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# INDEX

**Inattentiveness: Revisiting Investment-Cash Flow Sensitivities**
Fabio Verona - Bank of Finland ........ 23
**The Cash Effect and Market Reaction over Three Decades**
Sean Cleary - Queen's University
Fatma Sonmez - Queen's University ........ 24
**Exposure of Swiss Banks towards Greece and Banks of Selected European Countries**
Sandra Schreiner - Zurich University of Applied Sciences - School of Management and Law
Suzanne Ziegler - Zurich University of Applied Sciences - School of Management and Law ...... 25
**Testing the CAPM Theory for US Stock Market Based on a Model with SSAEPD Errors**
Liuling Li - Nankai University
Yanjia Yang - Nankai University ........ 26
**Corporate Transparency, Product Innovation and Shareholder Value: Evidence from Korean Pharmaceutical Listings**
Paul Moon Sub CHOI - Ewha School of Business
Jongkuk Lee - Ewha School of Business
Joonho Richard Hwang - Ewha School of Business
Hwanoong Lee - Michigan State University ........ 27
**Short Sales Constraints and Financial Stability: Evidence from the Spanish Market**
Oscar Aarce - Bank of Spain
Sergio Mayordomo - University of Navarra ........ 28
**Investment Decisions of the Elderly**
Valentina Michelangeli - Bank of Italy ........ 29
**Nonlinearities in Brazilian Yield Curve**
Luiz Alberto D´Ávila de Araujo - Banco do Brasil S.A.
Joaquim Pinto de Andrade - Universidade de Brasília ........ 30
**A Cross-Sectional Analysis of Index Futures as a Hedging Tool and Its Relationship With ? and Returns of Unhedged Portfolio**
Kshama Agarwal - University of Rajasthan, Jaipur
Deepali Mehta - UIM, Uttarakhand Techical University Dehradun ........ 31
**The Determinats of Bank Liquidity**
Gantiah Wuryandani - Bank Indonesia ........ 32
**Pricing Efficiency of Equity Index Option Contracts: Evidence from National Stock Exchange of India**
Sushendra Mishra - Punjab Technical University, Jalandhar
Uma Shankar - Planning Department, Uttar Pradesh
Kapil Gupta - Punjab Institute of Technology, Kapurthala ........ 33
**Growth Forecasts, Belief Manipulation and Capital Markets**
Patrick Leoni - Kegde business school ........ 34
**Stochastic Volatility Model Calibration: A Computational Study**
Jia Zhai - University of Ulster
Yi Cao - University of Ulster ........ 35
**Housing Booms and Media Coverage**
Clive Walker - Queen's University Management School ........ 36

**Rent-Seeking for IPO Approval Through Private Equity Affiliation: Evidence from the Chinese Stock Market**
Yuan Ding - China Europe International Business School
Fang Yu - China Europe International Business School
Hua Zhang - China Europe International Business School ........ 37

**Betas Used by Professors: A Survey With 2,500 Answers**
Pablo Fernandez - IESE Business School ........ 38

**Market Pricing of Credit Rating Signals**
Magdalena Grothe - European Central Bank ........ 39

**Can Investment in Cleaner Production Improve the Financial Performance of Spanish Pension Plans?**
Carmen Martí - Universitat Autònoma de Barcelona ........ 40

**A New Approach in Portfolio Selection Under the Three Factor Model**
Nikolaos Loukeris - University of Macedonia
Wang Xi - University of Essex
Iordanis Eleftheriadis - University of Macedonia
Stratos Livanis - University of Macedonia ........ 41

**Euro-Dollar Exchange Rate and News: Market Behaviour Before and After the 2007-2008 Financial Crisis**
Gabriella Cagliesi - University of Greenwich
Antonio Carlo Francesco Della Bina - University of Bologna
Massimo Tivegna - University of Teramo ........ 42

**The Size Effect in Value and Momentum Factors: Implications for the Cross-Section of International Stock Returns**
Victoria Atanasov - VU University Amsterdam and Tinbergen Institute
Thomas Nitschka - Swiss National Bank ........ 43

**Validation of Merton Distance to Default Model under Ambiguity**
Leh-chyan So - Department of Quantitative Finance, National Tsing Hua University
Wei-ling Chen - Department of Quantitative Finance, National Tsing Hua University ........ 44

**Spring Forward or Fall Back? The Post-Crisis Recovery of Firms**
Leandro Medina - International Monetary Fund ........ 45

**Business Groups in the United States: A Revised History of Corporate Ownership, Pyramids and Regulation, 1930-1950**
Eugene Kandel - The Hebrew University of Jerusalem, CEPR and ECGI
Konstantin Kosenko - Bank of Israel
Randall Morck - University of Alberta and NBER
Yishay Yafeh - The Hebrew University of Jerusalem, CEPR and ECGI ........ 46

**Asset Pricing with Heterogeneous Inattention**
Omar Rachedi - Universidad Carlos III de Madrid ........ 47

**Global Thermoeconomics**
Mario Cardullo - The Belfield Group, Ltd.
Manhong Mannie Liu - Venture Capital Research Group at Chinese Academy of Science, Center for Fictitious Economy and Data Research, Renmin University ........ 48

**Borrowers' Equity Options and Loan Contract Terms**
Viet Do - Monash University
Cameron Truong - Monash University

Tram Vu - Monash University ........ 49
Weekly Monitoring of Financial Systems in Transition: A Financial Conditions Index and a Credit Conditions Index – The Israeli Case
Tanya Suhoy - Bank of Israel
Noam Michelson - Bank of Israel ........ 50
A Demand Model of In uenza Vaccine in a Heterogeneous Population
Mohsen Bahramgiri - Sharif University of Technology
Saman Eskandarzadeh - Sharif University of Technology ........ 51
Empirical Testing of CAPM for Central Public Sector Enterprises in India
Pawan Kumar Avadhanam - Institute of Public Enterprise
Naga Vineela Mamidi - Institute of Public Enterprise
Ram Kumar Mishra - Institute of Public Enterprise ........ 52
Basel III Accord: Different Bank Characteristics (Insolvency Risk) Due To Unobserved Heterogeneity Effects
Mohd Yaziz Mohd Isa - Universiti Tun Abdul Razak ........ 53
Financing Constraints and Investment in R&D: Evidence from Indian Manufacturing Firms
Subash Sasidharan - Indian Institute of Technology Madras
Jijo Lukose P.J. - Indian Institute of Management Trichy
Surenderrao Komera - Institute for Financial Management and Research ........ 54
On Chinese A-H Share Premium During the Financial Crisis
Minglong Yao - Zhejiang University
Zheng Yao - Zhejiang University ........ 55
Credit Crunch and Firm Growth in Euro-area: 2005-2011. A Quantile Panel Analysis.
Sophia Dimelis - Athens University of Economics and Business, Department of Informatics
Ioannis Giotopoulos - Foundation for Economic & Industrial Research (IOBE); Bank of Greece; University of Peloponnese, Department of Economics
Helen Louri - Bank of Greece; Athens University of Economics and Business, Department of Economics ........ 56
Equity Options, Credit Default Swaps and Leverage: A Simple Stochastic -Volatility Model For Equity and Credit Derivatives
Gaia Barone - LUISS - Guido Carli, University of Rome ........ 57
Integrated Model to Measure the Impact of Terrorism and Political Stability on FDI inflows: Empirical Study of Pakistan
Sundas Rauf - School of Economics & Business Administration, University of Chongqing, China
Qiang Fu - School of Economics and Business Administration, University of Chongqing, China.. 58
Using 10-K Text to Gauge Financial Constraints
Andriy Bodnaruk - University of Notre Dame
Tim Loughran - University of Notre Dame
Bill McDonald - University of Notre Dame ........ 59
Do the Compensation and Industry Expertise of NEDs' Affect the M&A Decisions?
Martin Bugeja - University of Technology,Sydney
Zoltan Matolcsy - University of Technology,Sydney
Wassila Mehdi - University of Technology,Sydney
Helen Spiropoulos - University of Technology,Sydney ........ 60
Analyst Forecast Paper
Brian Andrew - University of Wollongong

Dionigi Gerace - University of Wollongong ........ 61
Value Around the World
Nilufer Caliskan - Swiss Finance Institute - University of Zurich
Thorsten Hens - Swiss Finance Institute - University of Zurich ........ 62
Exchange Risk and Market Integration
Ines Chaieb - University of Geneva
Vihang Errunza - McGill University ........ 63
Exploration Activity, Long Run Decisions, and Roll Returns on Energy Futures
Alexander David - University of Calgary, Haskayne School of Business ........ 64
Cluster PIN: A New Estimation Method for the Probability of Informed Trading
Quan Gan - University of Sydney
David Johnstone - University of Sydney
Wang Chun Wei - University of Sydney and AustralianSuper Pty Ltd ........ 65
Three-Factor Asset Pricing Model and Portfolio Holdings of Foreign Investors: Evidence from an Emerging Market – Borsa Istanbul
Nildag Basak Ceylan - Yildirim Beyazit University
Burak Dogan - Central Bank of the Turkish Republic of Northern Cyprus
M. Hakan Berument - Bilkent University ........ 66
Asset Pricing with Countercyclical Household Consumption Risk
George constantinides - university of chicago
Anisha Ghosh - Carnegie-Mellon University ........ 67
Can Firms Do Well for Shareholders by Doing Good for Stakeholders? The Importance of Long-Term Investors
Ambrus Kecskes - Schulich School of Business at York University
Sattar Mansi - University of South Florida
Phuong-Anh Nguyen - Virginia Tech ........ 68
The Determinants of CDS Spreads
Koresh Galil - Ben-Gurion University
Offer Shapir - Ben-Gurion University
Dan Amiram - Columbia Business School
Uri Benzion - Western Galilee College ........ 69
The Governance Role of the Media Through News Dissemination: Evidence from Insider Trading
Lili Dai - Erasmus University
Jerry Parwada - University of New South Wales
Bohui Zhang - University of New South Wales ........ 70
US Banks' Behavior Since Lehman's Collapse, Bailout Uncertainty and the Timing of Exit Strategies
Alex Cukierman - Interdisciplinary Center and Tel-Aviv University ........ 71
A New Perspective on the International Evidence Concerning the Book-Price Effect
James Foye - University of Ljubljana, Faculty of Economics
Dušan Mramor - University of Ljubljana, Faculty of Economics ........ 72
Impact of Culture and Patriotism on Home Bias in Bond Portfolios
Elina Pradkhan - Humboldt-University, Institute of Finance ........ 73
Volatility and Liquidity Costs
Selma Chaker - Bank of Canada ........ 74

**What drives the margins of mortgage loans? Evidence from Switzerland**
**Andreas Dietrich - Lucerne University of Applied Science** ........ 75
**Model Disagreement, Volatility, and Trading Volume**
**Daniel Andrei - UCLA**
**Bruce Carlin - UCLA**
**Michael Hasler - University of Toronto** ........ 76
**Why Don't You Trade Only Four Days a Year? An Empirical Study into the Abnormal Returns of Quarters First Trading Day**
**Gil Cohen - Carmel Academic Center** ........ 77
**Effectiveness of Tridiagonal Path Dependent Option Valuation in Weak Derivative Market Environment**
**Ravindran Ramasamy - University Tun Abdul Razak**
**Mahalakshmi Suppiah - University Tun Abdul Razak**
**Zulkifflee Mohamed - University Tun Abdul Razak** ........ 78
**The Politics of Fair Value Reprting and the Governace of teh Standards -Setting Process: Critical Issues and Pitfalls from a European Perpective**
**Vera Palea - University of Torino** ........ 79
**The Value of Being Too Big To Fail**
**Jacob Kleinow - Technical University Freiberg**
**Tobias Nell - Technical University Freiberg** ........ 80
**Share Buyback Motives in the US Technology Sector: 2003-2012**
**Peadar Forbes - University of Limerick**
**Antoinette Flynn - University of Limerick** ........ 81
**The Optimal Duration of a Rolling Bond Ladder**
**Jan Henrik Wosnitza - Institute of Business Administration, University of Muenster** ........ 82
**Do Mutual Funds Time Investment Styles**
**Judy Qiu - University of Queensland**
**Karen Benson - University of Queensland**
**Robert Faff - University of Queensland** ........ 83
**Hedge Fund Tail Risk**
**Minli Lian - Kwantlen Polytechnic University**
**Peter Klein - Simon Fraser University** ........ 84
**Firm Complexity and Post-Earnings-Announcement Drift**
**Alexander Barinov - University of Georgia**
**Shawn Park - University of Georgia**
**Celim Yildizhan - University of Georgia** ........ 85
**Dynamic Margin Setting with EWMA Volatilities**
**Narumon Saardchom - NIDA Business School** ........ 86
**Managerial Ownership, Derived Return Measurements, and the Survival Risk of Hedge Funds**
**Leilei Tang - University of Strathclyde**
**Chandra Thapa - University of Strathclyde**
**Judy Qiu - University of Queensland** ........ 87
**Regulatory Capital Charges for Too-Connected-to-Fail Institutions: A Copula Approach**
**Fernando Moreira - University of Edinburgh** ........ 88
**Hurst exponent as a risk measurement on the capital market.**
**Anna Ki?yk - Wroclaw University of Technoligy**

Zofia Wilimowska - Wroclaw University of Technoligy ........ 89
The Determinants of Investment Flows: Retail versus Institutional Mutual Funds
Galla Salganik - Ben Gurion University of the Negev
Amnon Schreiber - Hebrew University of Jerusalem ........ 90
Multi-Criteria Decision Making for Choosing Socially Responsible Investment within a Behavioral Portfolio Theory Framework
Amelia Bilbao-Terol - University of Oviedo
Mar Arenas-Parra - University of Oviedo
Verónica Cañal-Fernández - University of Oviedo
Celia Bilbao-Terol - University of Oviedo ........ 91
Diversification and Financial Stability
Paolo Tasca - London School Economics
Battiston Stefano - UZH ........ 92
Convenience Yields in Electricity Prices: Evidence from the Natural Gas and Coal Markets
Nikolaos Paratsiokas - Institute of Economic and Industrial Research
Nikolaos Milonas - University of Athens ........ 93
Can Bankruptcy Codes Create Value?
Regis Blazy - University of Strasbourg
Joel Petey - University of Strasbourg
Laurent Weill - University of Strasbourg ........ 94
Microfinance and SHGs Growth in India, a Critical Analysis of Region Wise Distribution
G. Mohi-ud-din Dar Sangmi - University of Kashmir
Syed Javed Iqbal Kamili - Gandhi Memorial College Srinagr Kashmir ........ 95
Credit Expansion and the Economy: Sorting Out the Effects
Luis Angeles - University of Glasgow ........ 96
Tax Neutrality, Clientele Effects, and the Yield Curve
Joel Barber - Florida International University ........ 97
Revisiting the Bid-Ask: An Econometric Analysis in the Chilean Capital Market
David Cademartori - Pontificia Universidad Catolica de Valparaiso
Berta Silva - Pontificia Universidad Catolica de Valparaiso
Ricardo Campos - Pontificia Universidad Catolica de Valparaiso
Hanns de la Fuente - Pontificia Universidad Catolica de Valparaiso ........ 98
A High Frequency Assessment of the ECB Securities Market Programme
Simone Manganelli - ECB
Eric Ghysels - University of North Carolina
Olivier Vergote - ECB
Julien Idier - Banque de France ........ 99
Dissecting the 2007-2009 Real Estate Market Bust: Systematic Pricing Correction or Just a Housing Fad?
Francesco Ravazzolo - Norges Bank and BI Business School
Daniele Bianchi - Bocconi University
Massimo Guidolin - Bocconi University ........ 100
Covenants and Collateral in Japanese Corporate Straight Bonds: Choice and Yield Spread
Yasuhiko Tanigawa - Waseda University
Shinichi Katsura - Kinki University ........ 101

