building of micro-entrepreneurs. Later, building on the arousal of concern, developing and publicizing sustainable development experiences, particularly those led by women, would foster the transition of fulfilled economic agents into a sustainable development agents. The key policy implications of these results are discussed.

Keeping it real or keeping it simple? Ownership concentration measures compared

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Abstract

Based on a sample of 240 Swedish firms listed at the Stockholm Stock Exchange as of year-end 2008 we analyze measures of ownership concentration found in past governance literature. We find that although measures are significantly correlated, they show different distributional properties. We also identify the best underlying distribution for each concentration measure, and we are able to distinguish between measures in terms of what dimensions of ownership they describe. Finally, we document that inferences regarding the association between ownership concentration and firm performance are contingent on the choice of concentration measure.

Intangible Capital and the Investment-q Relation

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Abstract

The neoclassical theory of investment has mainly been tested with physical investment, but we show it also helps explain intangible investment. At the firm level, Tobin's q explains physical and intangible investment roughly equally well, and it explains total investment even better. Compared to physical capital, intangible capital adjusts more slowly to changes in investment opportunities. The classic q theory performs better in firms and years with more intangible capital: Total and even physical investment are better explained by Tobin's q and are less sensitive to cash flow. At the macro level, Tobin's q explains intangible investment many times better than physical investment. We propose a simple, new Tobin's-q proxy that accounts for intangible capital, and we show that it is a superior proxy for both physical and intangible investment opportunities.

Exchange Rate Risk in the U.S. Equity Market

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Abstract

We extend Lustig, Roussanov, and Verdelhan (2011) and Brusa, Ramadorai, and Verdelhan (2014) by examining if the common exchange rate factors, the dollar and carry factors, are priced in the US equity market. Our results suggest that while the carry factor has incremental pricing information relative to the US market factor, the dollar factor (or the trade-weighted exchange rate index) is redundant. Our results have important theoretical as well as practical implications. Theoretically, we suggest that financial economists take an endogenous perspective of exchange rates. Practically, we suggest that practitioners incorporate in the carry factor to measure the exposure of exchange rate risk.

On the Impact of Long-Run Seasonalities on Daily Value-at-Risk Forecasts

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Abstract

This paper examines the relevance of long-run seasonalities for adequate daily Value-at-Risk (VaR) forecasts. Assessing financial return series via wavelet decomposition allows for a separation of short-run noise and long-run memory of the underlying time series. The application of a simulation study and an assessment of daily market prices reveal the relevance of the short-run fluctuations of the underlying time series for adequate VaR forecasts. In particular, frequencies that describe the long-run trends of the original series do not impact the statistical accuracy of VaR forecasts. Moreover, the results suggests that long-run seasonalities of a return series could be discarded for sake of lower VaR forecasts.

Information About Price and Volatility Jumps Inferred from Options Prices

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,

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Martin Widdicks

,

Abstract

Options prices jump whenever there is a jump in either the price or volatility of the underlying asset. High-frequency jump tests are applied to the prices of both futures contracts and their options in order to infer the properties of price and volatility jumps. The empirical results for FTSE-100 contracts show that jumps in price and jumps in volatility are, firstly, smaller than those assumed or estimated in previous research and, secondly, do not occur independently. The price jump risk premium is shown to be a more important factor than the volatility jump risk premium. Monte Carlo methods confirm that our empirical jump detection methods are reliable for a selection of jump-diffusion processes.

Investment-Speci c Shocks, Business Cycles, and Asset Prices

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Abstract

We introduce long-run investment productivity risk in a two-sector production economy to explain the joint behavior of macroeconomic quantities and asset prices. Long-run productivity risk in both sectors, for which we provide economic and empirical justi fication, acts as a substitute for shocks to the marginal e fficiency of investments in explaining the equity premium and the stock return volatility diff erential between the consumption and the investment sector. In contrast to shocks to the marginal e fficiency of investment, long-run investment risk requires only moderate nominal rigidities to reproduce the positive co-movement between consumption and investment growth.

WORLD FINANCE CONFERENCE

Fundamentals Matter - Idiosyncratic Shocks and Interbank Relations

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Abstract

Our empirical evidence uncovers a so far undocumented ability of the interbank market to distinguish between banks of different quality in times of aggregate distress. We show that during the 2007 financial crisis the inability of some banks to roll over their interbank debt was not due to a failure of the interbank market per se but rather to bank-specific shocks affecting banks' capital, liquidity and credit quality as well as revised bank-level risk perceptions. Relationship banking is not capable of containing these frictions, as hard information seems to dominate soft information. In detail, we explore determinants of formation and resilience of interbank lending relationships and their intensity by analyzing an extensive dataset comprising over 1.9 million interbank relationships of more than 3,500 German banks between 2000 and 2012.

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Financial Deepening, Trade Openness, Capital Inflow And Growth In India–An Evidence From Co-Integration

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Abstract

The paper attempts to test empirically the hypothesis of Finance – led growth in India. For this it traces the long run relationship among the five macro variables such as growth rate of GDP, X+M/GDP, M3/GDP ratio, Foreign Capital/GDP ratio and Private Corporate Saving/GDP ratio for the period of 41 years (i.e, 1971-2013) with the help of recently developed time-series techniques (i.e, Unit roots, Johansen's Co-integration test). Unit roots were checked in the data with the help of ADF test and Phillips Perron Process. Five variables of interest i.e. GDP growth rate, Trade openness, M3/GDP and foreign capital inflow and Pvt. Corporate Saving are integrated at first difference level and significant at 5% level. In experiment -1 Co-integration results obtained with the help of co –integration technique confirm two co-integrating vector which tell us about long term equilibrium in the data. We also examine the two multivariate models which include Foreign Capital, Openness, Corporate Saving. All the variables show very strong long run relationship. Our Trace Test shows 2 co-integration equations and also Max-Eigen value shows two co-integrating equations at 5% level of significance. Granger Causality tests are showing the expected results. Our results support the view that finance, foreign capital, openness, corporate saving area leading sector in the process of Economic Development of India.

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What drives private non-financial sector borrowing in emerging market economies?

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Abstract

The private non-financial sector borrowing has considerably increased in the emerging market economies (EMEs) over the last decade. Through a panel data analysis performed with quarterly data over the period 1993:Q1 to 2014:Q3, I show that the main domestic drivers of private non-financial borrowing in EMEs are a high credit demand, an appreciated domestic currency, an accommodative monetary policy stance, low long-term interest rates and low macroeconomic vulnerabilities, as well as a healthy and large size domestic banking system. Moreover, the recent increase in non-financial private sector borrowing in the region is found to be influenced by global factors such as the US dollar appreciation, the high global financial market volatility, the US monetary policy and the global economic growth.

Default Risk Premium in Credit and Equity Market: A New Approach for Structural Model Estimation

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Abstract

We propose a novel methodological approach to estimate a corporate structural model, by using data from credit and stock market, and we reconstruct the dynamics of the market value of assets and debt, and the default boundary, for a sample of non-financial firms. We exploit our results to extract the default risk premium, which combines the risk-neutral and the real-world measure of default probability. We show that the equity and the credit market exhibit a relationship with the default risk premium which is opposite to each other, by implementing a long-short portfolio strategy based on the default risk premium, which generates significant performance. Therefore, we argue that the 'distress puzzle', that is the counterintuitive negative relationship between default risk and stock return, can be solved, if the credit and the equity market securities are related through a default risk indicator, resulting from an appropriate structural model estimation, using only market data.

Capital Structure on Valuation

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Abstract

Although there is a strong consensus that the weights in the cost of capital calculation must be market value weights, in a business valuation, appraisers do not use an unique approach to estimate the capital structure that will prevail in the future. In fact, both practitioners and academics have different takes on this matter. The methodologies proposed are the use of book values, a target capital structure which presumably would be the optimal and the use of the industry average capital structure, assuming that it also would be the optimal. All of these approaches have controversial issues and yield some mathematical inconsistencies. In this paper we disentangle some of these issues and propose a different approach which solves the mathematical inconsistencies and it is also suggested for closely-held companies, since it bypasses the absence of market values.

Does low Efficiency turn into high Risk? An Empirical Examination of Cooperative Banks

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Abstract

We use Granger-causality-techniques in order to evaluate inter-temporal relationships between risk, efficiency and capital. Specifically, we estimate how credit risk, liquidity risk and capital risk are related to bank efficiency. We use two different measures for bank efficiency, namely cost and profit efficiency, since these measures reflect different managerial abilities. One is the ability to manage costs and the other is to maximize profits. Our results mostly apply to current literature in this field since we find that lower cost and profit-efficiency Granger-cause increases in credit risk. At the same time, we identify that credit risk negatively Granger-causes cost and profit-efficiency, hence revealing a bi-directional relationship between these measures. However, results also show a positive relationship between capital and credit risk, thus displaying that moral hazard (due to limited liability and deposit insurance) does not apply to our sample of cooperative banks. These findings may be important to regulators, supervisors and managers in order to identify issues related to prudence regulation and banking strategies respectively.

Controlling Shareholders and CEO Pay Monitoring: Evidence from a Panel Threshold Model in French Companies

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Abstract

Large shareholders may play a major role in the governance of a firm, but very little is known about the conditions to be met to exert effective control. Based on a panel of French listed companies and using CEO pay packages to gauge monitoring activities, the study tests for various characteristics of large shareholdings and control-enhancing mechanisms to identify who the controlling shareholders are. This is then used in a panel threshold regression (PTR) model that allows to search for threshold effects and the existence of various regimes in the degree of control. The model identifies one regime of non-controlled firms, and three distinct regimes of controlled firms (termed influential, dominant, and exclusive controls) that have differentiated behaviors when monitoring CEO pay. The study lastly demonstrates the relevance of threshold effects when testing the impacts of ownership compared to usual linear or non-linear continuous specifications.

The route of listing and acquisition: Does an IPO help mitigate an M&A underperformance

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Abstract

A private acquirer has two routes to go public and acquire other firms. It can conduct a reverse takeover (RT) transaction with a public listed firm to inherit the public listing status as well as the operational business of the public firm. An alternative route is to complete an initial public offering (IPO) and acquire other operational business subsequently. I examine factors that influence the choice between these two routes by studying 66 RTs and 179 acquisition-motivated IPOs (AMIPOs) listed on the London Stock Exchange during 1995-2012. My results suggest that private firms with higher leverage and cash-to-total asset ratios are more likely to opt for the RT route. Although private firms conducting an acquisition-motivated IPO are on average larger and less leveraged than peers opt for a RT, I find little evidence that their post-acquisition performances are fundamentally different. The results also show that RT and IPO firms have similar board ownership structure immediately after the listing. On average, post-listing firms have 34% to 36% board ownership, six members per board, and 40% board members as non-executives. There is no difference in control preferences shown by board directors of private firms opting for each route. I observe no impact of board ownership structure on the choice of the listing and the post-acquisition performance.

Listing Status, Financial Crisis, and the Provision of Trade Credit

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Abstract

We examine the impact of a supplier's listing status on its provision of trade credit. We find that the amount of trade credit supplied by public firms is nearly a quarter higher than that provided by private firms. This finding is statistically and economically significant, and is robust to controlling for endogeneity and sample selection. We also find that public firms that are large, have low tangibility, high sales volatility, high bargaining power, and high growth opportunities provide more trade credit than their private counterparts. Further, compared to privately held companies, publicly listed firms supply more trade credit in differentiated and service industries, but less trade credit in retail and wholesale, standardized, and concentrated industries. The financial crisis of 2007–09 had no differential effect on the level of trade credit offered by public and private firms as both of them cut back on their provision of trade credit during this period.

Bank debt and trade credit for SMEs: international evidence

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Abstract

This paper examines the links between firm age, firm size and the ability to obtain capital in a sample of European SMEs. The results indicate that age and size are positively linked to debt capacity. Furthermore, our analysis reveals that it is crucial to distinguish between bank debt financing and trade credit. Young and small firms are more subject to denial due to the higher moral hazard they represent for a bank. Only very young firms are more constrained for trade credit. The results of simultaneous analysis show that trade credit is positively related to bank credit financing, thus providing empirical support for the complementarity of these forms of financing.

Ownership Structure and Mergers and Acquisitions Decisions: Are family firms different acquirers?

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Abstract

This study investigates the relationship between ownership structure and mergers and acquisitions decisions for a comprehensive sample of 195 companies listed on the Swiss Exchange for the period 2003-2013. It examines if different ownership structures influence the probability of engaging in M&A as well as the value creation of these operations around announcement date. The paper focuses on family firms and analyses the influence of several characteristics (such as generation, involvement into the management or lone presence) on M&A. The results show that the likelihood of engaging in M&A decreases with the presence of a family as the controlling shareholder and is even smaller in family firms with only one member or in firms that are actively managed by the family. Value creation in M&A does not appear to be influenced by ownership structure. However, value creation by some type of family firms (those with several members and those with no family member involved in the management) is negatively perceived by market participants.

How to Reconcile Financial Incentives and Pro-social Motivations of Loan Officers in Microfinance?

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Abstract

More and more double bottom line microfinance institutions, which pursue both social and financial objectives, have adopted an incentive scheme to motivate their credit officers to improve their financial performance. However, the crowding-out hypothesis, developed by some psychologists, suggests that monetary rewards may not always be optimal as they may reduce prosocial motivation. Therefore, according to this theory, loan officers may be less willing to take care about clients when receiving financial incentives, what might then jeopardize the social mission of the microfinance institution. In this paper, we attempt to suggest, with a mathematical model, an optimal incentive scheme microfinance institutions could rely on in order to increase their financial profit while preserving loan officers' prosocial motivation.

The Effects of the Global Financial Crisis on the Colombian Local Currency Bonds Prices: An Event Study

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Abstract

We use high frequency data on the Colombian local currency bond market to measure the effects of the Global Financial Crisis (GFC). We assume that the US market acted as a transmission mechanism for the crisis in a standard market model. We control for confounding effects from the events that originated from the crisis by taking into account the effect of global, regional and local macroeconomic surprises in the period before, during, and after the GFC. We conclude that there was resilience and decoupling of the Colombian local currency bond market from the events of the GFC.

A fundamental bond index including solvency criteria

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Abstract

Doubts are rising whether bond indices, in the way they are constructed, are effective in their role of representing the markets they are designed for. Since index constituents are defined on market shares –the larger the debt obligation, the larger the share in the index– it may be that certain risks related to a high level of indebtedness are being accentuated which are not necessarily representative for the market as a whole. Undue debt levels would in theory not arise in an information-efficient market, however, if prices are distorted, it makes sense to compensate for that and add elementary information on the debt issuers to the index construction process. We test how that works out on corporate bonds. We build a bond index that is based on firm accounting data rather than debt size, and give evidence that it may serve as a market proxy.

Jump Regression

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Abstract

We develop econometric tools for studying jump dependence of two financial processes from high-frequency observations on a fixed time interval. In this context, only segments of data around a few outlying observations are informative for the inference. We derive an asymptotically valid test for stability of a linear jump relation over regions of the jump size domain. The test has power against general forms of nonlinearity in the jump dependence as well as temporal instabilities. We further propose an optimal estimator for the linear jump regression model that is formed by optimally weighting the detected jumps with weights based on the diffusive volatility around the jump times. We derive the asymptotic limit of the estimator, a semiparametric lower efficiency bound for the linear jump regression, and show that our estimator attains the latter. The analysis covers both deterministic and random jump arrivals. A higher-order asymptotic expansion for the optimal estimator further allows for finite-sample refinements. In an empirical application, we use the developed inference techniques to test the stability (in time and jump size) of market jump betas.

Protective Bond Covenants and Optimal Debt Liability Structure

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Abstract

This paper shows that a common bond covenant–the negative pledge covenant–effectively allows firms to securitize debt claims of different maturities and limit the amount of debt raised on any given maturity. The negative pledge on longterm debt contracts does not allow future debt issues to dilute existing claims, which keeps the maturity structure from unraveling to the very short end. Thus, secured long-term debt recovery values are pinned to economy fundamentals, while short-term debt recovery values are endogenous to future bond prices, because the covenant protects the value of the assets that back the long-term claims. We show that an optimal debt liability structure with multiple maturities emerges. Our model of debt maturity highlights the empirical observations that the debt liabilities of firms in the real sector: 1) often have negative pledge covenants, 2) are issued on different maturities, and 3) are held by multiple creditors.

Do intrinsic values calculated by equity valuation models reflect correct market share prices?

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Abstract

In order to make informed, value creating investments, one of the tools to the disposal of analysts and investors is a number of share valuation models that calculate the intrinsic value of a share. This study aims to determine which share valuation model calculates an intrinsic value of a share closest to the market share price. An extensive literature review examined the construction of different share valuation models, the factors that affect the correctness of such valuation models and the conclusions of other studies related to equity valuation and market share price comparison. The literature also highlighted the models which were used in this study to calculate intrinsic values of shares, namely the free cash flow to equity model, the free cash flow to the firm model, the Gordon growth model, the multiples valuation model and the residual income model The outcome of the analyses and comparisons show that some share valuation models paint a more accurate picture of the actual share price of a firm than others. The multiples valuation (MV) model in particular gave the closest intrinsic value to market share price than any other valuation model. It also outperformed all the other valuation models in terms of industry and it delivered the least issues in terms of missing information, which generally result in an inability to calculate an intrinsic value. It is therefore recommended that in order to use share valuation models to calculate the intrinsic value of shares, the market multiples should be the preferred model, but other valuation models should be used in conjunction with the MV model to assist analysts and investors in their investment decisions.