**Banking Union Optimal Design under Moral Hazard**
Marius Andrei Zoican - VU University Amsterdam
Lucyna Gornicka - University of Amsterdam ........ 102
**Insights on the Global Macro-Finance Interface: Structural Sources of Risk Factors Fluctuations and the Cross-section of Expected Stock Returns**
Claudio Morana - Universita`di Milano -Bicocca ........ 103
**Does Corporate Governance With the Shareholders in Control Make a Difference?**
Nils Hakansson - University of California, Berkeley ........ 104
**Family Involvement and Dividend Policy in Closely-Held Firms**
Carlos Pombo - School of Management - Universidad de los Andes
Maxililiano Gonzalez - School of Management - Universidad de los Andes
Alexander Guzman - CESA-Business School
Maria Andrea Trujillo - CESA- Business School ........ 105
**Is No News Good News?**
Takahiro Azuma - Japan Science and Technology Agency
Katsuhiko Okada - Kwansei Gakuin University Business School
Yukinobu Hamuro - Kwansei Gakuin University Business School ........ 106
**Market Timing and Operating Performance in an Emerging Market: Evidence from Indian IPOs**
Manas Mayur - Goa Institute of Management ........ 107
**Relative Risk Aversion with Loss Aversion**
Sara Nada - University of Rome “Tor Vergata” ........ 108
**Does Foreign Ownership Increase Firms' Productivity? Evidence from Firms Listed on Amman Stock Exchange**
Ghada Tayem - University of Jordan ........ 109
**News Flow, Web Attention and Extreme Returns in the European Financial Crisis**
Andreas Chouliaras - Luxembourg School of Finance
Theoharry Grammatikos - Luxembourg School of Finance ........ 110
**The Investor Sentiment Effect on Share Returns and the Ownership of Public Firms**
Elisabete Vieira - ISCA - University of Aveiro ........ 111
**The Resonse of the Weighted Average Time to Maturity of Government Bond Issues to Changes in the Financial/Economic Environment**
Yehuda Porath - Bank of Israel ........ 112
**The Euro Area Sovereign Debt Crisis: Identifying Flight-to-Liquidity and the Spillover Mechanisms**
Roberto De Santis - European Central Bank ........ 113
**Does Short Selling Improve the Evolutionary Fitness of Investment Strategies?**
Anastasiia Sokko - University of Zurich
Thorsten Hens - University of Zurich, Norwegean School of Economics
Klaus Reiner Schenk-Hoppe - University of Leeds, Norwegian School of Economics ........ 114
**South African Sector Return Correlations: using DCC and ADCC Multivariate GARCH techniques to uncover the underlying dynamics**
Nico Katzke - Stellenbosch University ........ 115
**Corporate Governance and Earnings Quality: International Evidence**
Cristina Gaio - ISEG Lisboa School of Economics & Management
Clara Raposo - ISEG Lisboa School of Economics & Management ........ 116

**The Net Stable Funding Ratio and Banks' Participation in Monetary Policy Operations: Some Evidence for the Euro Area**
Antonio Scalia - Bank of Italy
Sergio Longoni - Bank of Italy
Tiziana Rosolin - Bank of Italy ........ 117

**Politically Connected Firms in Poland and Their access to Bank Financing**
Krzysztof Jackowicz - Kozminski University
Iftekhar Hasan - Fordham University and Bank of Finland
Oskar Kowalewski - Kozminski University and Warsaw School of Economics
?ukasz Koz?owski - BGZ ........ 118

**Spatial Dependence and Data-Driven Networks of International Banks**
Martin Saldias - Banco de Portugal
Ben Craig - Bundesbank ........ 119

**Does Mood Impact on Acquirers' Announcement Abnormal Returns?**
Jo Danbolt - University of Edinburgh
Siganos Antonios - University of Glasgow
Evangelos Vagenas-Nanos - University of Glasgow ........ 120

**Soft-Touch Claims, Absolute Priority and Efficiency**
Timothy Fisher - University of Sydney
Gavious Ilanit - Ben Gurion University
Jocelyn Martel - ESSEC Business School ........ 121

**Technical Analysis and the Real Economy**
Jack Strauss - University of Denver
Dashan Huang - Singapore Management University
Guofu Zhou - Washington University ........ 122

**Measuring Marginal q**
Vito Gala - London Business School ........ 123

**Macroeconomic Drivers of Crude Oil Risk Premia**
Ron Alquist - Bank of Canada
Gregory Bauer - Bank of Canada
Antonio Diez de los Rios - Bank of Canada ........ 124

**Information Effect of Delisting and Informed Trading**
Jinwoo Park - Hankuk University of Foreign Studies
Yun Park - Chung-Ang University
Posang Lee - Hankuk University of Foreign Studies ........ 125

**Does the Seasonal Affective Disorder influence IPO Underpricing?**
Stephen Keef - Victoria University of Wellington
Michael O'Connor Keefe - Victoria University of Wellington
Mohammed Khaled - Victoria University of Wellington ........ 126

**Patience and Impatience of Traders: Formation of the Value-At- Price Distribution as Competition for Liquidity**
Peter Lerner - Scitech Analytics, LLC ........ 127

**Co-Integration & Error Corretions Models in Estimations Causality Between Finance & Growth in India**
Mahendra Pal - Delhi School of Economics ........ 128

**Intellectual Capital and Bank Performance in European Union: An Integrated CAMEL Indices and DEA approach**
Wei-Kang Wang - Yuan Ze University
Wen-Min Lu - National Defense University ........ 129
**Voluntary Dual Class Share Unifications - A Mixed Bag of Governance Improvements and shareholder expropriation**
Beni Lauterbach - School of Business Administration, Bar-Ilan University
Anete Pajuste - Stockholm School of Economics in Riga ........ 130
**Risk Aversion and Monetary Policy in a Global Context**
Javier Ruiz - Universidad Ceu Cardenal Herrera
Juan Nave - Universidad Castilla-La Mancha ........ 131
**Exchange Rates Responses to Macroeconomic Surprises: Evidence from the Asia-Pacific Markets**
Yuen Meng Wong - University of Malaya
Mohamed Ariff - Bond University
Rubi Ahmad - University of Malaya ........ 132
**Ownership Structure and Investors´S Sentiments for Dividends**
Maria Neves - IPC- ISCAC Business school
Julio Pindado - Universidade de Salamanca
Chabela Olvera - Universidade de Salamanca ........ 133
**Institutional Investment Horizon, the Information Environment and Firm Credit Risk**
Lorne Switzer - Concordia University
Jun Wang - Concordia University ........ 134
**R2 and the Benefits of Multiple-Fund Portfolios**
Dale Domian - York University
David Nanigian - The American College ........ 135
**Competition and Efficiency in the Banking Sector. The Case of Macedonia**
Katerina Vojcheska - Institute of Economic Research at Bulgarian Academy of Science ........ 136
**Volatility Spillovers between Spot and Futures Markets - Investigating China's First Stock Index Futures**
Martin Bohl - Westphalian-Wilhelminian-University of Münster
Pierre Siklos - Wilfrid Laurier University, Waterloo
Jeanne Diesteldorf - Westphalian-Wilhelminian-University of Münster ........ 137
**Global Portfolio Management Under State Dependent Multiple Risk Premia**
Timotheos Angelidis - University of Peloponnese
Nikolaos Tessaromatis - EDHEC Business School ........ 138
**Spanning with Indexes**
Weidong Tian - University of North Carolina at Charlotte ........ 139
**The Coupled Effect of PE/VC Ownership Retention and Cash Reserves on the Long-Run Aftermarket Performance**
Natalia Matanova - Cass Business School ........ 140
**Return-Based Classification of Absolute Return Funds**
Philipp Gerlach - Goethe-University
Raimond Maurer - Goethe-University ........ 141
**Entrepreneurial Optimism, Self-Financing, and Capital-Market Effi ciency**
Luis Santos-Pinto - University of Lausanne
Michele Dell'Era - University of Lausanne ........ 142

**Debt Covenant Violation and Cost of Borrowing: Evidence from Quarterly Bond Issues**
Umar Butt - Zayed University ........ 143
**Asymmetric Exchange Rate Exposure in BRIC Countries.**
Yury Dranev - NRU Higher School of Economics, Moscow
Maxim Babushkin - Ernst&Young ........ 144
**Leverage, Profit and Risk: Evidence from a Sample of International Banks**
Andrea Beltratti - Bocconi University
Giovanna Paladino - Luiss University & IntesaSanpaolo ........ 145
**Dynamic Equilibrium with Rare Disasters and Heterogeneous Epstein-Zin Preferences**
Georgy Chabakauri - London School of Economics ........ 146
**Technological Heterogeneity and Corporate Investment**
Theodosios Dimopoulos - HEC Lausanne and SFI
Stefano Sacchetto - Tepper School of Business, Carnegie Mellon University ........ 147
**The Composition of Top Management with General Counsel and Tax Avoidance**
Beng Wee Goh - Singapore Management University
Jimmy Lee - Singapore Management University
Jeffrey Ng - Singapore Management University ........ 148
**Capital Budgeting Practices: Evidence from Japan**
Toshio Serita - Aoyama Gakuin University
Hideki Hanaeda - Chuo University ........ 149
**Factors Affecting Japanese Corporate Bond Spreads and Primary Bond Holder Investment Activities: Flight to Liquidity**
yoko shirasu - Aoyama Gakuin University ........ 150
**Roll-Over Parameters and Options Pricing**
Sol Kim - Hankuk University of Foreign Studies ........ 151
**Measuring the behavioral component of financial fluctuations: an analysis based on the S&P 500.**
Massimiliano Caporin - University of Padova
Luca Corazzini - University of Padova
Michele Costola - Ca' Foscari University of Venice ........ 152
**The Effects of Liquidity Regulation on Bank Assets and Liabilities**
Patty Duijm - Dutch Central Bank
Peter Wierts - Dutch Central Bank ........ 153
**Global Corporate Bond Issuance: What Role for US Quantitative Easing?**
Marco Lo Duca - European Central Bank
Giulio Nicoletti - European Central Bank
Ariadna Vidal - ........ 154
**Trade and finance: is there more than just 'trade finance'? Evidence from matched bank-firm data**
Silvia Del Prete - Bank of Italy
Stefano Federico - Bank of Italy ........ 155
**The Role of Executive Stock Options as Insurance for CEOs against Hold-up**
Matthias Kiefer - Heriot-Watt University
Edward Jones - Heriot-Watt University ........ 156
**Asset Prices in General Equilibrium with Recursive Utility and Illiquidity Induced by Transactions Costs**
Adrian Buss - INSEAD

Raman Uppal - Edhec
Grigory Vilkov - Goethe University Frankfurt and Mannheim University .............................. 157
Mutual Fund Performance Evaluation and Best Clienteles
Stéphane Chrétien - Laval University
Manel Kammoun - Laval University .............................. 158
Trust, Happiness, and Financial Decisions
Manthos Delis - University of Surrey
Pantelis Kammas - University of Ioannina
Nikolaos Mylonidis - University of Ioannina .............................. 159
Geographical Influences on IPOs
Giulia Baschieri - Alma Mater University of Bologna
Andrea Carosi - University of Sassari
Stefano Mengoli - Alma Mater University of Bologna .............................. 160
The Strictness of Insider Trading Law and Corporate Information Policies: Evidence from Share Repurchase Decisions
Xu Zhang - University of Macau
In-Mu Haw - Texas Christian University
Bingbing Hu - Hong Kong Baptist University
Robert Vigeland - Texas Christian University .............................. 161
Can CRRA Preferences Explain CAPM-Anomalies in the Cross-Section of Stock Returns?
Sabine Elmiger - University of Zurich .............................. 162
The Effects of Foreign Manufacturing Companies Activity in Poland in the Context of Polish Economy Changes
Magdalena Jasiniak - University of Lodz .............................. 163
The Determinants of Firms' Currency Derivatives Usage: A Panel Data Analysis
Praveen Bhagawan - Institute for Financial Management and Research
Jijo Lukose - Indian Institute of Management,Tiruchirappalli .............................. 164
The Dynamic Interactions between the Chinese Yield Curve and Macro Economy
Qingyuan Hong - College of Economics, Zhejiang University
Xingguo Luo - College of Economics, Zhejiang University
Liuyong Yang - College of Economics, Zhejiang University .............................. 165
The Right Time to Enter
Tiziano Vargiolu - University of Padua
Enrico Edoli - Finalyst S.A.S.
Francesco Canella - Diaman SCF S.r.l. .............................. 166
Analysis of Possibilities to Apply DEA Method in Scoring Models in Companies Insolvency Examination Process
Agnieszka Nowak - Warsaw School of Economics
Anna Matuszyk - Warsaw School of Economics .............................. 167
Escaping financial crises? Macro evidence from SWFs' investment behaviour
Alessio Ciarlone - Bank of Italy
Valeria Miceli - Università Cattolica .............................. 168
The Role of Blockholders in Firm Governance.Empirical Evidence from the US
Silvia Rossetto - Toulouse School of Economic
Raffaele Staglianò - Groupe Sup de Co Montpellier Business School, MRM .............................. 169

**Modelling the crash risk of the Australian Dollar carry trade**
Suk-Joong Kim - University of Sydney ........ 170
**The Effect of Reference Point Theory on Mergers and Acquisitions: UK Evidence**
Jie Guo - Durham University Business School, Durham University
Zhenlong Li - Durham University Business School, Durham University ........ 171
**Private Equity Funds' Incentive for Leverage**
Håkan Thorsell - Stockholm School of Economics ........ 172
**Discount Rates for Seed Capital Investments**
Samuel Mongrut - ITESM and Universidad del Pacifico ........ 173
**Pricing Default Risk: The Good, The Bad, and The Anomaly**
Dimitra Michala - University of Luxembourg
Theoharry Grammatikos - University of Luxembourg
Sara Ferreira Filipe - University of Luxembourg ........ 174
**Disclosure Practices and Option Implied Probability of Default**
Ilknur Zer - Federal Reserve Board ........ 175
**Managing Foreign Exchange Risk Using Currency ETFs: Understanding the Implications of Return Dynamics**
Robert Burney - Coastal Carolina University ........ 176
**Typological Classification, Diagnostics, and Measurement of Flights-to-Quality**
Maria Rosa Borges - ISEG, School of Economics and Management and UECE
Mariya Gubareva - ISEG, School of Economics and Management ........ 177
**Family Benefits in Taxes – case of Poland**
Angelika K?dzierska-Szczepaniak - University of Gdansk ........ 178
**The Financial Efficiency of Public Health Expenditure in Turkey Between 2003- 2012**
Necdet Saglam - Anadolu University
Memet Atasever - Ministry of Health Ankara
Ahmet Korkut - Ministry of Health - Ankara ........ 179
**Explaining Cross-Country and Over-Time Differences in Bank Capital Regulations**
Gazi Kara - Board of Governors of the Federal Reserve System ........ 181
**A Study of Price Transmisson Mechanism in China**
Kang Liu - University of Cambridge ........ 182
**Determination of Financial Feasibility of Real Options for Anturios Production**
Oscar Garcia Alonso - Postgraduate College
Alam Alicia Gomez - Universidad Autonoma Chapingo
Rodolfo Garcia Alonso - Postgraduate College ........ 183
**Geography and Executive Compensation**
Mieszko Mazur - IESEG School of Management
Galla Salganik - Ben Gurion University ........ 184
**The Behavior of the Residential Bulding Construction in Brazil: 2008 – 2012**
Elton Eustáquio Casagrande - Department of Economics, UNESP (São Paulo State University)
Cláudio Cesar De Paiva - Department of Economics, UNESP (São Paulo State University), ... 185
**Convenience yield estimation through the stochastic modelling of future contracts**
Javier Orlando Pantoja - Universidad EAFIT
Carlos Alberto Velasquez - Universidad EAFIT ........ 186
**Assessing the idiosyncratic risk and stock returns relation in heteroskedasticity corrected predictive models using quantile regression**