Fragmentation and heterogeneity in the corporate bond market

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Abstract

We assess the degree of market fragmentation in the euro-area corporate bond market by disentangling the determinants of the risk premium paid on bonds at origination. By looking at over 2,400 bonds we are able to isolate the country-specific effects which are a suitable indicator of the market fragmentation. We find that, after peaking during the sovereign debt crisis, fragmentation shrunk in 2013 and receded to pre-crisis levels only in 2014. However, the low level of estimated market fragmentation is coupled with a still high heterogeneity in actual bond yields, challenging the consistency of the new equilibrium.

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Pricing and Analysis of a Cyber Liability Insurance using Gumbel Copula – A case for Cyber Risk Index

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Abstract

Cyber risk, a type of operational risk, is today considered a key component in the enterprise risk management framework. Under BASEL regulations, a bank could recognize the risk mitigating impact of the Cyber Liability Insurance (CLI) contract while calculating the minimum operational risk capital requirement. Despite this benefit and the onerous data protection acts, organizations are still reluctant to buy CLI contracts. In this work, we price and analyze a CLI contract using Gumbel copula and evaluate the contract's cyber risk mitigation effectiveness. We find that the structure of the CLI contract may be inefficient at mitigating the cyber tail risk and propose a case for a traded cyber risk index similar to the Property Claim Services (PCS) index for the catastrophic risk. A traded cyber risk index could offer wider cyber risk hedging alternatives to the insurers. Given such risk hedging alternatives, the insurers would have lower impetus to set conservative limits in the CLI contracts thus making the contracts more useful for the organizations.

Non-Performing Assets in the Indian Banking Sector - A Menace

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Abstract

Banks play a very important role in the development of a country. They are the growth drivers but are also exposed to a number of risks. Banks today are judged not only on the basis of number of branches and volume of deposits but also on the basis of quality of assets. The Indian banking sector today is facing a serious problem of Non- Performing Assets despite various acts such as DRT and SARFAESI Act. The paper tries to understand the trends of NPAs in the Indian Banking sector(Public , Private and Foreign) and also analyse the sector wise influence of NPAs. It also aims to analyze whether there is any difference in NPA occurrence between various banks and tries to ascertain relationship between NPAs and ROA. The authors' have taken the data for 14 years (2000-2014) of the Indian banking industry and have used statistical tools like descriptive statistics, anova single sactor, independent t- test, post hoc analysis, Karl Pearson's Coefficient of Correlation . The findings SPSS reveal that the NPA of public sector is highest and has increased significantly whereas in private sector the percentage growth has come down. The paper also shows the negative relation between the NPAs and profitability of the bank. Moreover, it reveals that for public sector banks, priority sector NPAs are not significantly different from that of non-priority sector.

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On the value of virtual currencies

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Abstract

This paper develops an economic framework to analyze the exchange rate of a virtual currency and its main drivers. Three components are important for the exchange rate: First, the actual use of the virtual currency to process real payments. Second, the decision of forward-looking investors to buy virtual currency (thereby effectively regulating its supply). Third, the elements that jointly drive future consumer usage and merchant acceptance of the virtual currency, which determine expected long-term growth in usage. The model predicts that, as a virtual currency becomes more established, the exchange rate become less sensitive to the impact of shocks to speculators' beliefs and their inflow and outflow into the virtual currency market. This undermines the notion that the volatile exchange rates of virtual currencies will prohibit their widespread usage in the long run.

Asset Allocation Brewed Across African Stock Markets

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Abstract

Using data from eleven African stock markets between the years 2000-214 and adopting the Markowitz optimization technique, we construct the optimum portfolio and the minimum variance portfolio across eleven African stock markets. We find that, efficient allocation of assets across the African continents can offer better risk-return trade off than an investment that is country specific. The result is robust, as the bootstrap technique adopted did not significantly vary the results. Finally, comparing the risk and return of the optimum portfolio to the Standard and Poor Dow Jones index shows there is a reward for bearing extra risk to invest in Africa.

CONFIDENCE, OVERCONFIDENCE AND THE 2007-2009 FINANCIAL CRISIS

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Abstract

We study the role of confidence and overconfidence on bank risk taking and performance, using a large sample of American and European banks in the period 2000-2013. First, we build up a new indicator of confidence and overconfidence, based on the provisions banks hold to face expected future losses. Then, we show that more confident banks are more willing to leverage and have a higher propensity to lend. But, higher confidence and lending does not lead to greater bank's profitability. By contrast to the literature on overconfidence, we find that the difference between confident and overconfident behavior relies more on the intensity of confidence than on the quality of the behavior between these two categories of banks. Finally, we show that the most confident banks before the 2007-2008 financial crash (the American banks and the overconfident banks) faced the highest losses during the crisis.

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Busy Directors and Stock Price Synchronicity

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Abstract

We find that the occurrence, scope and busyness of busy directors can significantly increase firms' stock price synchronicity with the market using the data of Chinese publicly listed firms from 2003 to 2012. Busy directors can increase stock price synchronicity by serving as conduits for information sharing and transferring across firms, rather than by reducing monitoring leading to lower firm-specific information. These effects are more pronounced when busy directors are inside directors, older and more experienced. These results are robust after addressing the endogeneity issues with the dynamic panel GMM estimation and the two-stage estimation with the instrument variable. The findings of this paper highlight the importance of corporate leader human capital factors on firms' systematic risk.

Estimation of Hedge Ratio: Wild Bootstrapping Approach

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Abstract

The paper presents a new approach to estimating the minimum variance hedge ratio (MVHR). We employ the wild bootstrapping method in a time-varying framework to enhance the estimation of OLS regression and report the bootstrap distribution of the hedge ratios, which is more informative of uncertainty than point-estimate approaches. The bootstrapping methodology is employed to remedy heteroskedasticity and normality assumption issues associated with the traditional OLS hedge ratio. The effectiveness of the bootstrap percentile based hedging is compared to conventional static and dynamic strategies such as the naïve hedge and DCC-GARCH model in various asset classes. The paper concludes that the predictive power of the bootstrap percentile based hedging is better than the alternatives conventionally used in risk management. The uncertainty of MHVR estimation is examinable by the bandwidth of the bootstrap percentiles during historical turbulent periods. In summary, DCC-GARCH hedge ratios with conditional variance are significantly more volatile than the bootstrap percentile based hedge ratios. Strategies using MVHRs from percentiles of the bootstrap distribution, especially at the median, almost outperform their counterparts from DCC-GARCH model and the naïve hedge in terms of hedging effectiveness, downside risk and the hedged return fluctuation. As trendy convergence to 1 of the bootstrap hedge ratios, the naïve hedge can be seen as a rational strategy in normal market conditions, particularly for risk exposure in commodities.

Credit Ratings and Acquisitions

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Abstract

We document a curvilinear relation between credit ratings and acquisitions. Acquisitions first increase and then decrease as ratings improve, with a high around the A? threshold. The increase at low rating levels is accompanied by lower announcement returns. Acquisitions have a negative impact on future ratings for highly-rated firms, and a positive impact for firms with low ratings, even after controlling for all the characteristics potentially influenced by the transaction. These results indicate that credit ratings exert substantial influence on the acquisition process, and that rating agencies pay particular attention to acquisitions when deciding on the creditworthiness of firms.

Rational Investor Bahaviour and Market Mispricing - The Resale Option Pricing Effect

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Abstract

The fundamental value of a company share is commonly calculated as the present value of future expected dividends, typically modelled as some function of the firm's future accounting earnings and/or book values. However, when substantial magnitudes of trades in the stock market are made by "uninformed" investors, the observed price might only be a noisy reflection of this fundamental value. For an informed investor, this potentially creates a value-enhancing opportunity. In principle, the investor can either wait for the dividends to be realised, or sell the stock. It can be rational to sell when there is a mispricing, such that the share price is higher than the present value of future expected dividends, but the intriguing question is: How much higher than the fundamental value should the price be to sell? We formalize this question as a so called stopping problem, and show that substantial mispricing typically is required before any trading should take place. Hence, market mispricing cannot really be expected to "immediately" correct itself, but can actually be present for long periods of time. Our modelling sheds new light on stock market bubble phenomena, as well as provides a tool for fund managers to rationally determine trading strategies in their portfolio management.

The Real Effects of Short Selling on Firm Risk-taking: Evidence from a Quasi-Natural Experiment in China

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Abstract

This paper finds that firms react to short-sales pressures by undertaking less risk. Using a regulatory change (the pilot program on margin trading) on Chinese A-share market as a quasi-natural experiment, this paper finds that after the inclusion of the short-sales list, firms' cash-flow volatilities decrease significantly. Also, these pilot firms hold more cash, take less debt, invest less in R&D and involve in fewer mergers as acquirers comparing to an average firm in the same industry. Further analyses indicate that the negative impact of short selling is more pronounced in the subsamples with weaker internal governance. On the contrary, firms with stronger internal governance increase managerial risk exposures by increasing managerial ownership. In addition, short selling can impede firm risk-taking by decreasing the holdings of dedicated institutional investors. These findings confirm that short selling has real effects on firm risk-taking, and reveal a channel through which capital market frictions can affect real economic activities.

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Ownership Structure and Post-Acquisition Performance: Evidence from India

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Abstract

We analyze the relation between ownership structure and post-merger performance of acquiring firms. We find that firms with lower ownership concentration of promoters are characterized by superior post-merger performance. Institutional investors invest more in firms with lower concentration of promoter ownership but institutional holdings are not systematically correlated with post-merger performance. We bifurcate our sample into acquisitions taking place before and after 2006 – the year that started a marked and continued increase in foreign direct investment into India. We do not find that such foreign direct investment creates value for the shareholders of acquiring firms

Who knows better in an Emerging Market? Performance of Institutions, Foreigners and Individuals.

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Abstract

We find that local investors do better than foreigners in terms of trading execution. However foreign investors obtain better returns than local individuals both in short and long term. Local institutions are the best group on both dimensions. Our result reconcile apparent contradictions in the international finance literature on who invests better in an emerging market. These contradictions disappears with a more careful formulation of the research question at hand. The traditional Locals vs Foreigners or Institutions versus Individuals is too simplistic because it doesn't distinguish between the different dimensions of performance. Our study makes use of two unique databases of Colombian stocks and acts as out-of-sample test of previous findings. Moreover, we provide evidence that the better performance of Institutions and Foreigners is driven by information advantages.

Income and funding structures, banking regulation and bank risk-taking: The role of ownership in Central and Eastern European banks

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Abstract

Our main objectives are to assess the risk-taking behaviour of Central and Eastern European banks according to their ownership structure and, which is the most important, the role of the banking regulation, bank activity diversification and of the sources of funding on their risk-taking. We apply market-based risk measures, which consider the market perception of risk, and an improved Z-score, which allows for an asymmetric distribution of returns on assets. We conclude that state-owned banks are the most risky and foreign banks the least risky institutions. Moreover, in the eyes of the market, public banks are still the most risky, regardless their balance-sheet policies and the nature of banking regulation. Besides this new result, with higher interbank deposits and long-term funds ratios, they have, on the other hand, the lowest risk measured with Z-score. We also find that state-owned banks with more diversified income activities are more risky. On the other hand, more concentrated are these banks on non-interest income activities higher are their Zscores. The last result is obtained for foreign and private banks but with larger extent. Finally, in countries and times with strengthened banking regulation, foreign and private banks are less risky, with respect to Z-score measures, but state-owned institutions are insensitive.

What drives heterogeneity of cyclicality of loan-loss provisions in the EU?

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Abstract

In the theory of banking, prudent risk management is perceived as being necessary to curb the excessive procyclicality evident in many activities of banks. As banks differ in their risk management approaches, their sensitivity to the business cycle is also far from uniform. This paper aims to identify the sources of such diverse relationships between loan-loss provisions (LLP) and the business cycle. Using the two-step system GMM Blundell and Bond estimator on a panel database of over 3000 banks operating in the European Union (EU) in 1996-2011, this study documents a large cross-bank and cross-country variation in the relationship between loan-loss provisions and the business cycle and explores bank-management specific, bank-activity specific and country-specific features that explain this diversity. Our results indicate that LLP in large, publicly-traded and commercial banks, as well as in banks reporting consolidated statements, are more procyclical. More restrictive capital standards and better investor protection are linked with weakened procyclicality of LLP. Neither official supervision nor private-market monitoring is effective in reducing the procyclicality of LLP. Thus, our study supports the view that microprudential supervision is not sufficient to combat the procyclicality of the banking sector, and therefore should be supplemented with macroprudential supervision. Moreover, as large banks LLP are definitely more procyclical, we provide empirical support for the post-crisis restrictive regulations (Basel III and macroprudential policy) of systemically-important financial institutions (SIFIs). This study also lends empirical support to the hypothesis that more income smoothing and greater coverage of expected loan losses reduce the procyclicality of LLP.

How international orientation of top managerial teams may (not) moderate the performance of serial acquirers?

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Abstract

Extant literature has mostly studied serial acquirers with one-time acquirers. Looking at value creation exclusively by these frequently acquiring firms from the UK, engaging in cross-border acquisitions, we attempt to demystify the potential role of previously identified factors affecting their short-run returns against the backdrop of 'international orientation' of their top managerial teams (TMTs). Taking a more comprehensive view of earlier research, in this study we focus upon which of the forecasted effects, i.e. learning or post-acquisition integration issues, predominate, when TMTs of such firms have either international experience or host country familiarity or mix of diverse nationalities. In other words, we analyse whether the investors perceive the acquisition announcements by such multiple acquirer firms with such internationally oriented TMTs, favourably. Testing for the non-linear moderating influence of TMT orientation with 1777 firm-year observations by 278 serial acquirers over a period of 1999 until 2008, we documented the negative influence of 'indigestion', as an outcome of both frequent acquisitions and higher transaction values, cumulated over a prior three-year event window. Nevertheless, this detrimental impact was likely to be mitigated at higher levels of international experience of acquirer executives. However, our findings failed to substantiate either the postulated benefits of 'organizational learning' or any moderating impact of TMT orientation thereon. These empirical results highlighted that when the hypothesized notion of indigestion effects outweighed that of learning for these serial bidders, moderating benefit of their internationally oriented TMTs is non-linear. Our study in this respect brings together the contradictory theories and evidences from extensively different streams of behavioural corporate finance, international business, upper echelons, etc., revealing new insight on frequently acquiring firms understudied until now.

Application of the Concept of Actual Dividends in Project Finance Venture Valuation: Theoretical Overview and Practical Implications

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Abstract

The literature on project finance appraisal contains several ambiguities primarily concerning the correct way of equity cash flow determination. The paper elaborates on the idea that the actual dividends approach, despite being inconsistent with the assumptions that underlie the fair value estimation, is the most suitable for project finance venture appraisal, taking into consideration the inherently specific timing of the cash flows. We propose a coherent model of valuation of these types of projects to avoid misevaluation. Next, the paper illustrates its application in a numerical example that demonstrates that the potential dividends methodology of equity cash flow estimation imported from the corporate finance world leads to erroneous valuation (either under- or overvaluation) of project finance investments. Moreover, the simulations demonstrate that the scale of this misevaluation is an increasing function of the debt covenants' duration, the required rate of return and the investment outlay dispersion over time.

Is the M&A Announcement Effect Different Across Europe? More Evidences from Continental Europe and the UK

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Abstract

The United Kingdom (UK) and Continental Europe are two of the most dynamic markets for mergers and acquisitions in the world. In this paper we investigate the effect of M&A announcements on stock returns of acquiring companies located in Continental Europe and the UK using a sample of 2,823 European acquisitions announced between 2002 and 2010. The analysis is based on characteristics of takeover transactions such as method of payment, listing status of the target company, geographic scope (cross-border vs. domestic), industry relatedness of the bidding and the target company, amongst other factors. We find that European bidders regardless of their location earn positive abnormal returns and there is a statistically significant difference between the abnormal returns of stock and cash deals, and between acquisitions of listed and unlisted target companies. Short-term wealth effects are not statistically different between cross-border and domestic acquisitions whether the bidder is located in the UK or Continental Europe. However, we find that bidding firm's shareholders gain more in equity than in cash offers if they are located in the UK and if they acquire unlisted targets. Cash bids for listed targets are associated with higher abnormal returns when bidders are located in Continental Europe. We do not find evidence that industry diversification destroys value for the shareholders of both Continental European and UK bidders.

The Effects of Corporate Diversification on Employee and Executive Pays

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Abstract

Corporate diversification benefits employees by decreasing the risk of losing jobs due to financial distress and bankruptcy of their firms. However, its implication for wage is ambiguous. This article examines the possibility that the effect of firm scope on wage is contingent upon employee bargaining power based on a sample of public Japanese firms, for which significant diversification discounts have been documented. I find that diversified firms pay significantly higher wages than representative focused firms in the same industries only when their employees are unionized. Executive managers ("top employees") also receive higher pay when their firms are diversified and unionized. My results suggest that diversification is valuable for organizational insiders, especially powerful ones, even when it is not for shareholders.

E-Banking Services as a Competitive Edge in Pakistan Banking Sector: Recent Adopters Prospective

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Abstract

Electronic Banking has brought dramatic variations and new dimensions which have modernized the behaviors in which banks are functioning. Indeed, these dimensions also bring an influence on the performance of banking sector. In this study, we have developed an integrated mathematical model to analyze the impact of E-banking on the performance especially in terms of profit margin of those banks who have adopted it recently in Pakistan for the period of less than 5 years while incorporating the effect of all factors which are key to embrace the electronic banking. Total of 4 commercial banks of Pakistan are considered for analysis. By applying the OLS (Ordinary Least Square) method on the concerned sample, the results show that adoption of electronic banking facilitation have substantial influence on performance in terms of margin of the banks who have adopted it recently. Definitely, it will bring a competitive edge for these banks not only in Pakistan but also at international level in this era of economic loss.