Harmindar (Mindi) B. Nath - Monash University
Robert D. Brooks - Monash University ..... 187
Price Discovery in US-Canadian Cross-listed Shares
Bart Frijns - Auckland University of Technology
Aaron Gilbert - Auckland University of Technology
Alireza Tourani-Rad - Auckland University of Technology ..... 188
Systemic Risk, Financial Crisis and Vulnerability of Economy
Yong-Cheol Kim - University of Wisconsin-Milwaukee,
Gabjin Oh - University of Chosun
Hyeongsop Shim - Ulsan National Institute of Science and Technology ..... 189
Does FDI improve financial deepening of host country stock markets?Evidence from sectoral FDI.
Nadia Doytch - City University of New York Brooklyn College ..... 190
Investor Behaviour and Lottery Stocks
Grace Lepone - Macquarie Graduate School of Management
Danika Wright - The University of Sydney Business School, University of Sydney ..... 191
MACROECONOMIC DETERMINANTS OF MERGERS & ACQUISITIONS: EVIDENCE FROM INDIA
Rabi Narayan Kar - Delhi University
Amit Soni - Delhi University ..... 192
Corporate Governance in Higher Education Institutions
José-Manuel Restrepo - CESA School of Business
María-Andrea Trujillo - CESA School of Business
Alexander Guzmán - CESA School of Business ..... 193
Islamic banks impaired financing: Relationships between shariah committee meetings frequency and shariah risk compliance on assets quality
Mohd Yaziz Mohd Isa - Universiti Tun Abdul Razak ..... 194
Tax Expenditures: A Comparative Study of the Role of Tax Subsidies in Selected OECD Countries
Ron Singleton - Western Washington University
Tomoko Nakamura - Ingo International ..... 195
Are Firms Capital Constrained? Evidence from Corporate Financing in India.
Gaurav Singh Chauhan - Indian Institute of Management Indore (India) ..... 196
The Structure of Corporate Boards and Private Benefits of Control: Evidence from the Russian Stock Exchange
Alexander Muravyev - St. Petersburg State University and IZA
Irina Berezinets - St. Petersburg State University
Yulia Ilina - St. Petersburg State University ..... 197
Efficacy of the Fama-French Factors
Glenn Pettengill - Grand Valley State University
George Change - Grand Valley State University
Sridhar Sundaram - Grand Valley State University ..... 198
Financial Crisis and Flight to Liquidity
Dong-Hyun Ahn - Seoul National University
In-Seok Baek - Korea Capital Market Institute
Ji-Yeong Chung - Seoul National University

Kyu Ho Kang - Korea University ..... 199
Organization Structure and Corporate Risk Management: The Case of the Japanese Non-Life Insurance Industry
Noriyoshi Yanase - Tokyo Keizai University
Piman Limpaphayom - Portland State University ..... 200
Equal or Value Weighting? Implications for Asset-Pricing Tests
Yuliya Plyakha - University of Luxembourg
Raman Uppal - Edhec
Grigory Vilkov - Goethe University Frankfurt and Mannheim University ..... 201
"Corporate Finance…What else?" The case of the Production Chain Networks in North-East Italy and the scaffolding finance adopted by their "Leader".
Mattia Mestroni - Ca' Foscari University of Venice
Elisabetta Basilico - University of St. Gallen, Switzerland & Ca' Foscari University of Venice
Guido Mantovani - Ca' Foscari University of Venice ..... 202
Life-time of Limit Orders in the EBS Foreign Exchange Spot Market
Masayuki Susai - Nagasaki University
Yushi Yoshida - Shiga University ..... 203
The Information Content of Limit Hits for Continually Trading Stocks
Jia-Hau Guo - National Chiao Tung University
Lung-fu Chang - National Taipei College of Business
Mao-Wei Hung - National Taiwan University ..... 204
CVA with Wrong Way Risk: Sensitivities, Volatility and Hedging
Omar Elhajjaji - R2M Analytics
Alexander Subbotin - Renaissance Finance ..... 205
The Influence of Non-Cognitive and Cognitive Ability on Individuals' Stock Market Participation
André Gyllenram - Umeå School of Business and Economics
Jörgen Hellström - Umeå School of Business and Economics
Niklas Hanes - Umeå School of Business and Economics ..... 206
Some Notes on "Stock Return vs. Market Return", and its Effects on Behavior of Traders
Mohsen Bahramgiri - Graduate School of Management and Economics, Sharif University of Technology
Sajjad Neamati - Sharif University of Technology
Mohammad Ghashghaei - Sharif University of Technology
Mohammad Musavi - Stanford University ..... 207
Why does co-movement of daily yields of stock indices change over time?
Gabor Rappai - University of Pécs Faculty of Business and Economics
Viktor Varpalotai - University of Pécs Faculty of Business and Economics ..... 208
Can Low-Cost Carriers in the Middle East bypass Traditional Carriers' Financial Performance: Air Arabia versus Emirates Airlines
Ingy Shaaban - Arab Academy for Science and Technology
sherine Abdel All - Abu Dhabi University
Rafik Omar - Cardiff Metropolitan University ..... 209
Diversification, Risk Sharing, and Asset Pricing
Simon Lysbjerg Hansen - University of Southern Denmark ..... 210
Money Markets and Treasury Auctions with Heterogenous Bidders
Michal Bresky - CERGE-EI ..... 211

**Sovereign, Bank and Insurance Credit Spreads: Connectedness and System Networks**
Loriana Pelizzon - Ca' Foscari University of Venice and Goethe University Frankfurt
Monica Billio - Ca' Foscari University of Venice
Mila Getmansky - UMASS
Andrew Lo - MIT Sloan
Robert Merton - MIT Sloan ..... 212
**The Sensitivity of VPIN to the Choice of Trade Classification Algorithm**
Thomas Pöppe - Technische Universität Darmstadt
Sebastian Moos - Karlsruher Institut für Technologie
Dirk Schiereck - Technische Universität Darmstadt ..... 213
**Regime Shifts and Stock Return Predictability**
Regina Hammerschmid - University of Zurich
Harald Lohre - Deka Investment ..... 214
**Credit default swaps from an equity option view**
Lutz Johanning - WHU - Otto Beisheim School of Management
Mathias Schmidt - WHU - Otto Beisheim School of Management ..... 215
**Darwinian Selection in the Hedge Fund Industry**
Sevinc Cukurova - Aalto University
Jose Marin - Carlos III University of Madrid ..... 216
**An Analysis of teh Beta Coefficient´s Stationarity Regarding Brazil Public Companies Traded Between 2002 AND 2011**
Davi Simon - Unisinos
Milton Pagini - Unisinos
Roberto Decourt - Unisinos
João Zani - Unisinos
Igor Morais - Unisinos ..... 217
**Local Government Financing in China: signaling game**
Ya-Ling Wang - Qingdao University, China ..... 218
**Foreign currency borrowing by households: lessons from Hungary**
Monika Pitz - University of Pécs
Zoltán Schepp - University of Pécs ..... 219
**Profitability and Stock Returns in Production-Based Asset**
Ronald Balvers - McMaster University
Li Gu - Federal Reserve Board
Dayong Huang - University of North Carolina at Greensboro ..... 220
**The impact of IFRS on analysts' forecasts under times of uncertainty: Empirical evidence from the UK, France and Germany**
George Mylonas - Loughborough University
Ali Ataullah - Loughborough University
Rhoda Brown - Loughborough University ..... 221
**The Earnings Present-Value Relation: Theory and Evidence**
Wanncherng Wang - National Sun Yat-Sen University
Chih-Hsien (Jerry) Yu - University of Baltimore ..... 222
**The impact of trading and hedging derivatives on banking efficiency in Eurozone**
Alexandre Girard - University of Namur
Yulia Titova - IESEG School of Management (LEM-CNRS) ..... 223

**Investments and their impact in economy-construction sector analysis.**
**Otjela Lubonja - Vitrina University**
**Anxhela Lika - Vitrina' University**
**Donila Pipa - Vitrina' University** ........ 224
**The Coupling of Domestic Banks and the State: An Examination of Bank Sovereign Bond Holdings**
**Dimitris Chronopoulos - University of St. Andrews**
**George Dotsis - University of Athens**
**Nikolaos Milonas - University of Athens** ........ 225
**Are Leveraged and Inverse ETFs the New Portfolio Insurers?**
**Tugkan Tuzun - Federal Reserve Board** ........ 226
**Loan Management and its Ex Ante&ex post Role in the Lending Process**
**Sofika Nazaj - Credins Bank**
**Elvin Meka - European University of Tirana** ........ 227
**Predictability of Bank Stock Returns During the Recent Financial Crisis**
**Woon Sau Leung - Cardiff Business School, Cardiff University**
**Nick Taylor - School of Economics, Finance and Management, University of Bristol**
**Kevin Evans - Cardiff Business School, Cardiff University** ........ 228
**Portfolio Selection using directional distance function and FDH approach**
**Nicolas Nalpas - Toulouse Business School**
**Léopold Simar - Université Catholique de Louvain-la-Neuve**
**Anne Vanhems - Toulouse Business School and Toulouse School of Economics** ........ 229
**Equity Premium Predictability Using Bayesian Regression Mixtures**
**Xinxin Shang - Macquarie University**
**Egon Kalotay - Macquarie University** ........ 230
**The good, the bad, and the ugly: A survival guide to M&A in distressed times**
**Anna Faelten - Cass Business School**
**Scott Moeller - Cass Business School**
**Valeriya Vitkova - Cass Business School** ........ 231
**Working Capital in European SMEs: Is It about Rule of Law?**
**Markus Mättö - University of Eastern Finland**
**Mervi Niskanen - University of Eastern Finland** ........ 232
**Target Strategy: a practical application to ETFs and ETCs**
**Ruggero Bertelli - University of Siena**
**Daniele Bernardi - DIAMAN SCF S.r.l.** ........ 233
**Decision making of Corporate Governance for Modernization of the Central Bank of Kosovo**
**Ardian Uka - University College UNIVERSUM, Kosovo** ........ 234
**Explaining Failures of Microfinance Institutions**
**Gregor Dorfleitner - University of Regensburg**
**Michaela Leidl - University of Regensburg**
**Christopher Priberny - University of Regensburg** ........ 235
**Executive Attributes, Director Attributes, and Firm Performance**
**Erik Fernau - University of Mannheim** ........ 236
**The Effect of Social Screening on Bond Mutual Fund Performance**
**Hans-Martin Henke - Catholic University of Eichstaett-Ingolstadt** ........ 237

**On the Non-Neutrality of the Financing Policy and the Capital Regulation of Banking Firms**
Rainer Masera - Università degli Studi Guglielmo Marconi
Giancarlo Mazzoni - Bank of Italy ........ 238
**Bank dividends and signaling to information-sensitive depositors**
Cristiano Forti - Federal University of Uberlandia
Rafael Schiozer - FGV - Brazil ........ 239
**Determinants of Executive Compensation Disclosure**
Katarzyna Cieslak - Uppsala University
Mattias Hamberg - Uppsala University and the Norwegian School of Economics
Derya Vural - Uppsala University ........ 240
**Empirics of Currency Crises: A Duration Analysis Approach**
Mohammad Karimi -
Marcel Voia - Carleton University ........ 241
**MARKET-DRIVEN SECURITIZATIONS**
Damiano Bruno Silipo - Università della Calabria
Luca Giordano - Consob
Leone Leonida - Queen Mary University of London ........ 242
**Commodity derivatives sensitivities**
Yves Rakotondratsimbra - ECE Paris Graduate School of Engineering ........ 243
**Ponzi or not Ponzi in Banking: A cash-flow statement analysis**
Mathias Schmit - Solvay Brussels School - ULB
Thierry Denuit - Cabinet Vice-Premier Ministre Belgium ........ 244
**Corporate Governance, short-run and long-run performance of Initial Public Offerings on the Polish Alternative Investment Market (NewConnect)**
Dominika Fijalkowska - Wroclaw University of Economics
Michal Muszynski - Wroclaw University of Economics
Marek Pauka - Wroclaw University of Economics ........ 245
**CEO compensation in the finance sector: Did the financial crisis have an impact?**
Sanjiv Jaggia - California Polytechnic State University
Satish Thosar - University of Redlands ........ 246
**Do Prime Brokers Induce Similarities in Hedge Funds Performance?**
Nataliya Gerasimova - Swiss Finance Institute ........ 247
**Debt Financing, Survival, and Growth of Start-Up Firms**
Rebel Cole - DePaul University
Tatyana Sokolyk - Brock University ........ 248
**Empirical Investigation of Life Settlements: The Secondary Market for Life Insurance Policies**
Narayan Y. Naik - London Business School
Afonso V. Januario - London Business School ........ 249
**Price Discovery for South African Stocks with Cross-Border Listings**
Matthew Ocran - Nelson Mandela Metropolitan University ........ 250
**Credit Crunched Regulated Banks**
Christian R. Flor - University of Southern Denmark
Linda S. Larsen - University of Southern Denmark ........ 251
**Financial Markets and Mitigation of CO2 Emissions: Global Evidence**
Indranarain Ramlall - University of Mauritius
Walayet Khan - University of Evansville ........ 252

**Monetary Integration in SADC: Evaluating Policy Coordination and Real Effective Exchange Rate Stability**
Mulatu Zerihun - University of Pretoria
Marthinus Breitenbach - University of Pretoria ........ 253
**The interrelationship between working capital and profitability: a pre-crisis examination of the Cyprus Stock Exchange.**
Haritini Tsangari - University of Nicosia
Irene Charalambous - University of Nicosia ........ 254
**Quantitative EDasing and Non Conventional Monetary Policy: The Importance of Supervising Stock and Bond Market Equilibria**
Catherine Bruneau - University Paris I Panthéon-Sorbonne
Jean-Paul Nicolai - CGSP (Commisariat Général à la Stratégie et à la Prospective) ........ 255
**Ambiguity vs Risk Aversion, Participation, and Interbank Market Stress**
Reina Renard - KU Leuven
Gunther Wuyts - KU Leuven ........ 256
**The Implied Equity Duration When Discounting and Forecasting Parameters are Industry-Specific**
Olga Fullana - Univertsity Ceu-Cardenal Herrera
Juan M. Nave - University of Castilla la Mancha
David Toscano - University of Huelva ........ 257
**The Effectiveness, Determinants and Performance of Different IPO Allocation Mechanisms: Evidence from China**
Alcino Azevedo - University of Hull
Yilmaz Guney - University of Hull
Tianxiang Xu - University of Hull ........ 258
**Long-Run Performance of IPO Stocks: Is the end of the Lockup Period Crucial?**
Antoine Renucci - UPPA
Tao Cheng - UPPA ........ 259
**Asymmetric transmission of a bank liquidity shock: evidence from Brazil**
André Costa - Banco Central do Brasil and Fundacao Getulio Vargas
Rafael Schiozer - FGV - Brazil ........ 260
**PERFORMANCE MANIPULATION AND SKEWED BETS**
Jerchern Lin - The State University of New York at Buffalo ........ 261
**The Effect of FASB Statement No. 123R on Stock Repurchases: An Empirical Examination of Management Incentives**
Steve Hegemann -
Iuliana Ismailescu - Pace University ........ 262
**Dynamic Information Revelation**
Stanley Gyoshev - University of Exeter Business School
Todd Kaplan - University of Exeter and University of Haifa
Shenqiu Zhang - University of Exeter ........ 263
**Leveraged Buyout Activity: A Tale of Developed and Developing Economies**
Loyd Blenman - University North Carolina
Nischala Reddy - University North Carolina ........ 264
**Tax effects and agency effects of dividend policy: Holding companies as a separating device**
Janis Berzins - BI Norwegian Business School

Øyvind Bøhren - BI Norwegian Business School
Bogdan Stacescu - BI Norwegian Business School ........ 265
Contagion in an Economy with Heterogeneous Beliefs
Maria Elisa Farias - Universidad Diego Portales ........ 266
Portfolio allocation under Model Uncertainty
Domenica Di Virgilio - Bocconi University ........ 267
Sub-Penny and Queue-Jumping
Sabrina Buti - Rotman School of Management, University of Toronto
Francesco Consonni - Bocconi University
Barbara Rindi - Bocconi University and IGIER
Ingrid W. Werner - Fisher College of Business, Ohio State University ........ 268
Rational Herding toward the Poor: evidence from Location Decisions of Microfinance Institutions within Pakistan
Jérôme MONNE - Audencia School of Management
Christophe Villa - Audencia School of Management ........ 269
The impact of the central bank reference rate on investments in context of inflation targeting strategy
Joanna Stawska - University of Lodz ........ 270
Collateral and Repeated Lending
Artashes Karapetyan - Central Bank of Norway
Bogdan Stacescu - BI ........ 271
Financial Dollarization, Public Debt and Systemic Risks
Fabricio Vieira - University of Viçosa ........ 272
Do US macroeconomics news make emerging financial markets more riskier?
Esin Cakan - University of New Haven
Nadia Doytch - Brooklyn College
Kamal Upadhyaya - University of New Haven ........ 273
Do OPEC announcements influence oil prices?
Kostas Andriosopoulos - ESCP Europe London
Amine Loutia - University Paris1 Panthéon-Sorbonne
Constantin Mellios - University Paris1 Panthéon-Sorbonne ........ 274
Optimal Asset Allocation in Radial Basis Functions Networks, and hybrid neuro-genetic RBF?s to TLRNs, MLPs and Bayesian Logistic Regression
Nikos Loukeris - University of Macedonia
Iordanis Eleftheriadis - University of Macedonia
Stratos Livanis - University of Macedonia ........ 275
Insider Bank Runs: Community Bank Fragility and the Financial Crisis of 2007
Christopher Henderson - FRB- Philadelphia
William Lang - FRB-Philadelphia
William Jackson - University of Alabama ........ 276
Discrete Barrier Options. Exact Geometric Solution.
Alexander Skabelin - One of the top global investment banks ........ 277
Does Gender Diversity on Board Matter
Shital Jhunjhunwala - Institute of Public Enterprise ........ 278
Commodity Price Cycles and Financial Stability
Carola Moreno - Central Bank of Chile

Barbara Ulloa - Central Bank of Chile
Carlos Saavedra - Central Bank of Chile ........................................................................ 279
Forecasting exchange rates of major currencies with long maturity forward rates
Zsolt Darvas - Bruegel/Corvinus University/CERS HAS
Zoltan Schepp - University of Pecs ........................................................................ 280
The Impact of Distance on Credit Default in Spatially Segmented (Rural) Credit Markets: An Empirical Analysis
Geri Mason - Seattle Pacific University ........................................................................ 281
The Influence of Market States on Security Returns
Warren Thomson - Griffith University
Graham Bornholt - Griffith University ........................................................................ 282
Islamic Banking and Financial Stability-- An Emperical Evidence from Middle East
Raj S Dhankar - Faculty of Management Studies,University of Delhi
Mosab I Tabash - Faculty of Management Studies,University of Delhi .................................. 283
SMEs Capital Structure Dynamic Within and Economic Crisis
Barbara Mörec - University of Ljubljana
Matevž Raškovi? - University of Ljubljana ........................................................................ 284
Capital Structure and Firm Performance: A Panel Data Analysis
Kannadhasan Manoharan - Indian Institute of Management
Aramvalarthan S - Periyar Maniammai University ................................................................ 285
Forecasting Performance of Financial Time Series Based on Range to Standard Deviation Ratio
Mitra S K - Indian Institute of Management Raipur ................................................................ 286
Loss Aversion and Market Liquidity in the Commercial Real State Market
Sun Young Park - Korea Insurance Research Institute ........................................................ 287
Growth Options and Likelihood of Acquisitions in High Tech
Sean Davis - University of North Florida
Jeff Madura - Florida Atlantic University ........................................................................ 288
Systemic Importance of Global Financial Markets and Distress Propagation
Di Zhou - Boston University
Irena Vodenska - Boston University
Dror Kenett - Boston University
Shlomo Havlin - Bar-Ilan University
H.Eugene Stanley - Boston University ........................................................................ 289
Islamic banks impaired financing: Relationship between shariah committee meetings frequency and shariah risk compliance on assets quality
Mohd Yaziz Mohd Isa - Universiti Tun Abdul Razak ........................................................ 290
Strategically Using the Issue Affecting The Adoption of a Common Currency for Uniting and Developing the Arab Gulf REGION
A. Aljadani - leicester Business School
F. Mear - leicester Business School
L. Raimer - leicester Business School ........................................................................ 291
The Role of Working Capital in Shaping the Financial Situation in the Family of Farming Households
Joanna Bere?nicka - Warsaw Universuty of Life Sciences ................................................ 292
A Study on the Options Model and its Efects on a Share Portfolio´s Systematic Risk
Eduardo Pace - FIA - Fundacao Instituto de Administracao

**Bruno Chacon - Fundacao Santo Andre** ........................................ 293
**Hang Together or Hand Separately: Global Banking After the Great Recession**
**Warren Matthews - LeTourneau University**
**Robert Driver - DeVry University** ........................................ 294

## Inattentiveness: Revisiting Investment-Cash Flow Sensitivities

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### Abstract

This paper analyzes the investment-cash flow sensitivity in a frictionless neoclassical investment model augmented with informational frictions. When collecting and processing information is costly, the firm is inattentive most of the time and makes infrequent investment decisions. Investment under inattentiveness thus implies lumpy capital adjustments, as periods of low activity are interrupted by large capital adjustments. In addition to lumpy investment, the model features perfect capital markets and no adjustment costs. I find evidence of a cash-flow effect, as the cash flow-augmented regression adds significant explanatory power to the investment equation. Moreover, inattentiveness enhances the cash flow sensitivity of investment.

# The Cash Effect and Market Reaction over Three Decades

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## Abstract

Firms have been building up cash and reducing debt steadily over the last three decades. Using data over the 1980 to 2012 period, we confirm these patterns and many of the variables that affect cash "hoarding" by firms. We provide evidence that market returns for high cash firms have exceeded those for low cash firms. In particular, a trading strategy based on buying "High Cash" firms and selling "Low Cash" firms would have generated abnormal returns of close to 5 percent per year, after controlling for industry, size, value, and momentum. These results hold even after forming "double-sorted" portfolios on variables that could typically influence such returns – namely IVol, ROE and growth opportunities. The results remain intact, even after controlling for industry effects as well as the impact of zero-leverage firms in our sample. Further examination shows that these abnormal returns were "period specific," with the strongest results occurring during the 1990s and the first six years of the 2000s. In fact, during the 2007 to 2012 period, high cash firms actually produced lower returns than low cash firms. These results are consistent with markets rewarding the presence of liquidity up to a certain level, beyond which holding excess cash is viewed negatively.

# Exposure of Swiss Banks towards Greece and Banks of Selected European Countries

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## Abstract

The Greek debt crisis has not yet been overcome, Cyprus is on the verge of national insolvency; institutional as well as private investors are tensely observing the stability of the Euro zone and the global financial markets overall. This paper analyzes exposures of Swiss banks to Greece in general and other banks in selected European countries (incl. the UK and US) and potential negative implications on their financial position. We determine the impact of potential losses on Tier 1 capital / ratio under Basel II and Basel II.5 and on CET 1 ratio under Basel III, respectively and thereby argue why the Swiss National Bank recommended in their Financial Stability Report 2012 (issued by mid June 2012) to the two big banks in Switzerland to expeditiously increase their capital base – even though Swiss banks in general have to fully comply with higher Basel III requirements by 31 December 2016 only.

# Testing the CAPM Theory for US Stock Market Based on a Model with SSAEPD Errors

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## Abstract

This paper empirically exams the theory of Capital Asset Pricing Model (CAPM) of Sharpe (1964), Lintner (1965) and Mossin (1966) with the model and method of Zhuo (2013). Method of Maximum Likelihood Estimation is used to estimate the parameters. Fama-French 25 portfo-lios for US stock market (1926 -2011) are analyzed. Likelihood Ratio test (LR) and Kolmogorov-Smirnov test (KS) are used for model diagnostics. Akaike Information Criterion (AIC) is used for model comparison. We find out, with SSAEPD errors, the CAPM theory is still alive! The CAPM model with SSAEPD errors has better in-sample fit. For the portfolios with smaller Size, they are more sensitive to the market and the sensitivity will decrease if Size increases. And these portfolios are more sensitive to the market than the ones estimated from the 3-Factor model of Fama and French (1993).

# Corporate Transparency, Product Innovation and Shareholder Value: Evidence from Korean Pharmaceutical Listings

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## Abstract

By constructing a novel proprietary pharmaceutical database, we assess whether the corporate transparency of Korean exchange-listed pharmaceutical companies affects event-study returns upon Korea Food and Drug Agency approvals of new drugs. The empirical findings are as follows: First, we report evidence that new drugs are priced in the announcement returns. Second, product innovation is appraised higher by the investors the better the firm is governed, controlled for trading venue, R&D intensity, balance sheet variables, payout policy, valuation, and years of operation. Lastly, additionally considering analyst-coverage, patent-listing, and technological alliance reveals that the shareholders are wealthier with innovative new products promised by trustworthy managers.

## Short Sales Constraints and Financial Stability: Evidence from the Spanish Market

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## Abstract

We examine the effect of the short-selling ban implemented in 2011 in Spanish stocks on the level of risk in the banking sector. Before the ban, short positions are found to be a significant determinant of the creditworthiness of medium-sized banks, less internationally diversified and more reliant on official support. We show that the ban helped stabilize credit risk of medium-sized banks, but not that of large banks and non-financial firms. This stabilising effect came at the cost of a significantly intense decline in liquidity, trading and price efficiency of medium-sized banks' stocks relative to the rest of the stocks.

## Investment Decisions of the Elderly

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## Abstract

I build a realistic life-cycle model to explain three main puzzles regarding the investment and consumption behavior of the elderly: 1) very high homeownership rate; 2) very low holdings of risky assets; 3) average consumption almost equal to average retirement income. Households are heterogeneous with respect to age, education, marital status, health, financial assets, and housing. They are subject to longevity risk, disability risk, house price risk, and risk associated to stock return. They choose consumption, housing, and investment in risky assets. I find that households have a strong preference for homeownership, mainly motivated by moral hazard issues. Liquidity constraints drive households' decisions to downsize. Together with the large investment in risky illiquid assets, the event risk appears to be the main driver of financial investment decisions. The model is able to reproduce the main empirical facts: high homeownerhip rate, housing tenure persistence, low mobility rate, low investment in risky assets, and consumption about the same as household income. I also study how consumption and investment choices vary when households buy a longevity insurance, finding a significant increase in consumption and homeownership rate.

## Nonlinearities in Brazilian Yield Curve

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## Abstract

This article investigates the effect of macroeconomic conditions on the term structure represented by the spreads of 1, 5 and 10 years term bonds. The results indicate the presence of strong nonlinearities that may compromise the effectiveness of monetary policy. On the other hand the effects of key macroeconomic variables, such as interest rate, output, inflation, and exchange rates, in normal times, on the spreads, are consistent with expectations of coherent monetary policies.

# A Cross-Sectional Analysis of Index Futures as a Hedging Tool and Its Relationship With ? and Returns of Unhedged Portfolio

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## Abstract

The emergence of the market for derivatives contracts originates from the desire of risk-averse economic agents to guard themselves against uncertainties arising out of fluctuations in asset prices. By locking-in asset prices, derivatives products minimize the impact of fluctuations in asset prices on the profitability and cash flow situation of risk-averse investors. This study is conducted to discover the effectiveness of hedging through stock index futures i.e. Nifty for risk-averse investors. In the early 1970s, a floating exchange rate imposed serious economic problems, which led western economies turned to financial markets to manage price risk. As a result, in the past three decades financial markets have witnessed the emergence of many financial instruments, which facilitate financial risk management. Financial derivatives have crept into the world's popular economic vocabulary on a wave of recent publicity about serious financial losses suffered by a large number of organizations. Derivative is a security or a financial asset, which derives its value from some specified underlying asset . It is an instrument whose value is derived from the value of one or more underlying asset, which can be commodities, precious metals, currency, bonds, stocks, stock indices etc. It does not have any physical existence but emerge out of a contract between two parties. Thus, derivatives are becoming increasingly important in world markets as a tool for risk management. Therefore, to study the role of hedging the present paper "A cross-sectional analysis of Index Futures as a hedging tool and its relationship with ? and returns of unhedged portfolio" is developed with special reference to Indian securities markets.

## The Determinats of Bank Liquidity

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## Abstract

This study investigates the determinants of banks liquidity in Indonesia. There are two category of bank liquidity in this study that is precautionary and involuntary. The definition of precautionary liquidity is the ratio of total cash, demand deposit at central bank, and demand deposit at other banks, to total asset. Whilst the definition of involuntary liquidity is the ratio of total traded securities of central bank, government, and others, to total asset. The study indicates that credit; saving and deposit affect precautionary liquidity. This reflects that operational bank activities influence precautionary liquidity. In contrast, financial system and macroeconomic conditions have an effect on involuntary liquidity. The lag or historical liquidity of both liquidities, precautionary and involuntary, are strongly determined each of them. In addition, financial system and macroeconomic condition significantly influence small banks liquidity in precautionary and involuntary. The policy of reserve requirement affects only small bank's precautionary liquidity. Furthermore, indirect monetary policy through interest rate does not subtantially influence banks liquidity.

# Pricing Efficiency of Equity Index Option Contracts: Evidence from National Stock Exchange of India

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## Abstract

Present study examines the pricing efficiency of Equity Index Options traded at National Stock Exchange of India. Since globally Black-Scholes Model is used to price the Options contracts, therefore, the premium of Equity Index Options contracts traded on Nifty, BANKNIFTY, CNXIT and NIFTYJUNIOR indices is compared with the theoretical price estimated by using Black-Scholes Model. 91 Days T-Bill rate is used as Risk-free rate and standard deviation computed on daily returns of the underlying index is used as volatility to estimate the theoretical prices. Present study uses daily data for the sample period 2001 to 2008 and daily price quotes of underlying indices and premium on options contracts have been downloaded from the website of NSE (www.nseindia.com). Pricing efficiency has been tested both for daily prices per se as well as for the In-the-Money, At-the-Money and Out-of-the-Money Options contracts. Mean Absolute Errors, Mean Squared Errors, Root Mean Squared Errors and Theil's U statistics are found to be statistically significant, which implies that the Equity Index options contracts are not fairly priced and options premium significantly differ from price suggested by Black-Scholes Model. Heteroscedastic nature of returns and daily volatility, time-varying risk-free rate may be significant reasons for inefficient index options prices because Black-Scholes Model assumes volatility and risk-free rate to be constant over the contract cycle, however, during the study period, prices were highly volatile and due to continuous change in the inflation rate, RBI kept on changing the interest rate. Findings of present study are consistent with that of existing literature which states that nonetheless, Black-Scholes Model is theoretically very sound but is not applicable in real life.

## Growth Forecasts, Belief Manipulation and Capital Markets

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### Abstract

We analyze how a benevolent government agency would optimally release information about the economy's growth rate. In the case where all investors are rational Bayesian updaters, we show that the agency's optimal choice is to release a manipulative signal (lie) with probability one. However, if there are some nonupdating (inattentive) agents, we nd cases where it is optimal for the government agency to send a revealing signal with probability one. We focus on an ex-ante measure of social welfare, but when allowing for some nonupdating agents, we obtain the same qualitative results using an ex-post measure.

## Stochastic Volatility Model Calibration: A Computational Study

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### Abstract

We studied the application of gradient based optimization methods for calibrating stochastic volatility models. In this study, the algorithm differentiation is proposed as a novel approach for Greeks computation. The "payoff function independent" feature in algorithm differentiation offers a unique solution cross distinct models. To this end, we derived, analysed and compared Monte Carlo estimators for computing the gradient of a certain payoff function using four different methods: algorithmic differentiation, pathwise delta, likelihood ratio and finite differencing. We assessed the accuracy and efficiency of the four methods and their impacts into the optimisation algorithm. Numerical results are presented and discussed.

# Housing Booms and Media Coverage

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## Abstract

This paper analyzes opinion formation in the housing market. Building on theories of media influence where word-of-mouth is the final mechanism of opinion-change but media initiate discourse, I address whether news media affected house prices through opinion-formation and whether news media contributed to the recent house price boom in the UK. To address these issues, over 30,000 articles on the UK housing market from 1993 to 2008 are analyzed. Media was a significant determinant of real house price changes over this sample period suggesting the media did influence opinions on the housing market. However, media sentiment on the housing market did not change with the secular increase in house prices in the 2000s, and optimistic language in reporting actually decreased a full year before house prices started to fall, suggesting that the media did not contribute to the UK's housing boom and may have helped constrain it.

# Rent-Seeking for IPO Approval Through Private Equity Affiliation: Evidence from the Chinese Stock Market

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## Abstract

This paper demonstrates quantitatively rent-seeking activity among firms seeking IPO approval in China, using a manually collected database. We show that firms receiving PE investment within two years before IPO application have a significantly lower failure rate than other firms. We find this effect stronger among firms with below-median profit margins or profit growth, and among firms receiving PE investment within 12 months before IPO application. PE investors realize a 10.5-times return when firms are listed. Our further tests rule out possible alternatives to the role of PE, such as selecting better firms, certifying firm value, or enhancing firm operation.

## Betas Used by Professors: A Survey With 2,500 Answers

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## Abstract

We report 2,510 answers from professors from 65 countries and 934 institutions. 1,791 respondents use betas, but 107 of them do not justify the betas they use.97.3% of the professors that justify the betas use regressions, webs, databases, textbooks or papers (the paper specifies which ones), although many of them state that calculated betas "are poorly measured and have many problems". Only 0.9% of the professors justify the beta using exclusively personal judgement (named qualitative, common sense, intuitive, and logical magnitude betas by different professors).The paper includes interesting comments from 160 professors. We all admit that different investors may have different expected cash flows, but many of us affirm that the required return should be equal for everybody: That is a kind of schizophrenic approach to valuation. Most professors teach that the expected cash flows should be computed using common sense and good judgement about the company, its industry, the national economies… However, many professors teach a formula to calculate the discount rate (instead of using again common sense). Most of the professors acknowledge that there are problems estimating two ingredients of the formula (the beta and the market risk premium), but, nevertheless, most of them continue using it.