What Drives Sovereign Spreads in the Euro Area? The Importance of the Alignment of Views Between Investors and Policymakers.

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Abstract

This paper examines how the alignment of views between policymakers and investors regarding the European Central Bank monetary policy drives the sovereign yield spreads of the euro area. More speci cally, we contribute to the literature through a measurement of the alignment of views between investors and policymakers via a systematic interpretation of both the introductory statement and the following questions and answers part of ECB press conferences in a latent semantic analysis framework. Our sample period, spreads over two presidential mandates, covers quiet and more stressful periods. Most notably, we show how a better alignment of views between the ECB board of governors and investors signi cantly reduces the level of sovereign yield spreads.

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Malfunctioning and Fragmentation of Sovereign Bond Markets

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Abstract

We study sovereign market malfunctioning (breakdown of conditional correlations between the risk-free rate and sovereign yields) and fragmentation (degree of dispersion among sovereign market malfunctioning states) in the euro area. We use smooth transition conditional correlation GARCH (STCC-GARCH) specifications and control for credit risk in both the mean equation and the variance equation, thereby introducing an STCC-GARCHX model. The empirical findings support the view that fear and panic severely affected the euro area sovereign debt markets over the period 2008-2012. We also provide methodological contributions by estimating all parameters at once for both the original models and the STCC-GARCHX specification.

THE IMPACT OF STOCK LIQUIDITY ON IDIOSYNCRATIC VOLATILITY: EVIDENCE USING DECIMALIZATION

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Abstract

This paper examines the causal effect of stock liquidity on idiosyncratic volatility. We find that increase in stock liquidity have lower idiosyncratic volatility. Using an exogenous event, namely decimalization, which occurred in the U.S. equity markets at the beginning of the 2001, and which involved the reduction of the trading quote size to one penny as our instrumental variable, we employ Two Stage Least Squares (2SLS) methodology to examine the causal effect of stock liquidity on idiosyncratic volatility and present evidence that decline in stock liquidity leads to a greater idiosyncratic volatility. This paper also supports prior analyses that idiosyncratic volatility and liquidity of stocks are negatively correlated and tick size change in the major three equity markets improves the liquidity of stocks.

Liquidity Provision in Sovereign Debt Markets and Bank Lending: Evidence from Colombia

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Abstract

I analyze the provision of liquidity by banks in the sovereign debt market and the spillovers to the supply of credit. For identification, I use an index-rebalancing event in Colombia, in which JP Morgan decided to increase Colombia's weight almost three times in their local currency government debt indexes (GBI). I show that this reconstitution induced large purchases of sovereign debt in local currency by foreign investors and sales by commercial banks. This permanent decrease in sovereign debt holdings of financial intermediaries was driven by commercial banks officially designated as market makers in the treasury market. These banks relatively reduced their ratio of sovereign debt to assets on average by 3.5 percentage points. In turn, this differential activity by the two types of banks had consequences for credit. I find that market-maker banks had a larger average growth of commercial credit when compared to non-market maker banks. Overall, market-maker commercial banks rebalanced their portfolio from sovereign debt to credit, increasing their commercial credit to assets ratio by 3 percentage points, suggesting large economic consequences of index rebalancing for the real economy.

Systemic Risk and Systemic Importance: Differences, and Their Integration Within A Unique Framework (More Systemic More Risky?)

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Abstract

Systemic risk and systemic importance are two different concepts that came out of the crisis and are now widely used. However, some misunderstandings still exist. This paper provides some clarifications about their meaning, information content and measurement and a way to integrate them within a common framework. In fact, they can be easily integrated under a credit risk perspective, where systemic importance can be interpreted as the LGD, and the systemic risk contribution as the PD. Empirically, they provide different information and it is worth investigating both to have a more thorough understanding of the aggregate systemic risk exposure.

The Waterline Tree: A Binomial Tree for Separable Local-Volatility Models

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Abstract

The local-volatility (LV) model is an option pricing model that assumes the instantaneous volatility is a deterministic function of the asset price and time. The LV model is popular because of its ability to retain the preference freedom of the Black-Scholes model. Binomial tree is a prevalent numerical method for the LV model. However, past attempts to construct a tree are prone to having invalid transition probabilities. In fact, this problem occurs even when the volatility surface is flat, which is the assumption of the Black-Scholes model. This paper unearths a potentially fundamental reason for that failure via stability analysis of the related nonlinear dynamic systems: The binomial trees contain repelling fixed points. The requirement of having only attracting fixed points motivates our novel tree structure. As valid and efficient binomial trees for the general LV model remains elusive despite decades of research, this paper presents one such tree when the LV model is separable in asset price and time. The tree is named the waterline tree because its upper part matches the moments of the asset price, whereas the lower part matches the moments of its logarithmic price. Numerical results confirm the excellent performance of the waterline tree.

Return Parity

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Abstract

During the last 20 years, many asset/fund managers proposed different absolute return strategies to gain positive returns in any financial market condition. These kind of financial products were created without a comparison benchmark, based only on a floor return: the Euribor. Euribor plus products became very popular from 2000 to 2007, but only few investors obtained good returns in the following period 2008-2011. In this study we propose a return parity strategy based on a quantitative methodology exploiting the logic of Konno and Yamazaki model. This tool offers to the risk-averse investor, a target return regardless of the beginning of the investment horizon. This paper analyzes the application of the return parity strategy to indexes of different financial markets.

Econometric Analysis of the long-term relationship among the Macroeconomic Variables for a single currency union in the GCC Region

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Abstract

The purpose of this paper is to examine the long-term relationship among the macroeconomic variables of a single currency union in the GCC region. To ascertain if a relationship really exists, among the variables, the authors adopt a quantitative research method relying on secondary data from 1990-2014. The sourced data on consumer price index (CPI) and gross domestic product (GDP) for the six GCC countries were analysed using econometric analysis. The results of the econometric analysis have evidently shown that there exists long run relationship among the GCC with regards to non-stationary CPI and GDP. The results indicated that a single currency agenda is appropriate in the GCC region. The practical implication of the paper is that despite the emerging issues in the Gulf region, the single currency union is still feasible in the light of the positive long-term relationship among macroeconomic variables for a single currency union. The paper concludes with policy recommendations for take-off of a single currency union.

Price Conditions of the Bank Financing: Does Gender Matter?

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Abstract

Access to formal credit for small- and medium- sized enterprises (SMEs) is crucial to the survival of their businesses, as they rely on bank credit markets more than large firms. Once financed, enterprises may experience different price-terms and conditions of their funding that vary, inter alia, according to firm's creditworthiness, leverage and profitability. Nonetheless, a branch of the literature highlights the existence of possible differences in the price conditions applied by banks because of the gender, race and ethnicity of a firm's manager. In this paper we address the question whether the manager's gender affects the cost of bank financing faced by SMEs. To this end, we employ 19,969 observations related to a sample of non-financial firms across 11 Euro area countries, during the years 2009-2013. We contribute to the literature by conducting our analysis on the ECB SAFE dataset, which provides comparable financial information on European enterprises on a bi-annual basis. Our results show that female-led firms face higher costs of funding than their male counterparts, after controlling for a rich set of variables. This evidence is robust and stable to different model specifications and different methodological approaches.

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Non-U.S. Multi-Factor Data Sets Should be Used with Caution

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Abstract

Due to the success of the Fama/French three-factor model, many factor sets for non-U.S. stock markets have been estimated and applied. Exporting a specific factor model from the U.S. to another country seems to be an easy and well-defined task. We use the example of Germany to illustrate that this is not the case. The factor sets offered by seven providers who all intend to exactly replicate the four-factor model with German data take the country-specific institutional settings into account in different ways. As a consequence of these differ-ences and of quality problems in the underlying databases, the factor time series differ consid-erably and produce very different results in two standard applications. We can well imagine that similar problems exist for other countries, especially because four of the seven providers of factors for Germany offer identically calculated factors for a large number of countries. In addition to noting problems, we give advice to providers and users of non-U.S. factor sets.

Loan Performance of Contractual Savings for Housing

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Abstract

We argue that the combination of a mandatory saving period as a precondition for loan approval can be used as a mechanism to improve the creditworthiness of the pool of borrowers. This is based on the argument that the personal creditworthiness of a borrower is strongly correlated with his ability to save on a regular basis. Using in house data of a large german CSH supplier we estimate a Cox Proportional Hazard Model to show that default rates of CSH contracts are in fact lower than those of comparable loans. This effect remains after controlling for other information on the creditworthiness of the borrower.

Empirical Study on M&A Behaviors in International Oil Industry: A Competitive-Dynamics Perspective

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Abstract

Competitive-dynamics theory explains the motivations and behaviors of M&A activities, which are of significance to the oil industry. This paper aims to analyze the impact of firm characteristics on oil & gas companies' decisions of whether and when to participate in industrial M&A waves. According to the "Awareness - Motivation - Capability" (AMC) model in competitive-dynamics theory, this paper focus on three characteristics of oil companies: the strategic orientation, the resource endowment and the management structure. By using industrial M&A data of the last three decades, this paper quantifies the merger timing of oil company in the M&A waves to test the hypotheses based on competitive-dynamics theory and the distinctiveness of the oil industry. The empirical evidence shows that the probability to involve in an M&A wave is positively correlated with firm size, petroleum resources and financial performance. In particular, firm size and petroleum production have a more significant effect on the initiatives to take a move at the early stage of M&A wave.

Strategic Behavior of Informed Traders in Indian Equity Markets

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Abstract

This study investigates the behavior of informed traders in the emerging Indian market using high frequency transactions data and documents four major findings. Firstly, the informed traders group together at the opening and closing hours of the day consistent with the theory of Admati and Pfleiderer (1988). This behavior of informed traders explains the "U" shaped pattern observed in intraday trading volumes. Secondly, few large trades predominantly contribute to the price movement compared to numerous small trades. Thirdly, the strategic behavior of stealth trading by informed traders was low for highly active securities and high for lesser active securities. Lastly, the informed traders conceal their private information by trading strategically in such a manner that the overall efficiency of the market remained unaffected.

A New Perspective on the Size, Value, and Momentum Effects: Broad Sample Evidence from Europe

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Abstract

This paper provides a comprehensive analysis of whether stock returns in Europe are best characterized by country-specific or Europe-wide versions of widely used factor models. The paper offers an explanation to the puzzle of why Fama and French (2012) detect value and momentum premiums but no size premium in Europe. Furthermore, my findings shed new light on these premiums and present a challenge to existing applications of widely used factor models as I show that although the value and momentum premiums exist at a Europe-wide level, the size premium is country-specific.

Executive Options and Stock Liquidity

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Abstract

We study the impact of executive stock options on the trading environment of the firm's stock by utilizing exogenous variation in option compensation due to the revision of the Statement of Financial Accounting Standards No. 123 in 2006. We find that the negative shock to options compensation results in a decline of stock liquidity, measured by a wide range of liquidity measures as well as by their principal component, relative to a control sample. Our subsequent findings that executive options tend to increase the breadth of equity ownership while they exhibit no significant impact on the informational environment of the firm suggest that executive options affect liquidity through their impact on investor behavior.

Valuation, simulation and sensitivities under low and high interest rate regimes

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Abstract

Since the 2007 financial crisis, the levels of interest rates in many countries are time to time so low such that the common and classical models fail to be functional. Very recently Meucci A. and Loregian A. (2014) have proposed an interest rates approach, based on the inverse-call transformation, which is very transparent from the practical point of view, in comparison with other available models aiming at avoiding negative interest rates. However some related technical difficulties and usual expected characteristics remain to clarify. Our purpose in this paper is to perform further analyses, related to the valuation, simulation and sensitivities of bonds under this mentioned interest rate model. We expect to provide here both a reference document and R codes implementation allowing the reader to benefit and test immediately the bond pricing and sensitivities under this model allowing to account for both the low and high interest rate regimes.

Financial Inclusion and Economic Development in Rajasthan

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Abstract

It is a well known fact that the Government of India has taken various steps for alleviating poverty since Independence. However, in spite of the various efforts, almost 27 percent of the total population in India continues to be below the poverty line. The strategies of development and inclusive growth with higher economic growth rate have come into the limelight in the developmental policies of emerging market economies (EMEs) or Globalization. In India a large segment of the working population is in the age group of 15-40 years. That is why India is a young country of the World. Now, the question is that how can we explore this segment properly? Inclusive growth also means that there is an active participation of all segments of the society/nation in the economic development processes. The active participation of the poor and extremely under privileged people is possible when there is an increase in their income, social mobility or socio-economic change and the participation of the youth given employment opportunities. Both things are collectively can possible through investment or financial inclusion that can generate the employment opportunities and per capita income in the country. Attempts are made to evaluate some programs covering at the same time, the RBI as well as NABARD endeavors to spread the benefits of financial development to the grassroots level. The Microfinance set up to now could to establish successfully a strong base in India for financial inclusion. At present about 10,000 NGOs are implementing micro-finance projects in India. Some of them are leading MFIs (micro-finance institutions) playing the role of social intermediation. Even some SHGs strengthened people's livelihood through micro-finance delivery. Their strategies have been discussed in this paper and I have tried to establish a relationship among microfinance, financial inclusion and economic development in Rajasthan.

The Effects of Dodd-Frank Act on Bank Risk: The Case of Global Systemically Important Banks (G-SIBs)

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Abstract

We examine changes in market assessments of risk of global banks surrounding the passage of the Dodd Frank Act. We provide empirical evidence that discretionary risk-taking by global banks has declined following the passage of the Act. Our results show that global systemically important banks experience significantly greater reduction in risk than that of non-global systemically important banks. This evidence is consistent with the Act's objective of reducing the risk of bank failure which is the ultimate goal of ending the too-big-to-fail doctrine for large interconnected financial institutions. Our analysis also reveals that banks exhibiting characteristics consistent with riskier business strategies prior to the Dodd-Frank Act experience the greatest risk reduction. Global systemically important banks that alter their business practices by increasing capital ratios and reducing their non-performing loan ratio following the passage of the Act are likely to experience significant reduction in their idiosyncratic risk and their total risk. Overall, our results support the efficacy of Dodd-Frank in reducing the risk in the global financial system.

Impact of loan contract characteristics on monetary transmission and consumer rent

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Abstract

This paper postulates that loan contract characteristics, such as maturity of loans and period of rate fixation, play a major role in shaping how swiftly lending rates react to monetary shocks and for explaining diverging speed of transmission of monetary policy across euro area countries. This is particularly the case between the so called "peripheral" countries and core countries, two groups of countries which happen to have similar loan contract characteristics within each group but very different contract characteristics between the two groups. The paper also discusses how, following a monetary shock, loan contract characteristics may influence, to a large extent, rent redistribution between borrowers and lenders but also within borrowers and between countries.

Transition to the Optimal Capital Structure: an Algorithm of Value Maximization

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Abstract

The paper presents an iterative algorithm allowing to quantify changes to the company's capital structure necessary to reach the optimum and estimate the gains in value resulting from transition to the target leverage ratio. The paper maintains that certain benchmarks – i.e. industry average financial leverage and unlevered beta corrected for cash – allow to determine the parameters of the optimal capital structure for the company, and that a failure to adjust accordingly may result in value destruction. The proposed model facilitates financing decisions by yielding the figures of debt issue/repayment or equity investment necessary to achieve the optimal debt-to-equity ratio. Additionally, the algorithm allows to estimate the increase in value generated as a result of transition to the suggested target capital structure.

"Great Expectations" or "Side Effects"? Bankruptcy Law Reforms and Bank Credit for SMEs

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Abstract

A series of Italian Bankruptcy Law reforms allows us to disentangle how a change of creditor rights impacts bank credit market for SMEs. We exploit a new credit level dataset on bank credit, with more than 6 million pooled observations. By constructing a new creditor rights index across all bankruptcy proceedings available for SMEs, we find that reforms weakening creditor rights increase interest rates and reduce amount of credit available, causing credit rationing. Consequences of reforms are not equally distributed, but are bigger for riskier firms and unsecured credits. Results highlight that regulatory decisions may have unintended consequences.

An Improvement of the Global Minimum Variance Portfolio using a Black-Litterman Approach

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Abstract

Asset management companies are constantly searching for portfolio optimization models that are on one hand clear and intuitive and provide high and reliable returns on the other hand. This paper presents a modified version of the famous Black-Litterman portfolio optimization approach. Thereby, in difference to the original model, the intuitive global minimum variance (GMV) portfolio serves as the reference portfolio. Furthermore an introduction of a general rule for investors views in combination with a simplification of the original Black-Litterman approach facilitates the implementation of the model and enables us to remove so called "dead assets" from the GMV portfolio. As an additional nice feature our model is only based on variance and covariance estimations and relative return estimations for our general rule. A numerical application of our modified Black-Litterman model to empirical data sets demonstrates that portfolios based on the model clearly outperform the GMV portfolio and the 1=N portfolio in terms of compound annual returns.

Dispersion of Stock Returns and Investor Sentiment: StockTwits Evidence

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Abstract

This paper investigates the impact of investor sentiment, constructed from online stock forums (so-called StockTwits), on the dispersion of stock returns using the quantile regression technique and daily data from 30 companies listed on the DJIA index over the period April 5, 2012 to April 5, 2013. The results suggest that investor sentiment exerts heterogeneous effects on the two sides of the return distribution. In particular, return effects of sentiment are negative (positive) in the low (high) quantiles, in spite of being significant at very low quantiles only. Moreover, the results provide evidence that stock returns exhibit different sensitivity to bullish as compared to bearish sentiment, especially at high quantiles. These findings show the sensitivity of stock returns to sentiment at extreme market conditions and imply appropriate contrarian trading strategies for arbitrageurs under such conditions.

Is there a Contagion Effect in Emerging Markets ?

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Abstract

This article investigates the existence of contagion in the stock market in emerging countries considering the impact of the subprime crisis in Latin America and Central and Eastern Europe. Eleven indices of stock exchanges using deterministic models GARCH and stochastic volatility, both univariate as multivariate are evaluated. The results indicated the presence of financial integration between countries and further suggest that the crisis intensified these relationships. In addition, several features common to financial series, such as the leverage effect, clustering volatility and persistence were identified.

Effect of Macroeconomic News Releases on Bond Yields in India China and Japan

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Abstract

This paper studies the effect of domestic macroeconomic news releases on the change in the bond yields of India, China and Japan. Event study method is applied to observe whether the large set of new information or surprise news is reflected immediately in bond yields. The daily yields of Government Bond with different maturity are regressed over the surprise factors. The bond yields are observed to react differently to the surprise factor of different indicators. Indian bond yield respond much more actively than bonds in China and Japan. Bonds of all the countries respond to the change in US government bonds, while Japan's response is more than China, India's response is the weakest. Testing for the existence of the weak form of market efficiency reveals that it holds for longer term bond markets in India and in Japan, but for China it holds for both short and long term bond market.

Skewness Preferences and Gambling Cultures

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Abstract

This paper examines the relationship between cultural attitudes towards gambling and investor preferences for skewness across 45 countries. Our results show that countries with more adults who gamble, countries with legalized online gambling, and countries with the most Catholics relative to Protestants tend to display the most significant (negative) skewness premiums. In a number of other tests, we do not find that other macroeconomic characteristics, such as economic development, GDP per capita, or per capita consumption explain the presence of skewness premiums.

Economic freedom, fi?rm investment and ?financing constraints. Theory and empirical evidence.

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We model the channels through which economic freedom affects firm value and shapes firm investment in a non competitive market for goods and in presence of financing constraints. We test the theoretical predictions from our model by using a large panel of non-financial US firms. Appropriate proxies of economic freedom and financing constraints are used in the analysis. We find interesting patterns of economic freedom, financing constraints and firm investment over the period under analysis. Moreover, consistently with the model, empirical results show that: 1) economic freedom enhances firm investment via a reduction of adjustment costs; 2) product market competition boosts firm level investment; 3) product market competition reduces firm financing constraints by reducing the investment-cash flow sensitivity, and finally 4) the latter effect is enhanced by the presence of economic freedom.

The Dog Has Barked for a Long Time: Dividend Growth is Predictable

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Abstract

A common finding in asset pricing is that dividend growth appears unpredictable based on forecasting regressions with the dividend-price ratio, a phenomenon that Cochrane (2008) refers to as the "..dog that did not bark." We combine out-of-sample dividend-growth forecasts from 15 individual predictive regressions, based on common return predictors including the dividend-price ratio. Encompassing tests highlight the short-comings of relying solely on forecasts from a single predictor, including the dividend- price ratio, which has been the primary focus in the literature. We find that combination forecast techniques generate robust and consistent out-of sample predictability of dividend-growth over the entire post-war period.

Housing Price Expectations and Subprime Lending: The Incremental Role of Securitization

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Abstract

A nationwide drop in housing prices, followed by subprime mortgage defaults and downgrades of mortgage-backed securities, precipitated the U.S. financial crisis of 2007-09. I build a simple model with strategic default to explore the impact of both house price expectations and the growth of securitization on the extent of subprime lending. I show that high expectations of housing prices not only increase lenders' willingness to lend to riskier borrowers, but, in addition, enhance the attractiveness of the originate-to-distribute (OTD) model of lending. Access to securitization markets also amplifies banks' incentives to lend to sub-prime borrowers and leads to a worsening of mortgage market credit quality. Thus, when housing prices decline ex post, the extent of default is magnified with OTD lending. I find that banks with higher OTD participation conducting business in markets with high housing price growth prior to the crisis have larger incidence of defaults.

Market reaction to the disclosure of active vs passive blockholders: Does the purpose of transaction matter ?

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Abstract

In this paper, we study the determinants of the market reaction to active vs. passive blockholder disclosure. In particular, we show that the price reaction is statistically significant even in the case where the acquiring shareholder notifies in a statement of purpose of transaction that it has no any active intent on the target firm. Still, the reaction is higher in case of shareholder activism, especially when concrete strategic actions are announced or when the blockholder is a pure industrial player. In this respect, we contribute to the debate surrounding the legal enforcement of passive blockholders' disclosure while shedding light on the information content of passive shareholders' transactions.

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Do investors learn from the past? Evidence from follow-on equity issues

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Abstract

Equity offerings are usually characterized by large information asymmetries between issuers and investors. This paper examines whether investors form beliefs of corporate intentions based on the outcomes of past issues by the same firm. While average post-SEO abnormal returns are negative, I find a large dispersion across issuers, with 40% being positive. Both firms with genuine investment opportunities and those with overvalued equity have similar ex ante characteristics, restricting potential investors' ability to tell them apart. I find evidence, however, suggesting that investors use the information contained in the post-issue returns to adjust their opinion of the issuer's intentions in a follow-on offering, captured in the underpricing of the issue. These findings highlight the importance of past outcomes for the formation of investor expectations about corporate intentions.

Pandemic crises in financial systems and liquidity emergency

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Abstract

We propose in this paper a model of pandemic in financial system composed of banks, asset markets and interbank markets. We build on the network model of Gourieroux, Heam, and Monfort (2012)for the banking system, adding some asset market channels as in Greenwood, Landier, and Thesmar (2012) and interbank markets characterized by collateralized debt as in Brunnermeier and Pedersen (2009). We show that rather small shocks can be amplfied and destabilize the entire financial system when appears a so called bad equilibrium. This bad equilibrium reflects second round effects of initial shocks with potential destructive impact as asset depreciation, interbank contraction and bank failures in chain. We show how central bank policy may have control of the rise of this bad equilibrium by adopting emergency liquidity policies. However, such interventions are very costly, since second round effects may finally make ineffi cient such measure if imperfectly calibrated on first round losses.

Timing Success Explained! The Fallacy of Beating Efficient Markets

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Abstract

According to the efficient market hypothesis, technical trading rules should not have prediction power. However, a significant number of academic studies confirm at least slight excess returns. By applying parametric and historical simulation techniques, we show the relation between timing outperformance and statistical properties of the underlying. Negative drifts, positive autocorrelation, and low but clustered return volatilities provide a beneficial environment for the common setup of the simple moving average trading rule. As long as the future values of these four parameters of a time series are unpredictable, there seems to be no benefit from technical trading rules.

US Monetary Spillovers to Latin America: The Role of Long-term Interest Rates

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Abstract

This paper evaluates the e ect of US bond yields on economic fundamentals of Latin American economies from a uni ed perspective. We rely on Factor-augmented VAR models to assess spillovers from US to the economies of Brazil, Chile, Colombia, Mexico and Peru. The results document a substantial degree of comovement among Latin American countries in their economic fundamentals, which is translated into similar responsiveness across country to US shocks. Speci cally, we nd that unexpected increases in US long-term rates increases unemployment, in ation, exchange rate, and decreases stock market returns in Latin American countries. Moreover, there is evidence of signi cant spillover e ects of US interest rates to domestic bond yields, with a more signi cant role of the term premium channel during the zero lower bound period, and a more muted response of risk neutral rates.

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Optimization of equity momentum: (How) does it work?

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Abstract

Standard mean-variance optimized momentum outperforms the traditional equally weighted momentum strategy if the expected return vector used reflects momentum's top and bottom only characteristic. This top and bottom only characteristic is the phenomenon that only the stocks in the top decile of momentum's ranking outperform and that only stocks in the bottom decile underperform, while all stocks in the intermediate deciles of the ranking have similar performance. If the optimization does not take this phenomenon into account the portfolio is also long the deciles 2 to 5 and short the deciles 6 to 9, while all these positions thus do not add anything to the return of the strategy. A new simplified bootstrapping methodology shows that the Sharpe-ratio of 52.8 percent of the optimized portfolio is significantly higher (p-value of 0.006) than the Sharpe-ratio of 29.3 percent for traditional equally weighted momentum. The optimized portfolio also exhibit less time-varying equity risk factor return exposures than traditional momentum and as such have more stable returns over the business cycle and have smaller drawdowns.

Geography, Bank Business Strategies, And Efficiency

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Abstract

We investigate the relation between different banks' business strategies and banks' efficiency. We do so along four main dimensions: 1) geographical and markets scope, 2) size, product mix, funding sources, and risk taking, 3) ownership and regulatory structure, and competitive rivalry. Overall, our empirical results highlight the importance of accounting for the multidimensional nature of banks' business strategies in efficiency analyses and give important insights regarding how the probability of being fully efficient, the level of efficiency, and the variability of banks' efficiency levels depend on banks' business strategies.

Executive Compensation and CSR: Does GP Matter?

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Abstract

Using a large sample of 1301 US firms for the period of 1993 to 2013, the associations between Corporate Social Responsibility (CSR) and Executive Compensation is revisited. This study contributes to the literature by examining the moderating effect of the Golden Parachute (GP) on these associations. The findings suggest that there exists an inverse relationship between current (long-term) compensation and firms' CSR performance. While the direct association between the GP and CSR is negative, the test for a moderating effect reveals that the GP and long-term compensation jointly and positively increase firms' CSR performance. This is consistent with the expectation that executives with a GP clause seek to maximize their long-term wealth by approving value-enhancing CSR projects that positively enhance firm financial performance. Furthermore, the results also suggest that female executives are more likely than their male counterparts to promote CSR engagements. Older executives are less willing to engage in CSR even with the GP clause, and current compensation increases CSR concerns at a greater magnitude than long-term compensation.

Rare Preference Fluctuations and Aggregate Asset Pricing

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Abstract

We investigate the aggregate asset pricing consequences of relaxing the pervasive, but questionable, assumption of time invariance in aggregate preferences. We demonstrate how a coarse model of rare and temporary fluctuations over time in the elasticity of intertemporal substitution (EIS) and risk aversion, under simple consumption dynamics, can quantitatively account for a large array of regularly highlighted aggregate pricing features: equity return and risk-free rate moments; predictability (and non-predictability) relationships among price-dividend ratios, excess returns, and consumption/dividend growth; counter-cyclicality of dividend yields, risk premia, excess return volatilities, and Sharpe ratios; and an upward-sloping real yield curve. Our approach is distinct from leading consumption-based explanations and reveals a significant new risk channel, stemming from small infrequent fluctuations in EIS. This new risk channel quantitatively explains periods of jointly negative real returns on risk-free and risky assets and can matter more than time-varying risk aversion for many aggregate pricing regularities.

Real Stock Prices and the Long-Run Money Demand in Saudi Arabia

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Abstract

This paper investigate the relationship between real stock prices and the long-run money demand in Saudi Arabia for the period of 1985-2013 using the Johansen test for cointegration and error correction presentation to examine the short-run dynamics of the demand for money. The findings indicate that real stock prices have a significant negative substitution effect on the long-run demand for real M2 balance. Vector error correction results provide evidence of causality between real stock prices and demand for money and inflation in one lag, whereas money demand affects income and inflation in the same period.

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Basel liquidity regulation and credit risk market perception: evidence from large European banks

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Abstract

Following the recent financial crisis, the Basel Committee on Banking Supervision (BCBS) undertook a negotiation process that led up to a liquidity reform package known as the new Basel III liquidity framework. This paper aims to assess the impact of BCBS liquidity regulation announcements on bank creditors. Using an event study on Credit Default Swap (CDS) data of large European banks over the 2007-2015 period, we find evidence that creditors increased expectations of a credit event following the regulatory events, with CDS spreads widening. Results also show that creditors were less sensitive to liquidity regulation announcements in banks with higher capital and liquidity funding ratios. In contrast, creditors were more sensitive in banks with higher bad loans, even though such effect is positively moderated by provisions against loan losses. We conclude that if banks correctly adjust the quality and the mix of their assets and liabilities, they could limit the potential side effects of Basel III liquidity regulation.

Target insiders' trades around the takeover announcement date

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Abstract

Previous literature has documented that, due to legal jeopardy, insiders of target firms decrease their purchases before the public announcement of a takeover deal. At the same time, they drop their sales and, so, overall their net purchases increase. In this paper, we show that insiders stop selling during 6 months immediately before the public announcement but do not stop selling in the early pre-announcement period. Moreover, we conjecture that insider trading activity before and after the public announcement depends on deal. characteristics such as the deal initiation, the selling mechanism, method of payment and buyer type %because these characteristics necessarily affect the expected takeover premium. We confirm our hypotheses using a difference in differences approach, which controls for insider trading within the same firm outside of the treatment period and at the same time for change in insider trading in matched firms. Our sample of 1098 US publicly listed target firms is over the period from 2005 until 2011. We show that insiders are stronger net buyers before the public announcement in firms that are sold through informal sales, in firms that are paid for in cash and in firms that are acquired by financial buyers. Furthermore, insiders in stock deals do not stop selling even immediately before the public announcement, which supports the bidder overvaluation hypothesis. In addition, we find that insiders change their trading patterns after the deal public announcement. Their intention to stop buying is even stronger across all deals and so differences across deal characteristics stem solely due to differences in insider sales. Insiders are stronger net buyers in target initiated deals, formal auctions and cash deals suggesting that insiders are willing to adjust their trading after the public announcement and bet on certainty of deal completion rather than increased deal value.

Quantitative Easing Policy: Changes the Volatility of the Assets in Brazil?

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Abstract

Due the financial crisis of 2008, many countries have adopted unconventional monetary policies, as interest rates near zero in the short-run, in order to stabilize the financial system and sustain the level of economic activity. Although the purpose of the bond-buying program, known as Quantitative Easing (QE), initiated by the Federal Reserve (Central Bank of the United States) is related only with domestic economy, their effects spillover was felt by the assets and national currency of other countries. Thus, the objective of this study was to evaluate whether the QE policy affected the volatility of some macroeconomic variables and financial index of Brazil, and US interest rates. Therefore, it is used the event study and time series regressive models (GARCH family) to check the behavior of the variables considered. The results show that the QE has altered the volatility and the mean returns of the Brazil assets, in some analyzed period.

How share repurchase affects firm innovation

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Abstract

In this paper, we investigate the relationship between share repurchase and firm innovation. Using a sample of 6,889 U.S. firms for the 1996–2006 period, we find a significantly negative effect of share repurchase on current and future firm innovation. Our identification strategy based on the instrumental variables approach suggests this negative effect is causal. The relationship between share repurchase and firm innovation remain valid in all robustness tests.

IS THE ACTIVE FUND MANAGEMENT INDUSTRY CONCENTRATED ENOUGH?

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Abstract

We introduce a model of active fund management equilibria, where size, performance, and effort are endogenously determined under a continuum of exogenous concentration levels. Higher market concentration leaves more unexplored investment opportunities and allows managers to more efficiently produce alphas. On the other hand, higher market concentration allows managers to require higher compensation for effort, making the opportunity cost of effort in producing alphas higher. We find that in equilibrium, higher concentration levels induce higher performance (net alphas), if and only if gains due to more investment opportunities exceed consequences of higher managerial opportunity costs. We empirically study our model's key predictions in the US mutual fund industry in the last decades and find a substantial decrease in the industry's concentration, partially explaining the observed net alpha decrease. Finally, we looked at equilibria with colluding fund managers and with endogenous concentration levels.

Ambiguity Aversion and Asset Price Dynamics

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Abstract

We derive the equilibrium asset expected returns when there is ambiguity in asset expected returns, as well as ambiguity in asset return variances. In our model, ambiguity risk is systematic in nature and is non-diversifiable. Under regularity conditions, expected asset returns are linearly increasing in variance risk and ambiguity risk. We show that a beta pricing model can be derived from the equilibrium expected return function, which contains a systematic return factor and an ambiguity portfolio return factor, where the ambiguity portfolio weights are determined within the model. We test our model empirically and we obtain the model-implied results.

Analysis of the gold price in dollars through time series and intelligent systems

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Abstract

The main objective of the research was to find the relationship that the changes in macroeconomic variables have on variations in the price of gold in order to take better decisions regarding on which are the best moments to invest in this metal. Artificial neural networks were used to measure the impact of the changes in variables on the changes in the price of gold. This tool was used because it allows more flexibility and is more accurately. This research was based on Septien (1988), who by using linear regression measured the impact that oil, country risk, inflation and international reserves have on gold and also based on Camacho (2015) who conducted a model for predictive analysis for silver, metal which is related to gold. While developing this research we found the following results: In the US the variations in the price of gold are sensitive to changes in reserves and to changes in the price of oil. In Mexico variations in the price of gold are sensitive to changes in inflation and to changes in the risk premium, if instead of using the risk premium factor, EMBI+ is used then the changes in the gold price would be sensitive to changes in inflation and to changes in the price of oil. So gathering the information of both countries we could say that what most impacts the price of gold are: mainly the changes of oil price, fluctuations in inflation and secondarily: shifts in reserves and changes in the risk premium. In addition a relationship with the dollar index was found.

Dividend Growth Predictability and Stock Price Movement

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Abstract

This paper studies dividend growth predictability without restricting conditioning information set to dividend yield alone. We highlight that predictability crucially hinges on how dividend growth is constructed. Dividend growth without reinvestment is significantly predictable both in-sample and out-of-sample by a number of economic fundamentals. The results are robust across subsamples. When dividend growth predictability is properly taken account of, it leads to a different picture of variance decomposition of returns. Contrary to the prevailing views, the cash flow news is important in driving stock price movement in aggregate level after incorporating dividend growth predictability.