## Market Pricing of Credit Rating Signals

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### Abstract

This paper contributes new evidence on market pricing of rating changes. We examine the relation between spreads and ratings for a very large and comprehensive sample of corporate bonds, which allows us to test for country- and industry-specific effects, as well as to explore the differences between the calm and distressed market conditions. The results show that the effects of rating actions on market prices are significant and depend on the current risk mode of the market. While during favourable market conditions rating actions are not crucial for market pricing, they become very significant in the periods of high risk aversion and market uncertainty.

# Can Investment in Cleaner Production Improve the Financial Performance of Spanish Pension Plans?

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## Abstract

The aim of this paper is two-fold: firstly, to examine the financial performance of Spanish pension plans compared to market benchmarks taking into account the category to which they belong, and the socially responsible business strategy implemented by the manager; and secondly, to analyze whether differences in financial performance exist between solidarity pension plans, ethical pension plans and traditional pension plans. To do this, we have a sample of 651 individual system pension plans (552 conventional pension plans, 34 solidarity pension plans and 65 ethical pension plans). Using these sample data, we implement the robust random effects panel data methodology, thereby overcoming the methodological shortcomings suffered by some prior studies. The results show that (1) most Spanish pension plans obtain a risk-adjusted return that is very close to zero and (2) any performance differential, on average, between conventional plans and ethical plans is statistically insignificant while solidarity pension plans significantly outperform conventional pension plans.

# A New Approach in Portfolio Selection Under the Three Factor Model

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## Abstract

The Three Factor Model-TFM into the frame of the size, the book-to-market value and beta on the excess return of a market portfolio is proved to be a better technique than other CAPM alternative models. All the stocks in the FTSE All Shares and FTSE 100 indices of the London Stock Exchange were evaluated from 1987 to 2006, and 1996 to 2006 respectively to determine the ability of TFM to track the anomalies of average returns, in three different cases of 6, 9 and 25 portfolios, and two different sorting methods, Proportional, and Value categorisation. Evidence are given that size is a significant indicator of returns, although book-to-market results were inadequate to validate the TFM, in accordance to Fama and French (2004) that expected values of size and book-to-market produce significant errors in estimation process, and possible circular simultaneities.

# Euro-Dollar Exchange Rate and News: Market Behaviour Before and After the 2007-2008 Financial Crisis

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## Abstract

This paper examines the determinants of the Euro/US Dollar exchange rate during the 2007-2008 period to investigate the possible effects of the financial crisis on dynamics of the Euro-Dollar rate. We use an EGARCH (3,1) news-type model with thrice-daily frequency data to represent three temporal trading zones with unscheduled news in addition to the traditional scheduled macroeconomic news. In line with some behavioral finance insights, we find that when comparing pre-crisis and post crisis periods there are noticeable differences in agents' attitudes across the three trading time zones in terms of asymmetric reactions, over/under-reactions to news, policies and fundamentals variables.

# The Size Effect in Value and Momentum Factors: Implications for the Cross-Section of International Stock Returns

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## Abstract

We document a consistent and robust relation between expected equity premia and common risk factors constructed on the basis of small stocks. Empirically, we show that (i) small-stock components of traditional value and momentum factors capture patterns in returns on regional and global portfolios of stocks; (ii) size-effect models substantially outperform benchmark models in finance; (iii) global small-stock value and momentum components are priced but regional models lead to more accurate asset evaluations; (iv) funding liquidity risk is a partial explanation of these findings.

# Validation of Merton Distance to Default Model under Ambiguity

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## Abstract

Bharath and Shumway (2008) provide evidence that shows that it is the functional form of Merton's (1974) distance to default (DD) model that makes it useful and important for predicting defaults. In this study, we investigated whether the default predictability of the Merton DD model would be affected by taking investors' ambiguity aversion into consideration. The Cox proportional hazard model is employed to compare the forecasting power of Bharath and Shumway's naive model (which retains the functional form of the Merton DD model and computes the default probability in a naive way) with our new model (which treats investors' ambiguity aversion as additional information). We provide sufficient evidence to show that our new model performs better than Bharath and Shumway's naive model. In addition, our results show that the statistical significance of Bharath and Shumway's naive default probability is driven out by ours in the CDS spread regressions.

## Spring Forward or Fall Back? The Post-Crisis Recovery of Firms

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### Abstract

How quickly did firms recover in the aftermath of the global financial crisis? What factors influenced the speed of their recovery? This paper seeks to answer these questions by examining 6,581 manufacturing firms in 48 developed and developing countries in 2010. Based on a cross-sectional analysis, the results show that pre-crisis leverage and short-term debt had negative effects on the speed of the recovery, while asset tangibility had positive effects. Interestingly, the negative effect of leverage is non-linear, and is particularly strong in firms with high pre-crisis leverage. Furthermore, the results are different for advanced and emerging market economies. The paper also investigates channels through which the macroeconomic context matters for firms' growth. In particular, in countries that allowed the exchange rate to depreciate, firms had a faster recovery in trade-dependent sectors.

# Business Groups in the United States: A Revised History of Corporate Ownership, Pyramids and Regulation, 1930-1950

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## Abstract

The extent to which business groups ever existed in the United States and, if they did exist, the reasons for their disappearance are poorly understood. In this paper we use hitherto unexplored historical sources to construct a comprehensive data set to address this issue. We find that (1) business groups, often organized as pyramids, existed at least as early as the turn of the twentieth century and became a common corporate form in the 1930s and 1940s, mostly in public utilities (e.g., electricity, gas and transportation) but also in manufacturing; (2) In contrast with modern business groups in emerging markets that are typically diversified and tightly controlled, many US groups were focused in a single sector and controlled by apex firms with dispersed ownership; (3) The disappearance of US business groups was largely complete only in 1950, about 15 years after the major anti-group policy measures of the mid-1930s; (4) Chronologically, the demise of business groups preceded the emergence of conglomerates in the United States by about two decades and the sharp increase in stock market valuation by about a decade, so that a causal link between these events is hard to establish, although there may well be a connection between them. We conclude that the prevalence of business groups is not inconsistent with high levels of investor protection; that US corporate ownership as we know it today evolved gradually over several decades; and that policy makers should not expect policies that restrict business groups to have an immediate effect on corporate ownership.

## Asset Pricing with Heterogeneous Inattention

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### Abstract

Does households' limited attention to the stock market affect asset prices? I address this question introducing an observation cost in a heterogeneous agent production economy with incomplete markets and idiosyncratic labor income risk. In this environment, inattention changes endogenously over time and across agents. The model generates limited equity market participation, a realistic wealth distribution, stock return predictability and price momentum. Furthermore, inattention implies countercyclical dynamics for both the stock returns volatility and the excess return. Nonetheless, the equity premium is still low, around 1%. Finally, I find that inattention affects asset prices only when borrowing constraints are tight enough.

# Global Thermoeconomics

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## Abstract

This paper illustrates that basic global economic concepts can be directly related to the First and Second of Thermodynamics. We believe that all economic returns are from nothing results except but current and past human expenditure of human energy; this is the result of the First Law of Thermodynamics. It is shown that everything is a product of energy in the form of labor and that the basic principle of Labor Theory of Value are still valid and this principle is validated not relying on economics and finance models, rather on thermodynamic principles. This is illustrated by the development of the Labor Value Equation based on the application of the First and Second Law of Thermodynamics and how it can impact employment, asset valuation, supply/demand, productivity, global conflict, global reserve currency and global stability.

# Borrowers' Equity Options and Loan Contract Terms

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## Abstract

We investigate the effect of stock option listing and subsequent implied option volatility on loan contract design. We find optioned borrowers enjoy between 20 to 29 basis point reduction in loan spreads. This finding is robust after controlling for the endogeneity of option listing using a wide range of techniques, including propensity score matching, instrumental variable and treatment effect model. In addition to cost savings, optioned borrowers also enjoy better loan terms such as longer maturities, lower collateral incidence, and less borrowing base provisions. The results reflect the role of option listing in mitigating information asymmetries between borrowers and lenders. Subsequent to option listing, our evidence supports a positive association between implied option volatility and borrower default risk. As borrowers experience higher option volatility, their bank loans carry higher spreads, shorter maturities, higher collateral requirements, and more borrowing base provisions.

# Weekly Monitoring of Financial Systems in Transition: A Financial Conditions Index and a Credit Conditions Index – The Israeli Case

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## Abstract

Since the financial crisis of 2008, there are increasing attempts to assess current financial conditions in real-time and in an aggregative way. In this study we construct such indices for Israel, designed for weekly tracking of financial and credit conditions. We follow the dynamic common factor approach which enables to get the "big picture" from the comovement of financial variables, before the demand and supply aspects have been précised. The first of these indices—the financial conditions index (FCI)—is based on 28 variables recorded at different frequencies—daily to quarterly—which provide measures of risk, leverage and liquidity in the financial markets. The time series used for calculating the index were observed over twenty years, from October 1993. Positive values of the index indicate tightening conditions, while negative values indicate loosening conditions. The second index—the credit conditions index (CCI)—is based on a narrow pool of variables related to the banking system and the (sovereign and corporate) debt market, observed since July 1997. Both indices clearly points out times of crisis and our tests shows that the FCI outperforms single financial indicators in the ability to identify financial events. Recently, the index identified deterioration in financial conditions. At the end of August 2013, it rose considerably and approached a cut-off level in response to the possibility that the US would take military action in Syria. Our contribution to the model is a mean-reverting leverage specification, which greatly improves its accuracy. We find that besides reverting to a slowly evolving "mean" level, the leverage of financial firms is negatively correlated with financial/credit tightening, whereas the leverage of real firms is positively correlated. We also found that most of the FCI variance is explained by a risk component, and therefore, like other risk indices, there is no symmetry between its positive and negative amplitudes. In contrast, the risk component explains only third of the CCI's variance. Furthermore, estimating the CCI by partially overlapping subsamples, reveal a significant shift between 2004 and 2005 and show an increasing share of the debt-market component and a decreasing share of the banking-system. This shift supports the structural break in the credit market during those years.

# A Demand Model of In uenza Vaccine in a Heterogeneous Population

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## Abstract

In this paper, we develop a demand model for in uenza vaccine.When the vaccination is not compulsory,exploration of demand mechanism and total demand anticipation, help the governments better organize their e orts and adopt more e ective measures to contain in uenza outbreak in advance of in uenza season. In this research, the population is divided into two class. Pre 65-year-old class and over 65-year-old class. Current in uenza vaccines have di erent e ectiveness on each age class. We build a game theoretic demand model for each age class based on utilities of individuals. Utilities of individuals is a function of the vaccine e fectiveness,price, chance of getting infected, estimated cost of infection and a random element speci c to each individual. Since getting vaccinated for an individual exerts positive externalities on the others , the decision of individuals is not independent of each other.

# Empirical Testing of CAPM for Central Public Sector Enterprises in India

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## Abstract

This paper focuses on the estimation of the Public Sector Units PSU return for the period of 1993-94 to 2012-13 using the Capital Asset Pricing Model (CAPM) framework and also to compare the CAPM return with that of the annual return. The PSU companies are selected on the basis of the companies consistently quoted in the BSE stock exchange for the period of 1993-94 to 2012-13. The paper attempts to compare the select Public Enterprise returns with that of the private enterprises operating in the same line of activity. Further, this study uses the stock market price index, BSE Sensitive Index to represent the general market. Treasury bill rate is used as a proxy for riskless security return. The test of CAPM is to be carried out on the expected return of securities but the observation of expected return of stock prices becomes difficult. In literature, the test of CAPM was carried out by using 'realized' return of stock on the assumption that the expectations are on average and assumed to be constant. Further authors show that, by a suitable reformulation, the test of CAPM based on realized return coincides with the test of CAPM based on expected values of stocks. Hence, this study attempts to carry out the tests of CAPM on realized stock return. The analysis shows that the majority of the PSU stocks under analysis have not rewarded investors appropriately.

# Basel III Accord: Different Bank Characteristics (Insolvency Risk) Due To Unobserved Heterogeneity Effects

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## Abstract

The banking literature on loan loss provisions (LLP) have analyzed on several provisioning issues, but to the best of knowledge none of any previous literature has determined which regression model is a more appropriate model with determinants of loan loss provisions taking into account the current purposes in loan loss provisioning which are - in the post adoption of IAS 39 regime whether it has succeeded to mitigate the discretionary components of the loan loss provisioning practices; and - after the implementation of Basel III Accord whether it has strengthened the reliability of financial statements? The results show, from using E Views and STATA software, that the Fixed Effects model is a more appropriate model with determinants of loan loss provisions reflecting collectability of defaulted loans, as the model allows for the different bank characteristics due to different insolvency risks arising from unobserved heterogeneity effects or features that are unique in fundamental unmeasured ways among the banks in their loan loss provisioning practices. The model allows the banks to capture their loss expectations for their loans and for the bank to be in a position to continuously reassess changes in the loss expectations as the conditions affecting their borrowers change; and more importantly, the results show the model will meet the two purposes of the recent regulatory changes - adoption of IAS 39 and implementation of Basel III Accord.

# Financing Constraints and Investment in R&D: Evidence from Indian Manufacturing Firms

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## Abstract

This study investigates the financing of research and development (R&D) expenditure of listed firms in India. Using dynamic R&D investment model, we find significant positive relationship between a firm's R&D expenditure and internal cash flow. The cash flow sensitivity is higher for small and young firms. Further, we find significant cash flow sensitivity for both group-affiliated and stand-alone firms. Unlike their developed country counterparts, external equity financing is not positively related to R&D intensity of Indian firms even during periods of active equity markets. We do not find patterns of R&D smoothing using cash reserves and debt financing even during periods of illiquid equity market. The results of the study suggest that a plausible reason for lower R&D expenditure of Indian firms could be the non-availability of external equity to finance R&D.

# On Chinese A-H Share Premium During the Financial Crisis

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## Abstract

Based on the panel data of china's stock market, this paper tests the factors which result in the price difference between A and H-share of Chinese dual-listed companies during the finacial crisis. We found that the risk/reward differences, information asymmetry, liquidity difference and market environment difference are the powerful factor in explaining A-H share premium; however, the demand elasticity of share price difference has no significant effect on A-H share Premium.

# Credit Crunch and Firm Growth in Euro-area: 2005-2011. A Quantile Panel Analysis.

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## Abstract

This paper explores the effects of bank credit on firm growth before and after the recent financial crisis outbreak, taking into account different structural characteristics of the banking sector and the domestic economy. The econometric method of panel quantiles is used on a large sample of 2075 firms operating in the euro-area (17 countries) for the period 2005-2011. The main results of this paper indicate a strong dependence of firm growth on credit expansion before the crisis. However, post-2008, the credit crunch seems to seriously affect only slow-growth firms and especially those operating in domestic bank-dominated economies. Furthermore, the classification of firms in groups by size yields interesting results: the credit crunch exhibits a strong impact on small firms only. Separate estimates for more and less financially developed economies show that the credit crunch matters mainly in countries with a lower degree of financial development. Moreover, our findings reveal that the degree of banking concentration affects firm growth in a negative way in most estimates. Finally, risk and financial stability matter for firm growth for the total sample and for domestic bank-dominated countries, while in general they do not matter for foreign bank-dominated countries.

# Equity Options, Credit Default Swaps and Leverage: A Simple Stochastic -Volatility Model For Equity and Credit Derivatives

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## Abstract

The aim of this paper is to define a model which allows traders to assess the value of equity and credit derivatives in a unified framework. We propose closed-form formulas which traders could use to evaluate equity, equity options and credit default swaps (CDSs) in a consistent way. The model can also be used to solve the inverse problem, that is to extract credit-risk sensitive information from market quotes of equity/credit derivatives. In particular, we wish to estimate the firm's leverage, as it is perceived by traders. This goal is achieved within a model à la Leland (1994), where stockholders have a perpetual American option to default. After making the case for modeling debt in terms of a single perpetual-bond equivalent issue, we define leverage, show the stochastic nature of equity volatility and derive the term structures of default probabilities and credit spreads by making use of the first-passage time distribution function. Then, we give new formulas for call and put options written on stockholders' equity. The formulas, which depend on the leverage parameter L and make use of the univariate normal distribution function, are consistent with the volatility skew observed in the equity options market and converge to the Black-Scholes-Merton (BSM) equations for L ? 1. All the Greeks are simple functions of the standard corresponding letters of the BSM model. The paper concludes with an application of the model to the case of Lehman Brothers and General Motors.