Is Investors' Pessimistic View Necessarily Detrimental To an Issuing Firm?

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Abstract

An extensive literature documents an empirically stylized fact that investors opt for an investment that they are more familiar with and are geographically proximate. This familiarity bias implies that foreign investors may perceive lower expected value and/or higher risk for a domestic firm's cash flow. This paper explores an issue of optimal security design across borders in segmented international financial markets in the presence of familiarity bias. The optimal security for foreign investors tend to be convex whereas concave securities should be issued in domestic financial markets. More surprisingly,the proceeds obtained when issuing those optimal securities exhibits a non-monotonic relationship with the strength of familiarity bias in expected payoffs, which indicates that familiarity bias is not necessarily disadvantageous to the issuing firm.

A Comparative Analysis of Corporate Failure Models

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Abstract

We use a hazard modeling framework to benchmark the performance of prominent models of corporate default, including specifications suggested by Altman (1968), Shumway (2001), Campbell, Hilscher and Szilagyi (2008), and Bharath and Shumway (2008) using the largest U.S. monthly panel data set available to test all specifications over the years spanning 1980-2013. Using this data set we show that there is very little to distinguish the models in terms of their out-of-sample discriminatory power. Highlighting the limitations of using large data sets with very low event frequencies, in both the estimation and testing of such models, we combine a case controlled sampling procedure with Bayesian model averaging to identify the most important predictors of bankruptcy and corporate failure. In considering the superset of 17 forecasting variables suggested by prominent forecasting models we find that a combination of three accounting and three market variables are of particular importance – matching or outperforming existing alternatives in tests of out of sample discriminatory power. Our results suggest that Bayesian model averaging, used in conjunction with randomized case controlled sampling, is not only a theoretically appealing, but an empirically useful approach to the problem of model uncertainty in corporate failure forecasting.

Firing Frictions and the Mergers and Acquisitions Market

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Abstract

The mergers and acquisitions (M&A) market is an important source of economic value and a significant part of this value comes from the ability to restructure the labor force. We investigate this link between the labor and M&A markets by empirically testing whether firing frictions spillover into the M&A market. We find that state laws that increase firing frictions lead to an immediate reduction in M&A activity and an immediate increase in the percentage of withdrawn mergers. The reduction in M&A activity persists in the long-run and is most pronounced in labor intensive industries and for large or publicly traded targets.

Liquidity, Taxes and Yield Spreads between Tax-exempt and Taxable Bonds

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Abstract

This paper proposes a dynamic pricing model for municipal bonds with the liquidity factor and time-varying risk premiums. The parameters of the model are estimated by the Kalman filter. It is found that the estimate of the marginal investor's income tax rate from the generalized model is very close to the statutory corporate tax rate over the periods with different tax regimes. Ignoring the liquidity risk premium which is an important component of municipal yields, and failing to use the estimation method that efficiently captures time-varying features of risk premiums result in biased estimation of marginal investor's implicit tax rates.

How Much are Credit Ratings Really Worth?

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Abstract

We measure the benefits of obtaining a credit rating for the first time, through the change in yield of its outstanding unrated bonds around the rating date. We find that most companies obtain a rating that is just above the cut-off point that separates investment grade from high yield. The decrease in yield for companies that are assigned an investment grade rating is 0.14 percentage points, whereas for those that obtain a speculative rating the reduction is 0.08 percentage points. We also find that half of the issuers assigned a speculative grade rating experience an increase in borrowing costs.

Fiscal Policy and the Term Structure of Interest Rates

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Abstract

We examine the role of government spending in the dynamics of the term structure of interest rates. Is the quantity of risk related to government spending important for the price of risk? How does it depend on monetary policy conduct? Can fiscal policy immunize its impact on the term structure of interest rates? To answer this questions, we explore asset pricing implications of fiscal policy in what become paradigm in dynamic general equilibrium macro- finance literature. We break down the transmission of the government spending to macroeconomic attributes driving the dynamic response of the yield curve, both analytically and numerically. The novelty of our approach lies in the way we quantify the decomposition of pricing kernel. We find that rise in fiscal uncertainty amplifi es the hedging property of bonds against real and nominal risks. Depending on the size of uncertainty monetary policy drives up the price of nominal risk. Spending reversals break the link between quantity and price of fiscal risk.

Venture Capital, Innovation Ability and Post-IPO Performance

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Abstract

This study analyzes the impact of innovation ability of venture capital (VC) investments on the post-IPO performance of VC-backed firms. Based on data of the China A-Share Market between 2003 and 2012, we found that VC-backed firms are more innovative, as measured by the number of successful patent filing increments preceding the entry of venture capital and prior to their IPOs. Innovation ability can also have a significant impact on a firm's post-IPO performance. More specifically, when VC-backed IPOs were divided into two categories based on whether they are with or without successful patent filing increments, the former exhibited a lower under-pricing level and a higher long-term return after their IPO. On the contrary, firms lacking in innovation ability performed similar to non-VC-backed firms. VC-backed firms with better innovative ability performed better when controlling for other relative variables. The underlying mechanism is that the establishment of innovation ability supported by venture capital is in essence the reason why VC-backed firms obtain a better performance.

Bank Lending Activities in the EU Countries: Difference between Bank-based and Market-based Systems

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Abstract

Banks and financial markets are considered to be the main source of liquidity in economy. Therefore, they play a really important role in the process of providing credit to economic agents and could be responsible for the possible credit crunch problem. However, many factors could influence the lending activities of banks. The objective of the paper is to identify the link between the European bank lending activities and main macroeconomic shocks and institutional variables in the sample of EU countries within the period 1998-2013. Moreover, we differentiate between the bank-based and market based economies. The microeconomic data are provided by the Bankscope database, macroeconomic shocks and institutional data are drawn from Eurostat on-line database. We employ robust OLS estimator to identify the main determinants of bank lending activities. The results confirm significant impact of macroeconomic shocks, banking controls and institutional variables on European lending activities. While the impact of inflation rate is stronger in market-based countries, the economic activity is more important in bank-based countries. The impact of monetary policy interest rates is debatable; this variable proved to be non-significant in all models. Instead, central bank financial assets played an important role in the process of bank lending activities.

Research into the Effect of Monetary Supply on Effectiveness of China's Monetary Policy

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Abstract

The paper discusses the effect of monetary supply on effectiveness of China's monetary policy and observes changes of the effect before and after the international financial crisis broke out in 2008 by analyzing the macroeconomic data between 1995 and 2013. The result indicates that money is non-neutral. Before the financial crisis, money has stable impact on both economic output and price, while credit channel is mainly the transmission channel of economic output and monetary channel is mainly the transmission channel of price. After the financial crisis, the effect of money on changes of both economic output and price is obviously uncontrollable. Monetary channel and credit channel have main impact on economic output, but credit channel has become the main transmission channel of price.

The CAPM misspecification, portfolio sorts, and the size related regularities

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Abstract

Only in one third of the time the omitted risk in the CAPM is high enough to generate an annual significant size premium of 10.8%, and a value premium of 8.7%. The portfolio sorts on size only align with the risk exposures in cross section when the risk is large, so in the rest of the time the size premium is an insignificant -0.6%. But the value premium of 3% is still marginally significant because normalizing the market value of equity improves the alignment between the sorts and the risk exposures. This model forecasts more than 26% of the out-of-sample variation in the returns on the SMB portfolio (around 7% for the HML).

Price Dynamics of CO2 Emission Allowance and Theory of Storage

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Abstract

This paper proposes a general pricing framework for spots, futures, and futures options of the EU emission allowances (EUAs) in the European carbon market. Under this framework, different combinations of the jump-diffusion, stochastic variance, and stochastic convenience yield processes can be considered. Horse-race experiments are conducted to identify the best-performing model for capturing the price behavior of the EUA in its spot, futures and futures options markets in the phase of 2008-2012. Moreover, this general framework can be employed to examine whether the theory of storage (TOS) can explain the relationship between the spot and futures prices of the EUA by calibrating the prices of spots, futures, and futures options of the EUA. We find that the stochastic variance, stochastic convenience yield, and jumps exist in EUA prices, and the estimation results from all these three markets demonstrate the TOS is tenable for EUAs.

Are Financial Regulators Insulated from Regulatory Capture ?

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Abstract

I analyze whether financial regulators are insulated from regulatory capture. I find that information capture is better prevented than the intellectual one. The regulator's dilemma, a trade-off between these two forms of capture, results in favoring the provision of information and expertise at the expense of the prevention of the regulator's identification toward the industry. As expertise and information are associated with the employment of former industry workers, the revolving-doors between the financial industry and the regulatory framework have become institutionalized and allows regulatory capture to reach the agency.

Jockeying for position in CEO letters: Impression management and sentiment analytics

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Abstract

This paper evidences the strategic positioning of positive and negative news within a CEO letter as a subtle form of impression management. For the CEO letters published by DJIA firms between 2000 and 2011, we find that there is a smile in the frequency of positive words within the letter. The shape of the intratextual number negative words is a half-smile, with a prevalence of negative words at the beginning of the letter. It follows that the difference (net sentiment) shows a right-sided smirk with more positive than negative words overall. We propose sentiment analytics that can compensate for the strategic management of narrative structure by using a novel weighting scheme to aggregate the within-text net sentiment dynamics into a single proxy for the CEO's sentiment. Consistent with the presence of CEO incentives to inflate sentiment, we find that the proposed position weighted sentiment is more pessimistic than the traditional equally-weighted sentiment measure and has more predictive power for the firm performance over the next year.

A Financial Distress Risk Model: The case of Banking Industry

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Abstract

The goal of this paper is to generate a model with the capability of predicting financial distress of Argentine banks. In order to build it, empirical evidence of banks was collected, a priori classified in 2 groups depending on whether they had experienced or not financial difficulties. After econometric processing, was obtained a function including the variables Capital/Assets, Return on Equity and Loans/Assets, whose signs are logic according to theory. The model has an effectiveness of 76%, which is considered reasonable.

An Examination of Public Companies Accounting Oversight Board (PCAOB) Reviews Before and After the 2008 Financial Collapse

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Abstract

The PCAOB was established by Section 101 of the Sarbanes-Oxley Act of 2002 (SOX), which specified the mission and duties of the PCAOB. SOX Section 104 requires the PCAOB to conduct inspections of all registered public accounting firms that regularly audit at least one issuer client. If a registered firm issues 100 or more issuer audit reports in a given year, the PCAOB must inspect it at least annually; all other issuer auditors are subject to inspections once every three years. The PCAOB inspects both U.S. and non-U.S. registered accounting firms to assess compliance with SOX. This study investigates PCAOB audit reviews around the time of the financial collapse. The relationship that we were specifically interested in is whether any changes are evident in the audit reviews or the review process associated with the financial collapse. It should be noted that the financial collapse had many causes which are not the focus of this paper but the accounting firms associated with the financial statements issued by firms over this period of time are. PCAOB audit reviews show a clear and significant increase in the number of deficiencies reported in the six-month period after the financial collapse. The number of audit deficiencies scaled by the various CPA firms' characteristics shows significant increases in audit deficiencies for 4 of 5 scalars used in the study. The test results are supportive of alternative hypotheses that significant changes occurred in the reported deficiencies. Also, the focus of the audit reviews appears to have changed to focus more on topics related to correct reporting of business valuation components.

Determinants of Bank profitability in Emerging markets during crisis period?

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Abstract

This paper is investigating about profitability and it factors in banking sector of two major emerging economies in Asia. Different financial information about 181 banks are used in this study. Genaralized methods of moments estimation is used. The study finds that many similarities and some differences between these two bank groups.

Diversification and Bank Performance in a Developing Economy: Evidence from Bangladesh

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Abstract

The paper investigates the impact of diversification on performance of banks in Bangladesh. Using panel data of 43 banks for the period 2010-2014, the paper makes panel estimates of impact of diversification of assets and sectoral loan diversification on profitability, cost and risk of banks. Main findings of the paper is that both asset diversification and loan diversification have positive relation with banks' profitability, although effect of loan diversification on profitability is not always significant statistically. On the other hand, both the asset diversification and loan diversification have negative relation with operating cost, implying existence of dis-economies of scope as diversification raises cost inefficiency. While, diversification of asset has no significant impact on risk, loan diversification reduces risk.

Concentration, Efficiency and Performance of Indian banking industry

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Abstract

The present challenges to global economy stem from the responses to the financial crisis that started in 2007. The emphasis around the globe is now on increased competition, improving efficiency, technology innovation and compliance with regulatory norms for the banking sector. Banks in India are entering a new phase of acceleration and technology growth with a much sharper focus on increasing profitability. A greater emphasis is being laid on providing improved services to the clients and also upgrading the technology infrastructure in order to enhance the customer's overall experience as well as give banks a competitive edge. The basic objective of this paper to investigate into and establish a relationship between market structure, efficiency and performance for scheduled commercial banks in India using data from 2010-2014. The empirical results confirm that a hybrid of structure conduct performance hypothesis and market efficiency hypothesis is a predictor of firm performance in the Indian banking industry. Banks need to be efficient to maximize profitability and not just collude and gain monopoly power in being able to set high prices. In an era of slow growth, the most successful banks will be those that master transformation. Banks must thus reinvent themselves, not just to respond to today's pressures, but to be able to adapt to tomorrow's challenges.

Simulation of Commodity Futures price under cointegration

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Abstract

Cointegration relationships among commodities are well established in various econometric studies. However their applications in derivatives pricing and risk-management remain to be challenging. Nakajima and Ohashi (2012) have been derived futures and call option prices under a Co-integration version of the famous Gibson-Schwartz model, referred to as CGS. Our purpose in this work is to perform the required analyses to simulate commodity futures prices under the CGS framework. Actually we derive closed formulas allowing to get price scenarios whenever independent realizations of a standard Gaussian random variable are provided. A care on simulations is of importance as they are used in various practical situations (data generation process, pricing complex products, managing positions and risks,…).

Average Skewness Matters!

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Abstract

This paper investigates using the average skewness, which is defined as the average of the monthly skewness values across firms, to predict future market return. Although the empirical evidence is not conclusive about the predictive ability of the average volatility, we show that in contrast, the average skewness performs very well at predicting the future market return when it is introduced in conjunction with the current market return. This result holds for several alterations of the main specification: the average skewness can be computed as the value-weighted or equal-weighted average of firms' skewness. The result holds after controlling for the size or liquidity of the firms or for the current business cycle conditions, and it also holds when the skewness is defined as the cross-section skewness of the monthly firm's returns or when it is filtered for the market return (idiosyncratic skewness). We also find that the average skewness compares favorably with the other usual suspects at predicting subsequent market return. The average skewness generates better out-of-sample performances in an allocation strategy based on market return predictions.

Analysis of an Approach to Implementing Cashflow Valuation Models within Student-Managed Investment Funds

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Abstract

Students in student-managed investment fund classes are tasked with the job of valuing companies for the purposes of making "buy" or "sell" decisions. The approach usually includes at least one cashflow model, such as the dividend discount model. Using a cash flow model brings with it numerous challenges, including how and where to end the estimation timeline and invoke the constant growth form of the model, selection of a long-term growth rate, and defense of that growth rate as reasonable. The framework proposed in this paper relieves that burden. It then turns its attention to growth rate estimates, and finds that neither ROE*b nor historical growth rates would have provided students with reliable forecasts of the long-term growth rates for which the model calls.

A fully non-parametric heteroscedastik model

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Abstract

In this paper we propose a new model for estimating returns and volatility. Our approach is based both on the wavelet denoising technique and on the variational theory. We assess that the volatility can be expressed as a non-parametric functional form of past returns. Therefore, we are able to forecast both returns and volatility and to build confidence intervals for predicted returns. Our technique outperforms classical time series theory. Our model does not require the stationarity of the observed log-returns, it preserves the volatility stylised facts and it is based on a fully non-parametric form. This non-parametric form is obtained thanks to the multiplicative noise theory. To our knowledge, this is the first time that such a method is used for financial modelling. We propose an application to intraday and daily financial data.

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Customer Risk and The Choice Between Cash and Lines of Credit

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Abstract

I use a matched buyer-supplier sample of U.S. industrial firms to investigate the impact of customer risk on suppliers' choice between cash and lines of credit as a source of liquidity. I find that customer risk decreases the use of bank-managed liquidity insurance relative to cash. This effect appears to be economically significant compared to previously documented factors affecting the choice between cash and lines of credit. A one standard deviation increase in customer risk is associated to a significant 1.48% up to 2.44% (depending on the measure used) decrease of the ratio of opened lines of credit to total available liquidity. These results are consistent with the hypothesis that customer-supplier relationships can significantly shape corporate financial decisions.

The Market vs Book Leverage Ratio Dilemma: An Analysis of the Lead-Lag Relationship and Speed of Adjustment

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Abstract

In this study we explore the relationship between market and book leverage. The results obtained suggest that book- and market-based values of leverage are closely related. The average difference in market and book values of leverage fluctuates around zero with recession sensitive firms being largely responsible for the observed volatility. The close relationship between book and market leverage supports the idea of the book leverage being managed to meet the market expectations. We find that managers adjust book leverage only when it exceeds the market leverage. This behavior is consistent with a conservative view on managing leverage ratios as managers de-leverage firms when a one-sided discrepancy exists. The estimated adjustment speed is significantly higher for firms sensitive to the business cycle, which are more sensitive to negative macro shocks.

WORLD FINANCE CONFERENCE

Time-varying mark-up and the ECB monetary policy transmission in a highly non-linear framework

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Abstract

This paper investigates the interest rate pass-through in eight European countries analyzing their short-run and long-run monetary transmission mechanisms. We investigate the relationship between the Euribor and the long-run interest rate on loans to non-financial corporations and, innovating on the existing literature, we allow for a mark-up which can be affected by country specific funding conditions and/or stochastic structural breaks. As expected, we detect significant differences across countries. Cointegration between the Euribor and the long-term bank loan interest rates holds for Germany, France, and the Netherlands, where banks seem to apply a constant mark-up. In the Southern European countries of the sample the long-run pass-through is directly affected by changes in banks' cost of funding, due to shifts in the spread between domestic and German long-term government bond interest rates; a finding with major monetary policy implications. In the same way, the ESTAR/LSTAR parameterization of the short-run dynamics brings about innovative results and identifies a crucial role for the government bond spreads in countries which were involved in the recent European debt crisis. This evidence suggest that the adoption of unconventional tools such as the QE may be effective to overcome the existent banking fragmentation in the euro area.

INFLUENCES OF PUBLIC INVESTMENT ON DEBT SUSTAINABILITY AND SOME RECOMMENDATIONS ABOUT PUBLIC INVESTMENT IN VIETNAM

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Abstract

Starting from theory and empirical relationship between public investment and public debt, the authors focused on the influences of public investment on secure debt in Vietnam. This study is to identify the influences of public investment on the public debt sustainability in Viet Nam in the period 2000 – 2014. The result has been pointed out the role of state budget sustainability on those relationship. Particularly, in the context of public investment mainly supported by the public budget, the growth of public investment leads to the significant increase of budget deficit as well as of public debt in the both size and speed. Therefore, the authors proposed some key solutions involving downsizing public investment associated with reduced rates of investment from the budget, strengthening fiscal discipline, ensuring the transparency and accountability in order to improve the efficiency of public investment and to reduce its pressure on secure debt.

Analyst coverage prediction for IPOs

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Abstract

In this study, we attempt to predict which IPOs will benefit from analyst coverage with information contained in their prospectus or revealed immediately after the first day of trading This question is of interest as we know that covered IPOs exhibit better long run performance than orphan IPOs. We find that the predictive models are very accurate in classifying approximately 75% of the US IPOs over the period from 1994 to 2012 correctly. For example, CART model classifies non orphan IPOs with slightly best accuracy (81.1%) than orphan IPOs (70.6%). These results are evidence that analyst coverage can be predicted with only information contained in the IPO prospectuses or immediately after the first day of trading. These results are relevant for practitioners since analyst coverage of IPOs ensures better long run returns compared to orphan IPOs.

How do bankruptcy systems perform in Eastern Europe?

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Abstract

For post-socialist countries that have undertaken long phases of economic and judicial transitions, an important aspect of attractiveness is based on the performances of their bankruptcy systems. Those performances are all the more essential in a context of non-mature capital markets. Precisely, bankruptcy procedures should, first generate substantial recoveries for the whole set of investors, and second share those recoveries in an adequate way – e.g. in a way that improves the investors' individual incentives (in terms of monitoring, control, support, etc.). This article uses an original hand-collected database of 554 closed bankruptcy cases in three Eastern European countries (Hungary, Poland, and Romania) to evaluate the determinants of bankruptcy systems' performances during the post-transition era (from year 2003 to 2010/11). In particular, we investigate whether the specificities of these local bankruptcy environments are significant enough to influence the creditors' total recoveries. We also wonder whether those recoveries are impacted by the presence of private/public creditors and/or the concentration of their claims. This paper goes beyond a mere analysis of the creditors' overall repayment, by focusing on the competition effects between them. Implementing competition is actually a core issue for post-transition economies, which have to mimic rivalry effects that usually prevail in more mature market economies. Precisely, we measure the priority order of repayment among competing classes of creditors (public, social, and private claims) and investigate the nature of competition (rivalry vs. ripple effects) among these classes. (1) We first confirm that the design of bankruptcy law "matters": the creditors' repayment is not independent from the type of bankruptcy procedure, and depends on the national environment in which such procedure is engaged. (2) On all three countries, the total recoveries do not benefit from the presence of public claimholders, even when those are in position of being residual claimants. Following Satjer (2010), this result suggests some passivity from the state, which has lost bargaining power under bankruptcy. On the contrary, the private claimholders exert a contrasting influence on total recoveries: positive for the junior ones (more involved under bankruptcy, to compensate their lack of protection), and negative for the secured ones (confirming the "lazy argument" attached to collaterals). (3) We also find that repayments are lower when the claims are concentrated: despite easier coordination, concentration may generate excessive influence from the largest creditors, willing to run bankruptcy adjudication in their sole interests. (4) We show that the Eastern European bankruptcy systems provide stronger protection for private secured claims than for public claims. From that angle, the post-socialist economies mimic the prioritization of secured creditors that characterizes most Western European bankruptcy systems. (5) Last, we confirm that Eastern European bankruptcy

systems have successfully implemented competition among the classes of creditors, which we interpret as a sign of maturity.

Does China really matter for Indian Stock Market?

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Abstract

Recently China's stock market fell by 30% during two weeks period probably due to inflated stock market on account of large amounts of investments made in stocks using borrowed money and Shanghai Stock Exchange witnessed substantial losses due to declining index value. Like India, China has also emerged as an attractive investment destination for foreign investors during the past decade. We examine the impact of any variations in China's benchmark index Shanghai Stock Exchange Composite Index (SSEC) on India's BSE Sensex by gathering data on daily closing stock prices of both the indexes during a post crisis period from 2010 to 2015. With the help of Unit Root Testing, Correlation & Regression Analysis, Granger Causality Test and Johansen Cointegration Test, study aims to examine the co-movements in Indian and China's stock markets during the past five years. Results reveal low correlation between BSE Sensex and Shanghai Stock Exchange Composite Index. Regression analysis suggest significant but very minimal amount of variance in BSE Sensex stock prices being explained by Shanghai Stock Exchange Composite Index. The study found that Shanghai Stock Exchange Composite Index does not cause any change in BSE Sensex evident from Granger Causality Test, and Johansen Cointegration Test indicates absence of any statistically significant long run association between the two indexes during the post crisis period from 2010-2015. Study concludes that China does not matter really for Indian stock market. Short term co-movements in both the markets are not sustainable in long run because India is still a consumption led economy and domestic demand will drive the Indian economy up in the long run and India is more likely to be influenced by other markets than by China.

Financial Hedging and Firm Performance: Evidence from Cross-Border Mergers and Acquisitions

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Abstract

This paper studies the impact of ?nancial hedging on ?rm performance in crossborder mergers and acquisitions (M&As). Using a sample of 1,369 acquisitions initiated by S&P 1500 ?rms between 2000 and 2014, we ?nd strong evidence that derivatives users experience higher announcement returns than non-users, which translates into a $193.7 million shareholder gain for an average-sized acquirer. In addition, we ?nd that acquirers with hedging programs experience lower stock return volatilities, higher deal completion probabilities, longer deal completion time, and better postdeal long-term performance. Overall, our results provide new insights into a link between corporate ?nancial hedging and ?rm performance.

ACQUISITIONS AND REGULATORY ARBITRAGE BY CAPTIVE FINANCE COMPANIES

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Abstract

Captive finance firms play an important role as a financial intermediary. Yet, they receive very little attention in financial research. Recently, finance companies have grown by engaging in acquisition activities. Given their unique characteristics, finance companies may be more capable of extracting gains from acquisitions than other firms. We explain their advantages, and assess the market response and long-term valuation of finance companies that engage in acquisitions. Our results indicate that acquisitions by captive finance firms are wealth enhancing in the short term and the long term.

AUDIT MARKET CONCENTRATION IN TURKEY: AN EMPIRICAL INVESTIGATION OF THE RELATIONSHIP BETWEEN THE AUDIT FIRM CHARACTERISTICS

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Abstract

The aim of this study is to analyze the internal structure of the auditing firms operating in Turkey and investigate the relationship between the firm internal dynamics. In this study, using data obtained from the 2013 transparency reports of audit firms operating in Turkey, the following variables were analyzed with correlation analysis method; • If there is a significant relationship between the number of shareholders of the audit firm with the number of audited companies, • If there is a significant relationship between the total income of audit firm with the number of auditors in the firm, • If there is a significant relationship between the percent of income from financial statement audits with the number of audit assistants in the firm, • If there is a significant relationship between the percent of income from tax audits with the number of audited companies, • If there is a significant relationship between the duration of the training at firm with total income. There are a total of 73 audit firms must publish a transparency report on 2013. Transparency reports from 63 of the 73 audit firms were found to be accessible. This study was performed with 63 accessible transparency reports.

Microcredit Price Modelling for Microfinance Institutions using Risk Premium Analysis

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Abstract

Historically, microfinance institutions (MFIs) have played a significant social role by helping people at the base of the socio-economic pyramid escape from social exclusion through the creation of microenterprises. However, international banks have recently started competing in the microfinance sector. In this adverse environment, MFI management tools should be more innovative and technologically advanced to increase efficiency, solvency and profitability and to compete with commercial banks on equal terms. This study therefore strives to develop a credit-risk management tool based on a multilayer perceptron (MLP) credit-scoring model for a Peruvian MFI, and to calculate the capital requirements and microcredit pricing on both Internal Ratings-Based (IRB) and standardized approaches, analysing the impact of these models on the management of the MFI. Our findings show that the implementation of an IRB approach with default probabilities obtained from an MLP credit-scoring model produces the best benefit by the MFIs in terms of higher accuracy (reduction of misclassification costs by 13.78%), lower capital requirements (in the range 8.5-78%), and best risk-adjusted interest rates. Furthermore, with the establishment of interest rates adjusted to the real risk of each client, MFIs are fairer and more socially engaged by preventing economically viable low-risk projects from becoming unviable due to excessive interest rates. This leads to the creation of more small businesses by people from the base of the socio-economic pyramid and greater economic development and social cohesion. The IRB model should therefore be implemented to improve MFI solvency, profitability, efficiency, survival, management, and social performance.

The Causal Impact of News Sentiment to Market Responses

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Abstract

This study constructs a market 'aggregate news sentiment index' (ANSI) based upon Chinese financial news relating to all listed firms on the Taiwan Stock Exchange. We then analyze the relationship between ANSI and market responses, comprising of returns, trading value, turnover ratio and the volatility index, with the ANSI being classified into five regimes. Our empirical results reveal that with an increase in the ANSI in the previous month, there is a corresponding increase in trading value, along with a reduction in the investor fear gauge of the TAIEX volatility index. Granger causality tests indicate that both the weekly and monthly ANSI could be leading indicators of market returns if the different regimes are classified. As regards the potential application of our findings to portfolio management, we find that when the lagged term of the ANSI is classified in the highest regime, value-weighted portfolios comprising of stocks with the highest market value, lowest price-to-book ratio and lower turnover ratios will earn the highest returns. This study contributes to the extant literature by demonstrating that the news sentiment level reflected in qualitative news reports can be effectively incorporated as a proxy to provide valuable support to portfolio decision making.

Relationship between Aggregate Stock Returns and Macroeconomic Factors in BRICS Stock Markets - Short Run Analysis

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Abstract

This paper comprehensively examines the short run relationship between select macroeconomic factors (i.e., GDP, Inflation, Interest Rate, Exchange Rate, Money Supply and International Oil Prices) and aggregate stock returns in emerging markets constituting the BRICS block over the period 1995 to 2014 using quarterly data. This relationship is also examined during two sub periods viz., a Pre Crisis period (1995:Q1 to 2007:Q2) and a Post Crisis Period (2007:Q3 to 2014:Q4). We find a significant unidirectional causality from stock return to GDP growth rate, from stock return to inflation, from stock return to exchange rate and from stock return to oil prices in almost all countries. This may be due to the fact that stock market already discounts the expectations about broad economic indicators. This is also reflective of the informational efficiency of stock markets in BRICS nations. Variance decomposition results reveal that most of the variation in stock returns in BRICS markets is primarily explained by their own lagged values and the contribution of macroeconomic factors is not so significant except that of GDP growth rate and Inflation rate. Further we find that the response of stock returns to a shock generated in various macroeconomic factors lasts for about 4 to 8 quarters. These findings, besides augmenting the empirical literature and knowledge domain on the topic, have significant implications for policy makers, regulators, researchers and investing community in emerging markets. The regulators need to ensure that financial sector reforms agenda consciously considers interlinkages between stock markets and real economy. The investment community cannot devise investment strategy based on macroeconomic variables as stock market leads rather than lag macroeconomic variables in the short run. However, GDP growth rate and Inflation rate significantly explain stock returns in almost all countries, so they can be considered as base to earn arbitrage profits in emerging stock markets. This is also supported by the fact that the shock from macroeconomic variables does persist for some time before withering away.

Bank Runs and Regulatory Communication: An Experimental Analysis

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Abstract

The stability of financial systems has been at the forefront of policy-makers after the world witnessed the collapse of major financial institutions in the 2007-2008 financial crisis. A better understanding of the causes of bank failures is essential to avoid the significant welfare losses witnessed. We experimentally analyzed the role that revelation of financial information plays in the likelihood of having a bank run. We base our experiments on the Diamond and Dybvig (1983) model. We have two depositors that have to decide to withdraw today or tomorrow. If both withdraw today, they both receive 200. If they both withdraw tomorrow, they both receive R, which is randomly selected a set of numbers that range from 80 to 720. If one withdraws today and the other tomorrow, the one withdrawing today receives 400 and the one withdrawing tomorrow receives 0. A regulator knows the value of R. In our TRUTH treatment, the regulator must send the precise value of R to the depositors before they decide. In our ANYT treatment, the regulator can send any range of R as long as it contains the true value of R. In ANY, the regulator can send any range of R. We find that Depositors' early withdrawal decisions as a function of the lower bound of the message about R are significantly different in each of the three treatments. There is a significant drop in the likelihood of withdrawing early in ANY and TRUTH when the lower bound of the message equals 400. In addition, we find that there are more inefficient runs (for large R) and fewer efficient runs (for small R) in ANY than in either TRUTH or ANYT. In ANY and ANYT, there were heterogeneous strategies used by the regulators. Some were strategically vague and hid good states with worse states.

dynamics of bond market during the EMU crisis: theoretical and empirical approaches in a portfolio framwork

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Abstract

This paper aims to provide a relevant analytical framework for understanding of the formation of bond interest rates during the different episodes of the EMU debt crisis. We propose a portfolio choice model with two bond markets which generalizes the results of the traditional term structure of interest rates theory and justifies the presence of the conditional variance and covariance as two essential components of the volatility risk premiums on the long-term equilibrium. The paper shows that the scenario of contagion on the bond markets is self-fulfilling. Only for the markets that benefit from the flight to quality, the scenario of flight to quality is self-fulfilling. The theoretical model is estimated by applying a bivariate GARCH-In-Mean model of 6 country pairs in the euro zone. It is mainly Greek and Italian markets which have suffered from the increase of uncertainty on the returns from the beginning of the crisis. The paper finally shows that the portfolio mechanism plays an intermediary role between fundamental contagion and financial contagion.

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Financial Education Programs in Colombia: Challenges in Assessing Their Effectiveness

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Abstract

Financial education programs enjoy widespread governmental and financial industry support. They are considered an important tool for improving financial literacy, encouraging financial inclusion, and increasing consumer financial protection. Therefore, assessing their effectiveness is important to guarantee that public and private resources are allocated wisely. As we highlight in this paper, the available empirical literature casts serious doubts on the effectiveness of those programs in achieving their main objectives. Even properly designed—from an impact evaluation viewpoint—financial education programs fail to deliver long-run effects on individuals' financial literacy or financial choices. We highlight the challenges to evaluate the impact of financial education programs and, consequently, their merits. We showcase the international experience in assessing the effectiveness of these programs and draw lessons for Colombia. We offer a set of recommendations regarding the minimum set of attributes that financial education programs should have to allow serious policy evaluation.

Volatility Spillover of the Agriculture sector on the Nairobi Securities Exchange

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Abstract

This paper investigates the existence and magnitude of volatility spillovers among equities on the Nairobi Securities Exchange. The multivariate VARMA-GARCH model is used to test for spillover effects between four broad sectors of the NSE: Agricultural, Financial, Commercial and Services and Industrial. The significance of the parameters of the model are used as an indicator of the spillover effect between sectors. Based on the empirical results, the biggest volatility spillover is from the commercial and services sector to the broad industrial sector. There are also significant spillovers from the industrial and agricultural sectors to the financial and commercial and services sectors, as well as from the financial and commercial and services sectors to the broad industrial sector.

Colombia's Central Bank communications and the ?nancial system: A content analysis approach

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Abstract

Our purpose is to assess whether Colombia's Central Bank uses its communications as an alternative monetary policy tool and quantify the e?ectiveness of this strategy to a?ect ?nancial markets. To do so, we use a machine learning technique to unveil the semantic structure of central bank communications. This machine learning technique let us to extract some semantic factors that are then used in a multivariate time series model to identify and measure the impact of these communications on in?ation expectations and, therefore, on ?nancial markets. Our results indicates, ?rst, that Colombia's Central Bank do use communications as a monetary policy tool and that this strategy highly in?uence market in?ation expectations.

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Bank regulation under fire sale externalities

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Abstract

This paper examines the optimal design of and interaction between capital and liquidity regulations in a model characterized by systemic externalities generated by asset fire sales. We show that when capital is regulated but liquidity is not, banks still hold liquid assets to protect against liquidity shocks. Liquidity is advantageous from a macro-prudential standpoint as well: Higher liquidity holdings lead to less severe decreases in asset prices during times of distress. Individual banks do not internalize the fire sale externality and respond to the introduction of capital requirements by decreasing their liquidity ratios. Predicting this reaction from banks, the regulator raises the minimum capital ratio requirement to inefficiently high levels, which corresponds to a reduction in socially profitable long-term investments. Our results indicate that the pre-Basel III regulatory framework, which focused mainly on capital adequacy requirements, was both inefficient and ineffective in addressing systemic instability caused by liquidity shocks.