# Integrated Model to Measure the Impact of Terrorism and Political Stability on FDI inflows: Empirical Study of Pakistan

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## Abstract

To conduit saving-investment gap, transformation of technology, creation of employment opportunities and finally increasing economic development of host countries, Foreign Direct Investment (FDI) was proven to be a significant source of investment mostly for developing countries. China can be taken as the best example of it. Though numerous standing studies scrutinize economic impact of terrorism and political instability by referring to its probable to decrease foreign direct investment (FDI). This study empirically enlightened the determinants of FDI for Pakistan over the period of 1970 to 2012 by using annual secondary time series data. Adopting the optimistic approach, in this study for the first time, variables in the combination of terrorism, political stability, trade openness and GDP have been incorporate in ordinary least square regression model. As expected, the projected results confirmed that GDP, trade openness and political stability had positively significant impact while terrorism had negative influence on FDI inflows into Pakistan but because of the existence of political stability along with stable GDP growth rate, the inverse impact of terrorism had been proved statistically insignificant.

# Using 10-K Text to Gauge Financial Constraints

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## Abstract

Financial constraints — the wedge between the costs of external and internal funds — dictate the relevance of financial structure. We propose a new measure of financial constraints based on qualitative information contained in corporate disclosures. We parse 10-K disclosures filed with the Securities and Exchange Commission (SEC) to measure a document's tone as indicated by the percentage of negative words. We find that the frequency of negative words exhibits very low correlation with traditional measures of financial constraints such as size and predicts subsequent liquidity events — like dividend cuts or omissions, debt downgrades, and asset growth — better than widely-used financial constraint indexes.

# Do the Compensation and Industry Expertise of NEDs' Affect the M&A Decisions?

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## Abstract

There is an emerging literature which focuses on the role of non-executive directors (NEDs) in a number of corporate contexts. This study contributes to this emerging literature by considering the compensation and industry expertise of NEDs in a merger and acquisition (M&A) context. Using a sample of 343 acquisitions between Australian publically listed firms during the years 2004-2011 we find that higher NED compensation results in positive outcomes for bidding firm shareholders. Specifically we find that higher NED compensation has a negative association with both the bid premium and any subsequent increase in offer price, whilst having a positive association with the market reaction to the takeover announcement. In contrast, industry expertise is found to be negatively associated with the market reaction to the takeover. Our results are robust with respect to alternative econometric specifications and variable definitions.

# Analyst Forecast Paper

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## Abstract

The purpose of this paper is to detect which one of the following methods – simple arithmetic mean, simple arithmetic median, or time weighted consensus estimate – offers the most effective method for predicting the companies' actual EPS figures. The study focuses on achieving a more comprehensive earnings forecast signal using detailed analyst earnings forecasts to detect early changes and tendency to herd in the consensus earnings estimates. In particular, the paper examines the effectiveness of analyst earnings forecasts that have been weighted based on timeliness of updates. Aimed at extracting valuable information from timely analyst forecasts, the time signal methodology allows delving deeper into the detailed analyst forecasts to detect early changes in the consensus signal and produce a robust time weighted earnings estimate. The time weighted methodology allows rewarding those analysts who possess some unique information and issue their updates more frequently. One would expect the time signal to reflect a more realistic representation of analyst estimate changes and thus be more effective in predicting the companies' reported EPS than the mean and median. This paper builds on research on the time signal in six Asia-Pacific countries covering Australia, Hong Kong, India, Singapore, South Korea and Taiwan. The focus of the study is on quantitative data analysis techniques. The paper investigates the field of security analysis where the main emphasis is on the quantifiable aspects of the stock screening process, while attempting to minimise the importance of the more qualitative factors of corporate performance. Accordingly, a combination of empirical studies and statistical analysis tools will be implemented as the principal methodologies for conducting this research.

# Value Around the World

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## Abstract

Over the last decades the value premium has well been documented for various time spans and countries. It is proven to be a consistent asset pricing anomaly. This study presents the largest international study on portfolio returns formed according to the book-to-market ratio and examines how cultural differences affect the magnitude of value returns. The cultural differences are measured in two dimensions: patience and risk aversion based on the data collected by the International Test on Risk Attitudes (INTRA). In accordance with a consumption based Gordon model we find that risk aversion is positively and patience negatively related to the magnitude of value profits. Similar results hold for the average stock volatility. Although patience is positively related with the degree of economic development, its relation to value returns does not disappear after controlling for general economic and financial development measures. Furthermore, we find that the value premiums are also positively associated with the country price earnings ratio and negatively related to firm size.

## Exchange Risk and Market Integration

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## Abstract

We investigate whether global and local real currency risk factors affect the degree of market integration. We use the international asset pricing framework to first investigate pricing of twenty emerging markets under purchasing power parity deviations and partial segmentation. The results suggest significant currency risk premiums during crisis periods. Further, the theory suggests that the estimates of the integration measures with and without currency factors should be very similar except under crisis conditions. Our empirical results validate this expectation. Indeed, the currency risk does not affect the integration measure.

## Exploration Activity, Long Run Decisions, and Roll Returns on Energy Futures

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### Abstract

We present some evidence that firms' inventories as well as their long term expenditures on exploration and development (E&D) each help to predict the slope of the oil futures curve one year ahead. In addition we show that roll strategies in futures contracts conditioned on E\&D expenditures rather than inventories have a stronger performance over the past 25 years. Historical data displays significant components of very low (less than once in six years) and very high (more than once every two months) frequency variation in prices, which supports the presence of both long and short term risk. Building on the work of Litzenberger and Rabinowitz (1995), we develop a theoretical model where firms change E\&D expenses over the business cycle to manage the value of their extraction options. Firms optimally invest in short bursts when ggregate resource demand shifts from a stable to a volatile regime, and when their capital stock is far from the new optimum level. Such adjustments happen infrequently only when the stable regime has persisted for a fairly long period. The model is able to shed light on the stylized facts.

# Cluster PIN: A New Estimation Method for the Probability of Informed Trading

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## Abstract

We present a new method for estimating the probability of informed trading (PIN). This method, called Cluster PIN (CPIN), is based on cluster analysis used in machine learning. CPIN does not require maximum likelihood estimation and thus avoids the computational issues that have been associated with some previous PIN estimation routines. We fi nd that CPIN is more than 700 times faster than the best existing estimation method, and has comparable accuracy. A further practical advantage is that CPIN can be used to identify initial parameter conditions for existing maximum likelihood estimation methods. This hybrid of CPIN and maximum likelihood estimation yields the best practical combination of estimation speed and accuracy.

# Three-Factor Asset Pricing Model and Portfolio Holdings of Foreign Investors: Evidence from an Emerging Market – Borsa Istanbul

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## Abstract

This paper contributes to the asset pricing literature by offering an alternative missing factor: excess holdings of foreign investors. To incorporate this factor, we mimic the portfolio of foreign investors in Borsa Istanbul with respect to portfolio preferences (foreign ownership) using the Fama and French (1993) three-factor model. Our findings suggest that market factor, size, and book-to-market variables are still statistically significant and Jensen's alpha is still not significant, and we obtain a statistically significant negative relationship between the excess return of foreign investors' ownership and the return variation of a given portfolio.

## Asset Pricing with Countercyclical Household Consumption Risk

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## Abstract

We present evidence that shocks to household consumption growth are negatively skewed, persistent, and countercyclical and play a major role in driving asset prices. We construct a parsimonious model with one state variable that drives the conditional cross-sectional moments of household consumption growth. The estimated model provides a good fit for the moments of the cross-sectional distribution of household consumption growth and the unconditional moments of the risk free rate, equity premium, market price-dividend ratio, and aggregate dividend and consumption growth. The explanatory power of the model does not derive from possible predictability of aggregate dividend and consumption growth as these are intentionally modeled as i.i.d. processes. Consistent with empirical evidence, the model implies that the risk free rate and price-dividend ratio are pro-cyclical while the expected market return and the variance of the market return and risk free rate are countercyclical.

# Can Firms Do Well for Shareholders by Doing Good for Stakeholders? The Importance of Long-Term Investors

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## Abstract

The effect of corporate investment in stakeholder capital on shareholder value is a matter of great debate. We argue that long-term investors are natural monitors that can ensure that managers choose stakeholder capital investment to maximize shareholder value. We find that firms with longer investor horizons invest more in stakeholder capital, and such firms have higher stock valuations, which are not a result of higher cash flow but rather of lower cash flow risk. Several recent papers show empirically that indexing by investors has a causal effect on many corporate outcomes: profitability; investment, financing, and payout policies; and even innovation. We use the same identification strategy to establish causality of our results. Our findings suggest that firms can do well for shareholders by doing good for other stakeholders as long as managers are properly monitored by long-term investors.

## The Determinants of CDS Spreads

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## Abstract

This study proposes models that can be used as shorthand analysis tools for CDS spreads and CDS spread changes. For this purpose we examine the determinants of CDS spreads and spread changes on a broad database of 718 US firms during the period from early 2002 to early 2013. Contrary to previous studies, we discover that market variables still have explanatory power after controlling for firm-specific variables inspired by structural models. Three explanatory variables appear to overshadow the other variables examined in this paper: Stock Return, ?Volatility (the change in stock return volatility) and ?MRI (change in the median CDS spread in the rating class). We also discover that models used in the event study literature to explain spread changes can be improved by using additional market variables. Further, we show that ratings explain cross-section variation in CDS spreads even after controlling for structural model variables.

# The Governance Role of the Media Through News Dissemination: Evidence from Insider Trading

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## Abstract

This paper introduces a new antecedent to the insider trading literature - the governance role of news coverage as a disciplining tool for insiders' equity trades. We examine how insider trading related news coverage about firms reduces insiders' trading profits. Using a comprehensive dataset of corporate and insiders' news coverage over the period 2001 to 2012, our empirical evidence supports the role of news coverage in attenuating insiders' profits. This effect is present even when we instrument coverage with exogenous determinants, and survives the inclusion of alternative governance mechanisms that could plausibly reduce insiders' trading profits. The media's influence is through disseminating regulatory filings about insider trading activities; coverage following initial releases still attenuates insiders' alpha. The media effect seems to specifically target predictably profitable insiders' trades.

# US Banks’ Behavior Since Lehman’s Collapse, Bailout Uncertainty and the Timing of Exit Strategies

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## Abstract

This paper opens by documenting the dramatic slowdown in the rate of growth of banking credit and the huge increase in the demand for reserves by the US banking system following the downfall of Lehman Brothers. Appealing to results in a theoretical background paper the second section explains this in terms of a short term shift in banks’ portofolios due to an increase in bailout uncertainty in the immediate aftermath of Lehman’s collapse. The persistence of those two phenomena till the present is explained in terms of an increased probabilistic awareness of low bailout probabilities within a multiple priors framework. Those results are used in section 3 to explain why, in spite of exceptionally loose monetary policies, inflation has been and is still under control Section 4 observs that since the Lehman event cummulative base money in the US expanded at a rate similar to the cumulative rate of increase of base money through about half of the post WWI German hyperinflation. It compares and contrasts the response of inflation to those elevated levels of monetary expansion in the US today and in Germany during the hyperinflation. Since Lehman’s collapse cumulative inflation in the US has been about ten percent while the cumulative rate of inflation following the same base money expansion in Germany led to a fivteen-fold cumulative increase in the price level. Section 5 discusses the institutional and other differences between the US today and Germany then that lead to those dramatic differences. Based on this it argues that, although the quantity theory of money is a good starting point for understanding the relation between money and prices, there are other important factors. Implications for the timing and dosage of exit strategies are discussed in section 6. In particular it is suggested that mopping up of liquidity should be directly related to future acceleration in banking credit as well as to future decreases in the banking system’s reserves holdings.

## A New Perspective on the International Evidence Concerning the Book-Price Effect

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## Abstract

Finance theory implies equity returns should be positively related to financial leverage. However, when Penman, Richardson, and Tuna (2007) decomposed the book-price ratio into financing and operating components, they report that financial leverage may actually be negatively related to returns for stocks listed in the USA. In this paper we show that the relationship between equity returns and financial leverage is positive for stocks listed in the new EU members. This leaves us with the puzzling question of why stocks listed in different regions should exhibit different relationships with financial leverage. We explain this result by country-specific factors determining capital structure causing investors to perceive the risks associated with financial leverage differently depending on the characteristics of the region in which the stock is listed and this is reflected in the decomposed book-price ratio.

# Impact of Culture and Patriotism on Home Bias in Bond Portfolios

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## Abstract

Extant research has documented a substantial impact of patriotism and culture on equity home bias. This paper examines whether patriotism, cultural distance as well as two cultural characteristics of the home country, assertiveness and uncertainty avoidance, equally determine home bias in bond portfolios. In this respect, I differentiate between two different aspects of home bias: domestic bias (overinvestment in domestic debt securities) and bilateral home bias (underinvestment in debt securities issued in different host countries). I use the Coordinated Portfolio Investment Survey data over the 2008-2011 period and three internationally recognized cross-cultural research projects, Hofstede (2001), the GLOBE study and the World Values Survey. There is strong evidence that patriotism reduces international diversification and increases both the domestic and bilateral bond bias levels. By contrast, cultural distance is a valid determinant only of the bilateral home bias in bonds. As far as the cultural characteristics of the home country are concerned, uncertainty avoidance increases domestic bond bias, whereas the impact of uncertainty avoidance and assertiveness on the bilateral home bias levels in bond portfolios is less evident.

## Volatility and Liquidity Costs

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### Abstract

Observed high-frequency prices are contaminated with liquidity costs or market microstructure noise. Using such data, we derive a new asset return variance estimator inspired by the market microstructure literature to explicitly model the noise and remove it from observed returns before estimating their variance. The returns adjusted for the estimated liquidity costs are either totally or partially free from noise. If the liquidity costs are fully removed, the sum of squared high-frequency returns – which would be inconsistent for return variance when based on observed returns – becomes a consistent variance estimator when based on adjusted returns. This novel estimator achieves the maximum possible rate of convergence. However, if the liquidity costs are only partially removed, the residual noise is smaller and closer to an exogenous white noise than the original noise. Therefore, any volatility estimator that is robust to noise relies on weaker noise assumptions if it is based on adjusted returns than if it is based on observed returns.

# What drives the margins of mortgage loans? Evidence from Switzerland

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## Abstract

This paper empirically examines the determinants of margins for a unique dataset of 1,190,811 mortgage loans with fixed interest rates of eight Swiss banks over the period from 2001 to 2011. Our margin determinants include loan-specific factors, as well as external and bank-specific characteristics, some of which have not been considered in previous studies. Our results reveal that loan-specific factors such as repricing, representing the credit period until the interest rate is newly set, and the loan volume explain a substantial part of our dependent variable. Furthermore, external factors also significantly affect mortgage loan margins: Mortgages that are granted in cities have lower interest rates than others that are allocated in rural areas. Margins also vary widely between the seven Swiss regions. The declining mortgage loan margins can be further explained by means of increasing operational efficiency and the mortgage growth strategy of a bank.

# Model Disagreement, Volatility, and Trading Volume

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## Abstract

We study the impact of model disagreement on the dynamics of asset prices, return volatility, and trade in the market. In our continuous-time framework, two investors have homogeneous preferences and equal access to information, but disagree about the length of the business cycle. We show that while the absolute level of volatility is driven primarily by long-run risk, the variation and persistence of volatility (i.e., volatility clustering) is driven by disagreement. Not only can disagreement amplify volatility in the market, but it is also the primary channel through which volatility affects trading volume. Compared to previous studies that consider model uncertainty with a representative agent or those which study heterogeneous beliefs with no model disagreement, our paper helps us to understand the evolution of the persistent, time-varying volatility process that we observe empirically.

# Why Don't You Trade Only Four Days a Year? An Empirical Study into the Abnormal Returns of Quarters First Trading Day

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## Abstract

In this research I have examined a calendar anomaly that occurs at the beginning of each quarter. By calculating daily and annual returns for popular ETFs that cover a big portion of the economy for almost 13 years, I have proven that First Day of the Quarter (FDQ) phenomena exists. By trading only four days a year at the beginning of each quarter, an investor can decrease the risk involved in stocks exposure and gain substantial portion of the yearly return. 69% of overall S&P500 return from the beginning of 2001 till November 2013 was gained in only 52 days of trading. The biggest gainer of the FDQ is the financial sector followed by the technological sector. A yearly examination has revealed that the FDQ performed well during the 2008 financial crises yielding a positive return for all examined ETFs (excluding the XLK) and for the S&P500.