EFFECTIVENESS OF COMMODITY FUTURES AS OPPOSED TO CROP INSURANCE IN CURBING SPOT PRICE VOLATILITY RISK

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Abstract

This study examines the impact of introduction of futures trading on the spot price volatility in the commodity market. The paper considers the United States of America, South Africa and Ethiopian economies. Three commodities i.e. coffee, maize and wheat from New York Merchantile Exchange, South African Futures Exchange and Ethiopian Commodity Exchange are analyzed. ARCH LM test is used to check for heteroskedasticity and GARCH and EGARCH are used to check for the behavior of volatility between the pre- and post-futures periods. For all the three economies, the results indicate presence of the ARCH effect in the log returns. For conditional and unconditional variances; spot price volatility for coffee has decreased after futures trading in all the economies and the EGARCH has also shown reduction in persistence of volatility in the post-futures period in the three economies; while that of maize has reduced for the Ethiopian economy while there has been an increase in both the US and South African economies. For wheat, the conditional variance has been found to rise in the post-futures period in all the three economies.

Acquiring Social Value: Target Corporate Social Responsibility and Acquirer Performance

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Abstract

We examine whether and under what circumstances the corporate social responsibility of the target firms has an impact on acquirer's firm value and performance. We find that target CSR concerns have a negative and significant impact on acquirer long-run operating and stock performance, but only for acquirers in consumer-oriented industries. We document that the impact of target CSR strengths on these measures of long-term acquirer performance is not statistically significant indicating that the effect of target's CSR on acquirer performance is asymmetric. We also find evidence that target CSR is associated with acquirer's stock returns on acquisition announcement. Our results indicate that CSR reputation can be transmitted from the target firm to the acquirer firm and acquirers in consumer-oriented industries are more likely to "inherit" the CSR weaknesses of the firm's that they buy.

A Network Approach to Unravel Asset Prices Co-movements Using Minimal Dependence Structures

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Abstract

In many fields, networks have been used to filter information and describe connected systems. In this paper, we build on the minimum spanning tree (MST) literature developing a layered MST that uses a multi-factor model to explain the dynamic dependencies among elements using systematic and idiosyncratic components of asset prices. This framework proves to be flexible with changes in the underlying data and the choice of factors for the investigation. We show applications of our framework in different contexts and observe that the methodology is helpful in understanding the change of the interdependencies among entities in a data-set. Using this approach we are able to demonstrate dramatic changes in the topology of asset prices networks.

Momentum and Reversal Trading in Russian Stock Market: How to Limit Losses

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Abstract

In the academic literature, a large number of papers on identifying assets pricing anomalies is represented on the U.S. market, in other developed and emerging capital markets, but much less attention is paid to the Russian market. Can you build a profitable trading strategy on the Russian stock market based on the last stock performance? Is there an effect of mean reversion and the price momentum effect? Is it possible to combine these effects and build a trading strategy of a particular design that not only maximizes the profit (monthly return), but also holds the key to the loss. In our work, the risk of the trading investment is tested in two ways: through a number of portfolios in the strategy with a negative result of investment (we minimize the risk approximated by number of drawdowns) and by checking the statistical significance of the excess of the average return on the portfolios of one design over a given benchmark with the bootstrap Reality Check. We document that the choice of stock weights in the portfolios of winners and losers has no significant effect on the profitability of combined trading strategies. For low-risk profits investor should consider the state of the stock market and available stock selection (a sufficient set of stocks with a significant difference between the last performance). Our research allows us to recommend certain rules on the ranking and investment windows, as well as the percentiles for portfolios formation.

Major sporting events impact on the basis of UEFA Euro 2012 Championships

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Abstract

The article presents impacts of major sporting events for the economy. Investments in infrastructure are major expenditures that have to be paid in case of the event. It concerns sports infrastructure like stadiums but also general one like roads, hotels, etc. These investments can induce outputs for the economy in short and long time horizon. Important aspect of sporting events effects refers to tourism. The discussion was supported by the data concerning UEFA Euro 2012 Championships that was played in Poland and Ukraine in June 2012.

Currency Risk Factors in a Recursive Multi-Country Economy

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Abstract

Focusing on the ten most-traded currencies, we provide empirical evidence about a significant heterogenous exposure to global growth news shocks. We incorpo- rate this empirical fact in a frictionless risk-sharing model with recursive prefer- ences, multiple countries, and multiple consumption goods whose supply features both global and local short- and long-run shocks. Since news shocks are priced, heterogenous exposure to global long-lasting growth shocks results in a relevant reallocation of international resources and currency adjustments. Our unified framework replicates the properties of the HML-FX and HML-NFA carry trade strategies studied by Lustig et al. (2011) and Della Corte et al. (2013).

Testing Excess Returns From Passive Options Investment Strategies

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Abstract

When analyzing options returns, most papers tend to suggest to calculate them (expected and realized options returns) from the point of view of an investor that goes long on those financial instruments. In the case of investors that go short, standard calculation of option returns tend to assume the investment or capital committed is the underlying asset in the case of a call, or the exercise price in a put. We conduct a test searching for excess returns on passive options investment strategies resorting to a four factor model, evaluating the case of an investor who launches options and evaluates returns to the light of capital invested in the form of margins requirement. The main point of our research work is to continue the line of research where we evaluate options returns from the sell side using the margin requirement as capital committed by the investor. We find that there are excess returns not explained by the four factor model, which in turn may indicate the strategy generates excess returns, or that the investor going short on options is provides insurance to events not captured by the traditional models.

Securitization process integration in modern financial systems: Evidence from the EU securitization market during recent financial crisis

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Abstract

Securitization is the process of taking an illiquid asset or group of assets, and through financial engineering, transforming them into a security. Even if it has been a key bank funding, risk management and performance improvement tool over the last two decades, in the wake of the largest financial crisis in recent times, many causes have been proposed for the 2007-2009 financial crisis. Financial crisis reflections to countries GDP, associated with securitization issuance is a financial niche with influential impact to chosen European Union countries. For the purpose of this paper, research was made to see the impact of securitization issuance on GDP rate of PIGS countries and several other European countries. The aim was to show to show that securitization does not have a great impact on GDP rate change when it is used in a transparent manner. There are significant differences between investigated countries. From Spain on one side, to other European Union countries such as Germany reduced issuance of securitized papers after the peak of the financial crisis. Among biggest issuers in Europe are the United Kingdom and Netherlands, they are characterized by the quality of collateral selection and underwriting standards.

China: From Imitator to Innovator?

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Abstract

China was seen for a long time as world's work bench rather than a global innovator. However, China was recently undertaking significant efforts to transform towards research and innovation orientation, by e.g. setting the research goals in the 12th Five-Year Plan, establishing the Chinese National Patent Development Strategy. In this paper we examine the factors fostering a higher research orientation measured by research intensity. We document that higher equity incentives for top executives, higher industry concentration, and the strategic shift by the Chinese government in 2008 is related to higher research intensities. We also find in a univariate setting that fraudsters spend significantly less in research compared to their law-abiding peers.

Sensitivity Measures of the Hybrid Collar Strategy

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Abstract

Sensitivity Measures of the Hybrid Collar Strategy Abstract The process of integration and globalization of financial markets has created many new opportunities for companies associated with business development and improved competitiveness. On the other hand, this process increases risks related to operating a business. An increase in the volatility of market conditions results in an increased demand for new methods and tools to provide the means for more efficient risk management. There is an increase in diversity of derivatives in contemporary financial markets. Derivatives are characterized by certain flexibility due to the fact that they can be used for hedging and speculative purposes as well as in arbitrage transactions. A particular flexibility may cause problems that can arise in situations when company managers authorized to limit risks or to use arbitrage strategies, intentionally or unintentionally engage in speculation. Such behavior puts a company at risk of suffering considerable losses. Negative experiences with options strategy of certain companies in Poland can serve as an example. In years 2008-2009, these companies suffered considerable losses as a result of closed transactions. Therefore, in business practice, it is important to competently implement innovations pertaining to risk management. The risk analysis of introduced methods is crucially important. The collar strategy (also referred to as the hybrid collar option) belongs to the class of hybrid instruments that combine the features of at least two different groups of financial instruments. The purpose of the hybrid collar strategy is to protect an unrealized profit gained from an earlier increase in the value of owned stocks. The article presents the issues related to the hybrid collar strategy: strategy design, the payoff function, the impact of selected factors (prices of the underlying instrument, time to maturity, the price volatility of the underlying instrument and the length of the designated interval) on the shaping of the price of collar and the values of such coefficients as delta, gamma, vega, theta and rho of collar strategy. These coefficients are measures of sensitivies of the option's price. The objective of the work is determining measures of sensitivies of the collar strategy and analysing the impact of selected factors on the risk of the strategy. The empirical illustration contained in the article is presented based on the simulation of the pricing of the collar option issued on EUR/PLN. According to risk measure analysis, the hybrid collar strategy is characterized by significant sensitivity to a change in the price of an underlying instrument, the option expiration time and the fluctuations in the volatility of an underlying instrument price.The analysis conducted shows that the impact and strength of the selected factors on the collar strategy price and the collar sensitivity depends on the position of the current price of the underlying instrument in relation to the centre of the designated interval. The approximation of the price of the underlying instrument to the centre of designated interval causes a decrease in the sensitivity of the collar strategy to the volatility of the price of the underlying instrument. Greater volatility of the price of the underlying instrument affects the growth in the sensitivity of the collar strategy to fluctuations in interest rates and to the decrease in sensitivity to changes in the price of the underlying instrument. However,

the impact of the price volatility of the underlying instrument on shaping the sensitivity of the collar strategy to the approximation of the expiration date depends on the position of the current price of the underlying instrument in relation to the centre of the interval and to the end point of the designated interval. Keywords: risk management, option, hedging JEL Classification: G23, G32

Does The Corporate Governance Profile Really Impact On Firm Performance And Bank Allowances?

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Abstract

This paper investigates whether there are relationships between corporate governance characteristics, firms' performance, credit allocation and merit of credit. We hoped to find some influences of qualitative characteristics, which are often overlooked. The study look at 75,512 firms (European and not) analysed over 7 years. We find out: (i) significant differences between Countries' corporate governance; (ii) no significant relations between firm performance, level of indebtedness and the adopted indicators; (iii) significant relationship between Integrated Rating and corporate governance indicators; (iv) maybe human capital is an important perspective for more efficient banking practices, but now it is not take into account.

FORECASTING BANKRUPTCY: AN EUROPEAN ANALYSIS

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Abstract

Several studies investigated the predictability of financial distress. With this paper, we analyse the ability of Integrated Rating model to anticipate potential corporate crisis. In particular, we study bankrupt companies of four European Countries (Czech Republic, Italy, France and Slovakia). We find that Integrated Rating model can forecast bankruptcy (assessing a negative merit of credit judgment) with an accuracy that exceeds 85%. Moreover, we test and determined that the merit of credit assessment is stable over time.

On the Economic Sources of Commodity Market Volatility

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Abstract

We analyze the effect of macroeconomic and financial uncertainty on the volatility of the aggregate commodity market and of major commodity groups. We find that inflation uncertainty bears some predictive power for commodity market volatility. Moreover, financial variables associated with credit risk and equity market stress are important determinants of commodity market volatility especially after the financialization of commodity markets. Finally, we document for the first time that the equity variance risk premium is a particularly strong predictor of commodity futures volatility.

Corporate Bonds or Bank Loans? The Choice of Funding Sources And Information Disclosure of Polish Listed Companies

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Abstract

The paper aims to compare the determinants of a company finance by corporate bonds or bank loans. Determinants of debt financing will be examined in the light of the theory of flotation costs, renegotiation and liquidation, and information asymmetry (influenced by lower financial information and risks disclosure). The corporate choice of funding sources depends on the accessibility and cost of financing, required collateral, risk, leverage and tax shield. Bank loans and corporate bonds are used by businesses not only to finance investments (in tangible assets, real estate or financial investments in shares or stocks) but also to maintain liquidity or rollover of debt. In order to find determinants of the choice of funding sources of firms, we estimate logistic regression models and panel models of corporate borrowing determinants to compare the significance and direction of the impact of enterprise characteristics depending on the source of financing from the corporate bonds or bank loans. In this study we are interested in explanatory variables that explain the level of information and risk disclosure; operational risk (variability of operational cash flows), investment risk (retrieved from GARCH models estimated on listed companies stocks trading on the Warsaw Stock Exchange), collateral held and leverage.

Bank Acquisitiveness and Financial Crisis Vulnerability

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Abstract

We investigate the relation between European bank acquisitiveness during the period 1990-2006 and their vulnerability to the financial crisis. We use distance to default and Z-score ratios to estimate banks impact from the financial crisis in terms of bankruptcy risk and solvency. Our findings shed new light on whether bank acquisitiveness really did contribute towards weakness; and suggest that only acquisitions of investment banking assets increased risk, while acquisition of retail banking assets actually lowered solvency risk.

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Control beyond Ownership: Subcontractors of Large Business Groups

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Abstract

We examine whether and how large Korean business groups known as chaebols effectively extend control influence over their subcontractors outside their formal equity ownership boundary. Using a unique dataset on subcontractors of the 34 largest chaebols from 2001 to 2010, we show that the profit rates of the subcontractors of a chaebol are more similar to one another than they are to the rates of their industry peers. Subcontractors also exhibit less temporal variation in profitability than non-subcontractors. We find an unusual customer-supplier relationship between chaebols and their subcontractors – the central members of a chaebol coordinate the allocation of an economic surplus between the group and the subcontractors to maintain the subcontractors' profitability at a targeted level. We explore a rationale for why subcontractors voluntarily commit themselves to such an unequal economic partnership. We document 'certification' benefits for them, including improved profitability, faster sales growth, reduced marketing costs, more extensive capital investment, and higher IPO probability. Our results suggest that large business groups play an important role in emerging markets by certifying opaque firms through their reputations, which helps overcome potential hold-up problems in a relationship-specific investment without resorting to formal equity ownership.

Investment decision to generate income: leasing of real estate versus Real Estate Investment Funds – REIT, in the Brazilian Market

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Abstract

The market of properties funds negotiated in stock market and real estate market of properties have an uncertain scenario in the Brazil, with opportunities and risks of investments, despite the appearance of being based on the same type of asset, are markets with very different characteristics. The aim of the research was to compare the foundations of three real estate investment trusts (REITs) traded on the stock exchange BM&FBovespa, which have higher liquidity by investing in real estate, both in order to obtain monthly income arising from the lease. The methodology used was the case study compared making use of secondary data published to research the type ex-post-facto. The results were that, based on May 2015 data, the real estate funds have higher return on investment that aims to generate income by real estate rent compared to the popular residential location, middle and high standard. The commercial shed rental property cited in the example presented above profitability of residential real estate, but profitability was lower than the 3 most liquid REITs traded on the BM&Fbovespa, that showed benefit in terms of profitability in the period surveyed.

Investor heterogeneity, sentiment, and skewness preference in options market

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Abstract

This paper builds upon and extends Bali and Murray (2013) to investigate skewness preferences when investors with heterogeneous expectations hold long skewness positions. When investors are pessimistic (either pessimistic or optimistic), their overconfidence produces a downward (upward) bias which explains their negative (positive) skewness preference. When investors are optimistic, their overconfidence is reflected in the bottom skewness portfolio which explains why they show a negative skewness preference as a result of overestimation for this portfolio. The over- or under-valuation takes place in the absence of a risk-premium.

Patterns in Relation of Expected Return to Volatility

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Abstract

It is shown that the relation of expected return to volatility is generally positive for large caps yet decreasing in volatility differential; it is also shown that this relation strengthens when information delays are incorporated. This decreasing pattern is caused by puzzlingly high returns to the least volatile equities. Volatility ranking of equities is shown to be persuasive: 30-day volatility carries similar pricing information to 60-month volatility upon allowing for information delays. Scant evidence for the positive relation of expected return to volatility for all equities and small caps is attributed to lottery tickets behavior of volatile small caps. Cross-sectional evidence provides evidence for the overall positive relation of expected return to volatility.

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Special Drawing Rights – Stability

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Abstract

The global financial system appears to be heading for a major financial crisis. This crisis is being driven by a growing global debt. One very important aspect of these potential crises is the state of the world reserve currency and how it is managed. The Special Drawing Rights (SDR) of the International Monetary Fund (IMF) as the major global reserve currency offers a means to stabilize international financial markets, primarily the commodity markets. Recent years have witnessed a tremendous growth in information and communication systems that facilitate the design and implementation of complex inter-enterprise processes. The basic hypothesis of this paper is that an appropriately structured global reserve currency, such as the SDR, based on use of an information and knowledge management system, can provide stability to currencies, whereas an unmanaged single or unstructured group of currencies will not provide currency stability. The proposed Information and Knowledge Architectures for System Management of a Global Reserve Currency (IKASM-GRC) can provide a system and methodology which can stabilize a reserve currency.