# Effectiveness of Tridiagonal Path Dependent Option Valuation in Weak Derivative Market Environment

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## Abstract

Accurate option price path is needed for risk management and for financial reporting as the accounting standards insist on mark to market value for derivative products. Binary model Black scholes model and Longstaff methods provide insight on option pricing but they are seldom validated with real data. Most of the research studies demonstrate the validity through algebra or by solving partial differential equation with strong market data. As these computations are tedious they are rarely applied in weak and incomplete markets. In this article we test actual values of options of Tata Consultancy Services whose shares and options are actively traded in the national stock exchange of India and applied the Crank Nicholson central difference method in estimating the path of the option pricing with five exercise prices, two out of money, at the money and two in the money contracts of call and put options at three volatilities. The actual option values are compared with the forecasted option values and estimated the errors. The plots of actual option values and the forecasted values produced by central difference method converge excellently well producing minimum sums of squared error. Even in the weak and incomplete markets the Crank Nicholson method works well in producing price path of options. This algorithm will be useful for hedging decisions and also for accurate forecasting and accounting reporting.

# The Politics of Fair Value Reprting and the Governace of teh Standards -Setting Process: Critical Issues and Pitfalls from a European Perpective

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## Abstract

Accounting is not simply a metric; rather it is a calculative practice which shapes the socio-economic environment. Therefore, looking only at the substance of accounting standards is sometimes inadequate. From a European Union perspective, this paper provides a general framework that deals with the potential changes in society produced by financial reporting. More specifically, it discusses fair value reporting from two points of view, which are strictly linked. The first relates to the politics of fair value accounting and its potential impact on the economic and social system, while the second relates to the governance of the standards-setting process. In discussing such issues, this paper suggests that the fundamental principles set out by the Lisbon Treaty should be used to discuss financial reporting policies in the European Union.

# The Value of Being Too Big To Fail

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## Abstract

We analyze the reaction of bank stock returns when regulators officially award them the seal of being 'Too Big To Fail'. By employing an event study analysis, we find that financial market participants react to regulatory announcements which are, in effect, judgments that a certain credit institution is too big to fail. The awarding of the Too-Big-To-Fail seal awakens or confirms expectations of a governmental bailout in case of bankruptcy and, to this end, incorporates an economic value for its holder. However, the stock returns found for the respective banks are not exclusively positive; a phenomenon for which we provide explanations.

# Share Buyback Motives in the US Technology Sector: 2003-2012

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## Abstract

This paper examines the motivations behind open market share repurchases in the US technology sector. Share repurchases have become a regular feature of modern financing decisions, overtaking dividends as the predominant form of cash distribu-tion (Bagwell and Shoren, 1989; Grullon and Michaely, 2002; Dittmar and Dittmar, 2008). The technology sector in particular has seen an increase in the incidence of share repurchases in the last decade compared to the previous decade (Blundell-Wignall and Roulet, 2013). We find strong support for the free cash flow hypothesis (Jensen and Meckling, 1976), limited support for the dividend substitution hypothesis (Grullon and Michaely, 2002) and no support for the signalling hypothesis (Dittmar, 2000). Further analysis shows that rather than signalling higher future growth, the decision to repurchase is more likely a signal that the firm is maturing and that growth prospects are diminishing. Lastly, we find that while capital structure adjustment (Hovakimian et al, 2001) was not a significant motivation in the earlier years of the study, it has become an increasingly common motivation in recent years. Finally, we examine the characteristics of technology firms that repurchase shares and we find that they are likely to be large, cash rich, highly profitable and to carry low debt levels. From this analysis, we conclude that repurchases are used to dis-gorge this excess cash (in some cases in preference to dividends), in order to reduce agency costs. This study contributes to the literature by establishing the characteris-tics of repurchasing firms, by confirming the free cash-flow hypothesis, and by challenging the signalling hypothesis for share repurchase decisions in the technology sector.

# The Optimal Duration of a Rolling Bond Ladder

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## Abstract

The main purpose of this research article is to present an innovative concept for determining the optimal duration of a default-free rolling bond ladder (RBL). To this end, the RBL strategy is first compared to the permanente prolongation of a single bond investment. In contrast to the lump-sum investment, the RBL strategy leads to a fixed income portfolio whose interest rate risk is smoothed over the course of time. Next, a new equation for computing the interest-rate risk of a continuously RBL is introduced. Based on this equation, a procedure for finding the most risk-return efficient duration of a RBL is presented and applied to an institutional investor with a well-defined risk profile. The paper finally concludes with transferring the results to the private investors' problem of selecting the optimal duration of their time deposits.

# Do Mutual Funds Time Investment Styles

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## Abstract

Despite the well-documented evidence showing that, on average, mutual fund managers have no market timing abilities, little is known about their ability to time certain investment styles, such as size, value or momentum. The purpose of this study is to investigate the ability of mutual fund managers to alter their exposure to these style factors and how their asset allocation decisions evolve over time in response to changed economic and market conditions. We develop a GARCH enhanced Markov regime switching timing model in which the volatility index (VIX) is characterised by two regimes (high volatility market regime and low volatility market regime). The model allows the timing coefficients to be state dependent. Our key advance is that we show that single regime style timing models widely used in extant literature are not proficient in measuring timing performance, and results are not reliable in these specific market regimes. We find that, at the aggregate level, mutual fund managers exhibit significant negative market timing and value timing, and such perverse timing is attributable to the performance in low volatility markets, but not in high volatility markets. It appears that institutional aggressive growth and growth fund managers tilt towards large stocks in low-volatility regimes whereas institutional income funds are more contrarian. Our results also indicate that the style timing ability can be misidentified as market timing if the timing model focuses only on market timing skill, which offers an alternative explanation to the puzzling empirical issue of perverse market timing.

# Hedge Fund Tail Risk

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## Abstract

Hedge fund returns have fat tails and high kurtosis, but the severity of this issue compared to mutual funds is still unaddressed in the academic and practitioner literature. This paper examines the hedge fund tail risk in terms of the Value at Risk (VaR) and Expected Shortfall and compares these measures with those of mutual funds. We find that hedge fund tail risk is relatively comparable to that of mutual funds. We also evaluate hedge fund tail risk dependence on the stock market index and VIX index. We find that the VIX is a good indicator of hedge fund Expected Shortfall and that the relation between the two strengthens during market turbulence, displaying the phase-locking effect. ?

# Firm Complexity and Post-Earnings-Announcement Drift

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## Abstract

The paper shows that the post-earnings-announcement drift is stronger for conglomerates, despite conglomerates being larger, more liquid, and more actively researched by investors. We attribute this finding to slower information processing about complex firms and show that the post-earnings-announcement drift is positively related to measures of conglomerate complexity.

## Dynamic Margin Setting with EWMA Volatilities

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## Abstract

The optimal clearing margin levels are crucial for default risk management system of a clearing house. The margin levels must be conservatively high enough to provide financial protection in the default loss event, but not too high to cause market liquidity problem. A static margin setting can result in a margin level which is too high. This paper proposes a dynamic margin setting model and methodology based on value-at-risk with simulated exponentially weighted average (EWMA) volatilities. The EWMA model gives the largest weight to the most recent innovation, which makes the dynamic setting of the margin levels more plausible. Based on the worst-case-scenario approach, the optimal margin levels can be set by choosing the model parameters as their maximum values from across different historical periods. The back test shows that the margin setting model is not sensitive to any chosen sample period. Both optimal margin level and back test can be run on a daily basis.

# Managerial Ownership, Derived Return Measurements, and the Survival Risk of Hedge Funds

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## Abstract

We examine whether managerial ownership affects the survival risk of hedge funds. Our focus on testing endogeneity between managerial ownership and fund survival enhances our understanding of the motivation behind managers' ownership decisions. We also propose a statistical approach that facilitates the derivation of return measurements which are used as predictors for survival. We illustrate our approach using multi-horizon forecasts of hedge fund survival risk. We find managerial ownership has no impact on survival risk and that it is important to adjust for endogeneity. Our results further demonstrate that derived return measurements have a higher predicting power than those of previous research.

# Regulatory Capital Charges for Too-Connected-to-Fail Institutions: A Copula Approach

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## Abstract

We propose two copula-based approaches to support the calculation of regulatory capital concerning systemic risk. We start by presenting a simple model and then we develop a more realistic model. The main advantage of our methods over some traditional approaches is the possibility of capturing potential asymmetric and/or tail dependence across the performance of institutions. We illustrate the application of our more realistic model in the case of the four largest UK financial institutions (in terms of assets) using daily data from 2008 to 2012. Our results reveal that the contagion risk of each trigger institution is virtually the same with respect to any other institution. For instance: the potential impact of the failure of HSBC on the other institutions studied is identical for all of them and this suggests a relatively homogeneous connection across those institutions. So, the main factor that will distinguish the capital requirement concerning a specific counterparty (e.g. capital charged on HSBC and RBS due to losses induced on Barclays) will be the default probability of the charged institution (HSBC and RBS in this example). Our results also show that the systemic importance of the institutions considered (from the highest to the lowest) is: RBS, Lloyds, Barclays, and HSBC.

# Hurst exponent as a risk measurement on the capital market.

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## Abstract

There are many methods, which can be used to analyse risk on the capital market. This paper describes several approaches to risk analysis and then attempts to create a risk prediction model. In the conclusion one can see that it's possible to minimize the investment risk by using the VaR method and the Hurst exponent.

# The Determinants of Investment Flows: Retail versus Institutional Mutual Funds

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## Abstract

This paper compares the fund selection criteria used by investors in retail mutual funds with the criteria of investors in institutional mutual funds. We find that, compared with investors of retail mutual funds, clients of institutional mutual funds use more quantitatively sophisticated criteria such as risk-adjusted return measures and tracking error, demonstrate stronger momentum-driven and herding behaviors, and are less sensitive to fund expense ratio. In addition, we provide evidence that the previously-documented convex form of the flow-performance relationship is driven mostly by retail funds. Finally, we find that flow patterns of both fund types vary across the business cycle.

# Multi-Criteria Decision Making for Choosing Socially Responsible Investment within a Behavioral Portfolio Theory Framework

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## Abstract

This work tackles two emerging streams in the financial literature: the behavioral portfolio theory with mental accounting (BPT-MA) and the socially responsible investing (SRI). We try to support the class of investors that select their investments under a BPT-MA framework and also they want that a share of their investments are allocated in financial instruments classified as socially responsible. In order to reconcile the two choice frames, avoiding unnecessary sacrifices in financial performance, we have designed a model based on goal programming (GP) that integrates the two cornerstones of the investor. Furthermore, we propose a fuzzy inference system (FIS) to determine the amounts of money allocated to each mental account. This tool is based on expert knowledge modeled by fuzzy if-then rules.

# Diversification and Financial Stability

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## Abstract

This paper provides new insights into the controversial relationship between the individual and social dimensions of risk diversification. We model a system of leveraged banks with tightly interlocked balance sheets and exposures to external real-economy-related assets with stochastic cash flow dynamics. The benefits of risk diversification in external assets are measured in terms of expected utility. From the perspective of an individual bank, there is an optimal intermediate level of risk diversification. Nevertheless, individual incentives favour a banking system that is over-diversified with respect to the optimal level of socially desirable diversification.

# Convenience Yields in Electricity Prices: Evidence from the Natural Gas and Coal Markets

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## Abstract

This study develops a model in which electricity prices reflect the convenience yield embodied in the prices of the fuel used to produce it. Prior studies do not account for the potential impact of the fuel inventory n the electricity futures prices. Using the implications of the theory of storage in the pricing of electricity futures contracts, we treat the fuel's convenience yield as a proxy for the fuel's level of inventory. It is argued that changes in the electricity basis can be explained by the changes in the storage level of fossil fuels. The model is been tested with data from the US electricity, natural gas and coal markets in the period 2003-2009. We find that the electricity basis is negatively related to the fuel's convenience yield in line to the model's predictions. The overall results are supportive of our hypothesis that electricity prices reflect the convenience yield embodied in the natural gas and coal fuel prices.

## Can Bankruptcy Codes Create Value?

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## Abstract

This paper provides evidence on the value creation of bankruptcy procedures that belong to different legal systems (French civil law, German civil law, and British common law). Using a sample of 900 hand-collected corporate bankruptcy files, we find that France and Germany show quite similar overall recovery rates that are greater than in the United Kingdom. However, when controlling for the quality of assets and for the structure of claims, we observe that recovery rates are not significantly different between France and the United Kingdom, while they remain greater in Germany. We show that there are significant differences in terms of recoveries between procedures within countries. Finally, we observe that the recovery rates of the different classes of claimants also significantly differ across countries and procedures. These results show that bankruptcy codes are not equivalent in the way they manage and realize the debtor's assets and protect the various claimants.

# Microfinance and SHGs Growth in India, a Critical Analysis of Region Wise Distribution

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## Abstract

Abstract Microfinance across the globe has made a significant progress as present around 5 billion dollars have been distributed to more 100 million households and impact on poverty alleviation is significant. In India where more than 70% population are living in rural areas and more than 450 people are still unbankable. In India poverty alleviation initiate took a serious turn after NABARD launched a pilot study on 500 SHG for poverty alleviation purpose, since than microfinance distribution and SHGs creation has taken an incredible development in India. But apart from this growth which is benefiting hundreds and thousands of penurious people, the penetration of microfinance and SHGs growth in the country is not equally poised in the regions of the country. In this paper an attempt has made to see the microfinance growth and development in the country and its distribution in various regions.

# Credit Expansion and the Economy: Sorting Out the Effects

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## Abstract

The empirical literature has associated credit expansion with two largely contrasting effects on the economy. On the one hand, more credit to the private sector is associated with faster growth in what is known as the finance and growth literature. On the other hand, fast credit growth is a good predictor of financial crises, with their negative consequences on growth. This paper advances an explanation for these results by considering credit not as a homogeneous flow but as the sum of two distinct components: credit to firms and credit to households. Our empirical analysis shows that credit to firms is strongly associated with growth and only mildly related to crises, while credit to households is not associated with growth and strongly related to crises. Thus, there is no contradiction between these effects. Furthermore, the events of the last decade, where fast credit expansion led to crises and very little growth, can be understood as a shift in the composition of credit towards its household component.

# Tax Neutrality, Clientele Effects, and the Yield Curve

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## Abstract

A tax code is yield-neutral if the pretax ordering of yields is the same as the after-tax ordering for all tax brackets. This paper determines the conditions under which a hypothetical tax code is neutral with respect to bond yields. We show that if a bond is purchased on the ex coupon date, a tax code is yield neutral if interest income is fully taxed and capital gains are taxed in accordance with the economic accrual method. For bonds purchased between payment dates, we determine the method of taxation for accrued interest under which a tax code is yield neutral. We conclude that a tax code would be roughly yield neutral if all bonds, including market discount bonds, were taxed under the economic accrual method and the accrued interest were based on the market yield when the bond is purchased, rather than the coupon rate.

# Revisiting the Bid-Ask: An Econometric Analysis in the Chilean Capital Market

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## Abstract

The purpose of this paper is to show that different methods for calculating the spread (Bid-Ask) and the methods for annualizing the intraday data affect the results of econometrics models. To achieve our goal we analyze different econometric models in the context of: i) the International Financial Reporting Standards (IFRS) adoption, ii) the reduction of information asymmetry due to new corporate governance standards, and iii) the ownership concentration that characterize the Chilean Capital Market. We test the quality of the information delivered to the market using two information disclosure indices (DIS and Botosan). We find that the definition of spread and the methods for annualizing intraday data it is a key decision and may affect the statistical significance of the variables of a specific model.

## A High Frequency Assessment of the ECB Securities Market Programme

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## Abstract

Policy impact studies often su er from endogeneity problems. Consider the case of the ECB Securities Markets Programme: If eurosystem interventions were triggered by sudden and strong price deteriorations, looking at daily price changes may bias downwards the correlation between yields and the amounts of bonds purchased. Simple regression of daily changes in yields on quantities often give insignificant or even positive coefficients and therefore suggest that SMP interventions have been ineffective, or worse counterproductive. We use high frequency data on purchases of the ECB Securities Markets Programme and sovereign bond quotes to address the endogeneity issues. We propose an econometric model that considers, simultaneously, first and second conditional moments of market price returns at daily and intradaily frequency. We find that SMP interventions succeeded in reducing yields and volatility of government bond segments of the countries under the programme. Finally, the new econometric model we introduce is of general interest.