The Association between Corporate Bond Yields and Oil Returns

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Abstract

While numerous studies have investigated the impact of oil prices on stock market returns, this paper is the first to examine the association between corporate bond yields and oil returns. We examine sector-level association between corporate bond yields of four major U.S. industrial and financial sectors, including 13 sub-sectors, and oil-returns employing an exponential autoregressive conditionally heteroskedastic (EGARCH (1, 1)) framework. Oil returns are found to be significantly associated with the yield levels of corporate bonds issued in most of the oil substitute, oil-related, oil-user and the financial services sectors except Petroleum Refinery, Building and Chemical sub-sectors. Moreover, we find that the association between oil returns and Chemical and Plastic & Rubber sub-sectors are asymmetric in the sense that negative oil return shocks lead to greater volatility than positive oil return shocks of the same magnitude in the former sub-sector and to lower volatility in the latter. Investors holding bonds issued by these sub-sectors need to add corporate bonds from oil-related and oil-substitute sectors to lower the volatility of the portfolio. The Federal Reserve Bank should encourage institutional investors to examine the sensitivity of their portfolios to oil return changes. Corporations should keep monitoring oil prices and hedge the volatility risk accordingly.

Competition and Frequency of Voluntary Disclosure by Mutual Funds

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Abstract

In this paper I study the impact of competition in financial markets on voluntary portfolio disclosures by mutual funds. In a sample of open-end US domestic equity funds, I find that disclosures decrease with competition. This supports the theory that mutual funds use voluntary portfolio disclosures as a marketing tool to attract new investments in a tournament-like market, where superior relative performance and greater visibility are rewarded with convex payoffs. With higher competition, the likelihood of receiving new investments goes down for each fund and funds respond by cutting down on costly voluntary disclosures. This effect is more pronounced for funds holding illiquid assets as the cost of disclosure is higher for them (illiquid assets attract more front-runners). Thus, competition appears to have an adverse impact on market transparency and consumer search costs in a tournament-like mutual fund market.

Uncertainty, Major Investments, and Capital Structure Dynamics

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Abstract

This paper examines the effect of uncertainty on firms' dynamic capital structure decisions. Employing a battery of estimation methodologies including corrected LSDV and system GMM to ensure the robustness of the results, we find that target leverage uniformly decreases with uncertainty across all firms whereas leverage rebalancing toward the target shows asymmetric response to uncertainty depending on firms' current leverage levels. Firms' financing behavior around major investments reveals that over-levered firms tend to deviate from leverage targets but under-levered firms converge to the targets substantially faster. Thus our study reconciles some of the opposing results documented in the literature related to the financing behavior around major investments. We provide some evidence that real options and bankruptcy threat could account for the findings.

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Voluntary Disclosure and Market Competition: Theory and Evidence from The U.S. Services Sector

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Abstract

This paper analyzes a firm's incentives to disclose private information about market demand and its cost when there is a potential entrant. There is a unique fully revealing disclosure equilibrium in which the incumbents except the high demand-high cost type are transparent. We use a sample of U.S. service firms to test the theoretical predictions. Consistent with the model's implications, among low-debt service firms, those of high demand-high cost type are likely to avoid information disclosure, whereas among high-debt firms, those of high demand-high cost and low demand-high cost types are less likely to disclose private information.

Strategic Spoofing Order Trading by Different Types of Investors in the Futures Markets

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Abstract

We set out in this study to investigate the strategic behavior of spoofing trading orders in the index futures market in Taiwan, including their characteristics, profitability, determinants and real-time impacts. We find the existence of both spoofing-buy and spoofing-sell strategies, with such spoofing orders being discernible not only among institutional investors, but also individual traders. Spoofing trading is profitable, with traders are more likely to submit spoofing orders when both volume and volatility are high, and the price for spoofing-sell (buy) orders is high (low). Furthermore, spoofing trading induces subsequent volume, spread and volatility, and spoofing-buy (sell) orders have a positive (negative) effect on the subsequent price. Our findings provide general support for the view that spoofing trading destabilizes the market.

Backing into the U.S.: A Study of Chinese Reverse Mergers

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Abstract

In an effort to gain access to United States capital markets, a "reverse merger" (RM) allows a private company to assume the exchange listing of a public company, without the additional time, risk, expense or SEC scrutiny associated with a traditional IPO. From 2002 through 2010, RMs outnumbered traditional IPOs as a mechanism for going public. RMs initiated by Chinese firms represent the vast majority of foreign RM transactions. This paper studies these Chinese firms' characteristics and relative operating performance prior to coming to the US and after being listed on a US stock exchange. We investigate potential explanations as to why the vast majority of reverse mergers involving foreign firms are Chinese. We further track their exchange listing migrations and status over a period of up to six years and stock performance for those that obtain PIPE financing versus those that do not.

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CEO Turnovers and Capital Structure Persistence

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Abstract

Firm fixed effects in panel leverage regressions act as a noisy proxy for managerial effects that drive persistence in leverage. Firms that do not change their CEO for prolonged periods of time are more likely to keep debt ratios within a narrow bandwidth and to display persistent differences in their time-series averages for up to 20 years. A CEO turnover is associated with considerable modifications to the financing policy of the firm. Significant capital structure changes take place immediately after a new executive takes office and leverage ratios remain relatively stable for the remaining tenure of the CEO.

Financial Literacy and Entrepreneurship

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Abstract

The recent financial-literacy literature has shown relationships between financial literacy and a number of desirable facets of economic behaviour, including stock-market participation and financial inclusion. We examine the relationship between financial literacy and entrepreneurship, using US data from the national financial-capability surveys. The results show large effects of financial literacy on the probability of being an entrepreneur, in magnitudes between 14-32 percent. The findings are robust to endogeneity, heterogeneity and survivorship-bias concerns. Moreover, financial literacy exerts large positive impacts on the performance of entrepreneurs, in terms of income, savings and the availability of planned, emergency and retirement funds, and is related to lower levels of debt. While the curriculum of entrepreneurship education is still largely under investigation, our findings suggest financial literacy exerts a high impact on both the probability of being an entrepreneur and on entrepreneurial performance in the US.

The Case for Contingent Convertible Debt for Sovereigns

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Abstract

This papers makes the case for sovereigns to issue state-contingent convertible bonds (abbreviated S-CoCo) as a means to forestall debt crises. This is a financial innovation response to the lack of sovereign debt restructuring mechanisms. These instruments contractually stipulate payment standstill, contingent on a sovereign's credit default swap spread breaching a distress threshold. They have the advantage of ex ante limiting the likelihood of debt crises, and ex post risk sharing between creditors and the debtor. They are "contingent contracts" addressing problems of "neglected risks" in sovereign debt risk management. Building on literature for state-contingent convertible debt for banks (abbreviated B-CoCo) we address issues pertaining to the design of sovereign contingent debt, including market discipline and sovereign incentives; market manipulation and multiple equilibria; errors of false alarms or missed crises. However, in B-CoCo the conversion is from debt to equity, whereas in S-CoCo the conversion is to more favorable repayment schedule. The paper develops a risk optimization model to incorporate S-CoCo in the portfolio of instruments used to finance a sovereign. The model trades off expected cost vs tail risk. We use Greece as a case study to illustrate Pareto improvements when standstills are contractually possible.

Enhanced Index Tracking with Cumulative Area Ratios

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Abstract

Passive index investing is the investment community's answer to expensive, underperforming, actively managed funds. It involves the low cost strategy of investing in a fund that replicates or, more often, tracks a market index. This paper argues that the benchmark indices are unlikely to represent the preferences of many investor types and, consequently, could be re-weighted to improve investment performance of the tracking strategies. In this paper we draw on the concept of "cumulative area ratios" to propose a novel technique for constructing enhanced indices that provide improved investment performance. The technique, called the utility based index tracking technique (UBITT), is computationally parsimonious and applicable for all return distributions and all types of monotonically increasing utility functions. First, we develop the concept of the cumulative utility area ratio (CUAR) criterion to make pair wise comparisons of the individual assets. This involves adjusting the cumulative distributions of asset returns for the investor's utility function. We then use this information in an Analytic Hierarchy Process (AHP) to determine the enhanced portfolio weights. We then apply the UBITT to two value weighted indices, one from a developing country, the Turkish BIST-30, the other from a developed country, the Japanese TOPIX-100, and one price weighted index (the Dow Jones industrial Index) to construct enhanced portfolios based on five distinct utility functions: decreasing absolute risk aversion (DARA), increasing absolute risk aversion (IARA), constant absolute risk aversion (CARA), risk neutral, and risk seeking. In-sample tests show that all five UBITT portfolios provide more utility and convincingly outperform the bench mark portfolio according to the CUAR, the Omega ratio as well as to conventional mean-variance criteria. Out-of-sample tests show that the five enhanced portfolios continue to outperform the bench marks for long periods outside the estimation period and thus have forecasting power.

Money Chasing Deals? The Stake Story

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Abstract

This study examines the current trends in the venture capital industry from an emerging market perspective, namely India and documents two major findings. The study focuses on exploring the determinants driving the valuation of private equity backed firms. Firstly, presence of an association between a company's pre money valuation and its fund size, revenue multiple and stake acquired by a venture capital investor is established. It is observed that there does not exist a convex relationship (U – Shape) between the fund size and firm valuations as seen in the case of developed economies. Secondly, a negative correlation between the stake acquired by the venture capitalist and firm valuation and a positive relationship between the revenue multiple and the valuation is established. These findings support the belief that when a firm reaches the maximum valuation from the promoters' perspective, there is a tendency to liquidate additional stake.

Banks' Equity Holdings and Their Impact on Security Issues in Different Institutional Settings

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Abstract

In this paper we study the relationship between banks' stake in a firm and the use of market mechanisms to raise funds by such a firm in an international setting that compares Anglo-Saxon versus non-Anglo-Saxon countries. We posit that banks take an equity position in firms either to expropriate the current shareholders or to strategically open the possibility of future business opportunities once firms are listed on the stock exchange. The first effect, which dominates when banks hold low equity stakes hinders security issues. On the contrary, the second (strategic) effect appears for high stakes and stimulates security issues. Then, the interaction of the aforementioned expropriating and strategic effects leads to a U-shape connection between banks' stake and the probability of issuing securities. Remarkably, the first expropriating effect dominates in non-Anglo-Saxon countries while the second in Anglo-Saxon ones, suggesting a substitution relationship between bank financing and market financing in the former countries and a complementary one in the latter. We prove these contentions using an international database with 21197 observations distributed along the period 2000 to 2013.

Leverage Ratio: One Size Does Not Fit All

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Abstract

After the financial crisis, Basel III with a leverage ratio for all banks was introduced. The final benchmark for the leverage ratio in Europe is still pending. We show that a uniform leverage ratio can lead to different impacts on the cost of regulatory capital of retail, wholesale, and trading bank business models once the funding structure changes. We apply the framework of Miles et al. (2012) and empirically test on the basis of balance sheet characteristics for a panel of 92 banks in Germany. Since most German banks are not listed the positive link between the historical return on Tier 1 capital and leverage of banks is used as a proxy-model for the expected return. Due to individual costs (and risks) a "one size"-leverage ratio does not fit all.

Family-run firms: growth and financing choices

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Abstract

I model the growth and financing choices by the head of the family of a family-run firm. Specifically, I examine the following trade-off. On the one hand, letting family members participate in decision making allows the head of the family to develop family members' self esteem, a distinctive dimension of the head of the family's "nurturing" role emphasized by the anthropology literature. On the other hand, that decreases the firm's growth potential since decision making within the family is impaired by (i) emotionally-based conflict, (ii) the fact that the points of view expressed by family members are weighed equally rather than on their relative merits, and (iii) the fact that family members have differing agendas. I first show how the head of the family's decision to pursue high growth versus low growth depends on family size, composition (age, gender, etc.), and on cultural norms. Then, I relate this choice to the decision to sell the firm out, approach a venture capitalist, or approach a bank.

NPA (Non Performing Assets) Index as a Credit Risk Management Tool A Case Study of Indian Banking System

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Abstract

Today the Indian Banking System is at the distress. It is sitting on ` 7.82 trillion NPAs plus restructured assets which 12.5% of the total loans as on 14th December 2015. Gross NPAs increased from 3.4% in March 2013 to 4.45% in March 2015 and overall stressed advances from 9.2% in March 2013 to 10.9% in March 2015. Growth of Non-Performing Assets (NPA) in the non-priority sector has outstripped that in the priority sectors, with the industrial sector showing the highest incidence of stress. Within the industrial sector, borrowers in infrastructure (especially power), iron & steel and textile industries have been most affected as a result of stalled projects, delayed policy decisions, economic slowdown, several macro factors related to supply and demand and mismanagement. Major contribution in NPAs is largely from Public Sector Banks in India and the ability of public sector banks to manage the quality of their asset portfolio has remained weak on several accounts – a) Poor credit appraisal prior to sanctioning, b) Ignorance of early indicators of deterioration in asset quality, c) Lack of granular data on slippages, d) Absence of detailed evaluation of restructuring. Many studies have suggested various internal and external measures to manage and control the NPAs but none of the study points out how a barometer/index may useful as Credit Risk Management tool to control the NPAs. This paper is conceptual in nature and deals with three aspects; first, Trend Analysis and Critical evaluation of Annual Movement of Gross Non Performing Assets in Indian Banking System. Second, Elaborate the importance of NPA Index which may be used as a Credit Risk Management tool to monitor and control the NPA (Non Performing Assets) & Stressed Assets except focussing on calculation methodology of Index. Third, Benefits of NPA Index to the Banks, Government, Investors, and Market.

Testing VaR Accuracy for CDS Portfolios Using Historical Simulation and Delta-Normal Approaches

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Abstract

This paper studies the accuracy of the VaR using the Delta-Normal and Historical approaches in measuring the risk of CDS portfolios in three different zones, US, Europe and Asia, for the period March 2013 - November 2015. The portfolios consist exclusively of CDS of high rated banks and financial institutions. We found that at the 95% confidence level both approaches were accurate using equal weights over 500 days. However, at the 99% level, the Delta-Normal method underestimated the VaR except for Aisa portfolio. Both approaches failed in accurately measuring the VaR over 50 days.

Fiscal Stimulus Impacts on Firms

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Abstract

Using accounting micro data from Worldscope database for 8,512 manufacturing firms in 42 Advanced and Emerging countries, this paper examines how fiscal stimulus (i.e. changes in government spending) affected firm performance (profits, sales, capital expenditure and employment) during the recovery period from the global financial crisis (GFC). The analysis also focuses on understanding whether firms' initial conditions have implications for their response to fiscal policy and, therefore, to fiscal consolidations. Using cross-sectional [and differences-and-differences] analyses, our findings indicate that manufacturing firms profitability improve significantly after a fiscal stimulus, notably in Emerging Markets Economies.

Interest rates on time deposits and savings accounts before and during the crisis: how important is creditworthiness?

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Abstract

Interest rates on savings products vary not only between banks, but also between accounts within the same bank. Using a unique dataset, we show that the economic environment is incorporated to a larger extent in time deposit rates than in savings account rates. On a bank level, interest rates are significantly negatively related to creditworthiness, especially since the onset of the global financial crisis. In addition, foreign banks provide higher rates. With regard to account-specific features, we find that maturity increasing conditions (i.e., withdrawal fees for savings accounts and term for time deposits) positively influence a product's interest rate.

Access to Credit and Investment Decisions of SMEs in China: size matters

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Abstract

Financial constraints are common in developing countries where financial systems are underdeveloped. Chinese firms report access to finance is the most important obstacle in the business environment and this seems to be related to firms which fail to gain access to the credit market. We examine the likelihood of access to credit of Chinese firms where the firm size and whether the firm is an exporter seem to be key characteristics of the firm to consider. Credit constraint is significant in investment decisions. Together with firm size, access to credit is among the firm characteristics with the largest impact in the likelihood to invest.

An Evaluation of Islamic Insurance: Case of Pakistan

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Abstract

Islamic finance is a relatively new business segment, however, shown a promising results so for. Global volume of asset under Islamic finance has crossed the figure of US $ 1,700 Billion, by the end of 2013 (WIBCR-2014). In addition to banking services, Islamic finance has started penetrating in other sectors including capital market and insurance. Islamic finance is being in practice from first decade of 21st century and forms about 10% of the local market in Pakistan. This study is proposed to conduct an evaluation of Islamic insurance in domestic market. Study covers the following questions: Why and how Islamic insurance developed? An overview of insurance sector and Takaful; Comparative financial analysis of Takaful industry with conventional insurance; An insight into the accounting and legal framework for Takaful; A customer survey to document the perception about Takaful business; An insight and documentation of challenges to Takaful operations; our research is based upon data from Pakistan. Findings suggests, Islamic insurance business has a very low market share, although growing at a fast pace. Also financial performance is very poor, although potential is very high. Reasonably good regulatory framework is in place. Market sentiments are very positive about Islamic insurance sector in Pakistan.

Capital Requirements, Risk Shifting and the Mortgage Market

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Abstract

We study the effect of changes to bank-specific capital requirements on mortgage loan supply with a new loan-level dataset containing all mortgages issued in the UK between 2005Q2 and 2007Q2. We find that a rise of a 100 basis points in capital requirements leads to a 5.4% decline in individual loan size by bank. Loans issued by competing banks rise by roughly the same amount, which is indicative of credit substitution. Borrowers with an impaired credit history (verified income) are not (most) affected. This is consistent with origination of riskier loans to grow capital by raising retained earnings. No evidence for credit substitution of non-bank finance companies is found.

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Assurance of Learning in an Online MBA Program

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Abstract

This study aims to assess the efficacy of FIU's MBA for working professionals program that has been offered online for several years, the Corporate MBA (CMBA). All Professional MBA (PMBA) programs including the CMBA, share equivalent student learning outcomes and curriculum. While some of the course sequences differ across programs, all of them include the same capstone class at the end of the program where the summative direct assessments of the programs occur. This study assesses the quality of students' online learning as compared to the traditional face-to-face format. Admission standards and retention data are also compared and analyzed for common characteristics that preclude student success under the two separate modes of instruction. The paper concludes with a discussion pertaining to further measures necessary to strengthen the course offerings and delivery mechanism to enhance the value of the online program.