# Dissecting the 2007-2009 Real Estate Market Bust: Systematic Pricing Correction or Just a Housing Fad?

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## Abstract

We use Bayesian methods to estimate a multi-factor linear asset pricing model characterized by structural instability in factor loadings, idiosyncratic variances, and factor risk premia. We use such a framework to investigate the key differences in the pricing mechanism that applies to residential vs. non-residential (such as office space, industrial buildings, retail property) real estate investment trusts (REITs). Under the assumption that the subprime crisis has had its epicentre in the housing/residential sector, we interpret any differential dynamics as indicative of the propagation mechanism of the crisis towards business-oriented segments of the US real estate market. We find important differences in the structure as well as the dynamic evolution of risk factor exposures across residential vs. non-residential REITs. An analysis of cross-sectional mispricings reveals that only retail, residential, and mortgage-specialized REITs were over-priced over the initial part of our sample, i.e., 1999-2006. Moreover, residential-driven real estate has structural properties that make it different from non-residential assets.

# Covenants and Collateral in Japanese Corporate Straight Bonds: Choice and Yield Spread

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## Abstract

How a firm chooses a set of covenants and of collateral to pledge when issuing straight bonds publicly in Japan? Covenants and collateral are contract clauses intended to protect rights of the bondholders. If the protection is priced in the issue, why do firms try to put them all in the issue? Taking it into account that we only observe an endogenously chosen covenants-collateral type for an issue, we estimate a relation between issue prices (yield spreads) and credit risk factors and other firm/issue characteristic variables. We obtained a distinct relationship for each covenants-collateral type %. We conduct from two-step estimations of a Heckman type. In the first step we estimate multinomial logit models of covenants-collateral choice, and found supports for the physical cost hypothesis, the hysteresis hypothesis, and signaling hypothesis. Most notably, however, we found that strategic default concerns involve direct costs in the choice, not through indirect effects on the yield spread.

# Banking Union Optimal Design under Moral Hazard

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## Abstract

This paper studies the optimality of a banking union in a setting with cross-country liquidity spillovers and moral hazard. Generally, the banking union improves welfare by efficiently providing liquidity to banks, thus limiting spillovers from bank defaults across the member countries. At the same time, however, the banking union will resort to bank bailouts more often, distorting risk incentives of banks. For low bank liquidation costs, the net welfare effect of a banking union can be thus negative. For welfare enhancing banking unions, countries with net creditor banking systems always pay most of the joint bailout costs. In equilibrium, all countries are less willing to join a banking union which induces moral hazard.

# Insights on the Global Macro-Finance Interface: Structural Sources of Risk Factors Fluctuations and the Cross-section of Expected Stock Returns

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## Abstract

This study contributes to the investigation of the macro-finance interface by assessing the economic content and risk based interpretation of widely employed risk factors in the specification of empirical asset pricing models, i.e., Fama-French size and value, and Carhart momentum factors, as well as the more recent Pastor-Stambaugh liquidity and Adrian-Etula-Muir leverage factors. Strong support for their risk based interpretation, encompassing evidence on causes, persistence and direction of the size, value and momentum effects, and new insights on the specification of systematic risk, are provided.

# Does Corporate Governance With the Shareholders in Control Make a Difference?

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## Abstract

The Swedish corporate governance model differs from most others in that it makes the owners the company's ultimate decision-making authority. The Nominating Committee is chosen by the Annual Shareholders Meeting and typically has four members representing the company's major owners and often one member representing small investors, with the chosen slate of board candidates then voted on by the shareholders. This is in sharp contrast to the situation in the United States, where the Nominating Committee is typically chosen by the current board. The ramifications of this difference are profound, in areas ranging from board and executive compensation, the extent of M&A activity, the opportunity sets available to corporate raiders and for private equity and management buyouts, to the frequency of corporate scandals. Investment in human capital is viewed as a self-evident good since it provides a dual benefit to the corporation. A case can therefore be made that corporate boards could achieve very large benefits and efficiencies by backing two single-payer, independent, and not-for-profit systems, one for tuition-free education and another for universal health insurance, financed by the investment of relatively small but uniform percentages of revenues; (in health care, the elimination of rents and inefficiencies could reduce the proportion of GDP spent on health care in the US from over 17 % at present to near the 10% average for the OECD… and with improved outcomes from its present sub-par performance). In return, the corporate income tax could be eliminated, releasing huge resources to much more productive uses. In view of the rather dismal performance of the firms performing auditing, the paper proposes that the board would be better served if a single, highly professional, not-for-profit corporation, empowered to conduct surprise examinations, took their place. Shareholder-centric boards would also be sensitive to company-generated externalities such as emissions, other pollutants, and obesity, open to having them audited, and willing to back corrective actions.

## Family Involvement and Dividend Policy in Closely-Held Firms

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### Abstract

This paper examines how family involvement affects the amount and likelihood of dividend payment in ways that may influence agency problems between majority and minority shareholders, and between owners and managers. Drawing on a database of 458 closely-held Colombian companies, we find that family influence on dividend policy varies depending on type of involvement: Family involvement in management has little or no impact on dividend policy; family involvement through direct or indirect ownership impacts dividend policy negatively; and family involvement on the board affects dividend policy positively, even when the CEO is a member of the founding family

## Is No News Good News?

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## Abstract

We investigate media influence on stock return that are revised by sell-side analysts. Our main findings are twofold. First, post-announcement returns depend on whether the stock is covered by the media. Media-covered stocks demonstrate weaker post-announcement returns than their non–media-covered counterparts. Second, for media covered event samples, we create a sentiment proxy using a unique news word count method and investigate whether pre-event sentiment affects post-event returns. Our results indicate that pre-event sentiment indicate the short run investor behavior and affect the post-announcement return in a significant manner.

# Market Timing and Operating Performance in an Emerging Market: Evidence from Indian IPOs

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## Abstract

The purpose of this paper is to investigate the market timing behaviour of issuers of Indian Initial Public Offerings (IPOs). The declining trend in variables reflecting investor's sentiments and expectation in post IPO period suggested that firms took advantage of over-optimism of investors. The deterioration in post IPO performance suggested that issuer took benefit of pre IPO profit margin. In order to confirm whether IPOs were timed or not a new variable HOT was constructed which basically referred to favourable market condition for the issuers. The result based on multivariate regression suggested that Market timers, identified as firms that go public when the market is hot, tried to maximize the total proceeds at the time of IPO proving that IPOs were timed. The hot issue market effect was found to be remarkably robust; it was significant for both firm and industry-level characteristics.

# Relative Risk Aversion with Loss Aversion

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## Abstract

This paper introduces loss aversion to the context of state dependent recursive preferences in a Mehra-Prescott environment. Investigating selected developed countries, the representative agent’s relative risk aversion is within what most economists consider as acceptable limits. But the stochastic discount factor calibration does not match its implied values.

# Does Foreign Ownership Increase Firms' Productivity? Evidence from Firms Listed on Amman Stock Exchange

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## Abstract

The purpose of this study is to investigate the impact of foreign ownership on the production efficiency of firms listed on ASE using hand-collected, firm-level data. Arab countries have been performing poorly in attracting FDI inflows in comparison to other developing countries, and hence, they may be missing out on growth and development opportunities. Jordan, however, has been one of the most successful Arab countries in attracting FDI inflows relative to its economic size. Therefore, Jordan offers an ideal setting to examine the benefits of foreign ownership in the region. However, this study fails to find evidence supporting the notion that foreign ownership enhances production efficiency. This finding calls into question the economic viability of financial incentives designed to attract foreign investors.

# News Flow, Web Attention and Extreme Returns in the European Financial Crisis

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## Abstract

We examine the existence of stock market contagion effects among three groups of countries: the Euro-periphery countries (Portugal, Ireland, Italy, Greece, Spain), the Euro-core countries (Germany, France, the Netherlands, Finland, Belgium), and the major European Union - but not euro-countries (Sweden, UK, Poland, Czech Republic, Denmark). Using daily stock market data from January 2004 till March 2013, contagion effects for the tails of the marginal distributions are present for the Pre-crisis and the Euro-crisis periods within the Euro-periphery countries and from the Euro-periphery group to the Non-Euro and the Euro-core groups. We do not find a significant change in the contagion transmission mechanism when comparing the two periods, but for the Euro-crisis periods the extreme returns have a higher magnitude. Finally, we propose a connection between extreme stock market returns, the Web Attention index and two News Flow factors. The Euro-periphery Web Attention and News Flow variables significantly affect the probabilities of extreme bottom returns for the Euro-periphery, the Non-euro and the Euro-core groups. The effect is asymmetric in most of the cases since the Euro-periphery Web Attention and News Flow factors do not affect the probabilities of extreme top returns, with a few exceptions. More Web Attention and more bad news for the Euro-periphery in times of crisis are associated with higher probabilities of extreme bottom returns within and across groups. Granger-causality tests show that the News Pessimism and the News Relevance factors exhibit a two-way causality with the stock market movements while the Web Search Volume Index (SVI) one-way Granger-causes stock markets and extreme bottom returns in the three country groups.

# The Investor Sentiment Effect on Share Returns and the Ownership of Public Firms

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## Abstract

The purpose of this paper is to examine the effect of investor sentiment on share returns, exploring whether this effect is different for public family and non-family firms. We use the European Economic Sentiment Indicator data, from Directorate General for Economic and Financial Affairs (DG ECFIN) as a proxy for investor sentiment and focus on the share returns of family and non-family firms, using panel data methodology. Using data from listed family and non-family firms for the period between 1999 and 2011, the results indicate that there is no relationship between sentiment and share return, which is in accordance with standard finance theory which predicts that share prices reflect the discounted value of expected cash-flows and that irrationalities among investors are removed by arbitrageurs. In addition, we find no difference between family and no-family firms in what concerns the effect of sentiment on share returns. Finally, the evidence suggests that large firms and dividend paying firms are most affected by sentiment.

# The Resonse of the Weighted Average Time to Maturity of Government Bond Issues to Changes in the Financial/Economic Environment

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## Abstract

This paper describes and analyzes the response of the weighted average time to maturity of government bond issues to changes in financial and economic variables, in light of the financial and European debt crises, using a new database of 12,000 OECD government bonds issues in 2004–12. It shows that debt issuance patterns changed during the crises, shifting from issuing shorter debt for immediate cost minimization before the global financial crisis towards longer debt during the financial and European crises. Using panel-data regressions, I find evidence of short-term time to maturity response to yield curve parameters, issuance quantity response to crises and issuance quantity persistence.

# The Euro Area Sovereign Debt Crisis: Identifying Flight-to-Liquidity and the Spillover Mechanisms

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## Abstract

Looking at the daily period between January 2006 and December 2012, besides the traditional credit and liquidity risks, which explain the developments of sovereign yields relative to the Bund for Greece, Ireland, Portugal, Spain and Italy, two additional factors have played a key role in the developments of euro area sovereign yield spreads: flight to liquidity benefiting the German Bund and the spillover effect from Greece. The flight to liquidity premium, which is estimated constructing the spread between a German state guaranteed agency bond and the Bund, is behind the pricing of all euro area spreads and, specifically, is the only factor explaining the sovereign spreads for Finland and the Netherlands. The spillover effect from Greece, which is identified using complementary approaches, has contributed to developments in spreads of countries with weaker fiscal fundamentals, a lower degree of competitiveness and a higher need of foreign financing. However, a large fraction of the spillover across countries remains unexplained.

# Does Short Selling Improve the Evolutionary Fitness of Investment Strategies?

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## Abstract

This paper introduces and analyzes short sales in the Evolutionary Finance model by Evstigneev, Hens and Schenk-Hoppe (2011). The focus is on the question whether short selling may improve the evolutionary fitness, or equivalently, long-term relative wealth dynamics of different investment strategies. The introduction of short sales is made by the means of splitting the market into physical and derivatives components, and adding brokerage into the model, what allows to overcome usual inconsistencies the classical economics faces while modelling short selling. The consistent wealth dynamics is derived analytically, and asymptotic properties of investment strategies are tested via numerical simulations. The paper finds that no strategy which uses short selling survives in the long run. It also shows that the outstanding strategy from Evstigneev, Hens and Schenk-Hoppe (2011), which invests according to relative expected dividends, is still a survival, however no more a stable strategy.

# South African Sector Return Correlations: using DCC and ADCC Multivariate GARCH techniques to uncover the underlying dynamics

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## Abstract

It is well known that portfolio risk depends not only on the risk of its individual securities in isolation, but crucially also on the correlation between the included assets' returns. This paper explores the dynamics of return co-movements between the largest economic sectors in South Africa, with a view to shed light on the inter-sector diversification potential of domestic investors over time. The Dynamic Conditional Correlation (DCC) and Asymmetric-DCC Multivariate Generalized Autoregressive Conditional Heteroskedasticity (MV-GARCH) techniques are used to isolate the conditional correlations, while differenced and level equations of these series are then used to study the dynamics of sector return correlations.

# Corporate Governance and Earnings Quality: International Evidence

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## Abstract

We examine the relation between corporate governance and earnings quality in a sample of firms in 35 countries. We find a negative relation between the quality of corporate governance and an earnings quality measure based on several attributes. This relation is more pronounced in developed countries, in countries with strong investor protection, and for cross-listed firms. The evidence suggests a substitute relation between corporate governance and earnings quality. Our findings are consistent with the view that poor accounting information may force firms to adopt costly corporate governance and monitoring mechanisms.

# The Net Stable Funding Ratio and Banks' Participation in Monetary Policy Operations: Some Evidence for the Euro Area

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## Abstract

In spite of a not-so-near implementation date, the NSFR might already be an important decision variable for euro area banks. As part of a convergence process towards the 100 per cent threshold, we estimate that the ECB’s LTROs have raised the available stable funding by over €400 billion for the sample banks with a shortfall and that the NSFR may affect loans to the economy. When evaluating non-standard monetary policy measures, central banks should also take into account their impact on the phasing-in of the NSFR and the possible cliff effects related to their expiration.

# Politically Connected Firms in Poland and Their access to Bank Financing

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## Abstract

The aim of the study is to characterise politically connected firms and their access to bank financing in a context of a post-communist country. Central European post-transitional countries differ from other emerging economies or developed countries owing to their historical, cultural and institutional specificity. Using a new, hand-collected dataset, we establish that despite the comparable shares of politically connected firms between Poland and other emerging economies, the relationship between political connections and access to long-term bank loans is weaker in Poland than in other emerging economies. The most probable explanation for this result is related to the instability of the political scene in Poland. We find that only political connections with certain traits, for example recent connections, positively influenced access to bank financing during the entire sample period from 2001 to 2011. Moreover, we obtain some evidence that the value of political connections was conditional upon Poland's macroeconomic situation and increased during the crisis period from 2007 onward. This finding suggests that the impact of the crisis was stronger than the impact of institutional changes related to Poland's EU accession in 2004 that were designed, among other purposes, to limit the role of political factors in the economy.

## Spatial Dependence and Data-Driven Networks of International Banks

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### Abstract

This paper computes data-driven correlation networks based on bank stock returns of international banks and conducts a comprehensive analysis of their topological properties. We first apply spatial dependence methods to filter the effects of strong common factors and a thresholding procedure to select the significant bilateral correlations. The analysis of topological characteristics of the resulting correlation networks shows many common features that have been documented in the recent literature but were obtained with private information on banks' exposures. Our analysis validates these market-based adjacency matrices as inputs for spatio-temporal analysis of shocks in the banking system.

# Does Mood Impact on Acquirers' Announcement Abnormal Returns?

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## Abstract

We argue that mood influences investors' perceptions of potential merger synergies and risks, thus significantly affecting acquirer announcement abnormal returns. We proxy daily mood based on Facebook's status updates across nineteen markets and show that there is a significant positive relation between mood and bidder announcement stock market reaction. We find that bids announced during periods of good mood generate significantly higher announcement returns than those announced during bad mood periods. This relationship is more pronounced in acquisitions with a low percentage of strategic blockholder ownership, acquisitions of public targets, and acquisitions of large targets relative to the size of the bidders. Overall, these results support behavioral extensions of neoclassical theory.

# Soft-Touch Claims, Absolute Priority and Efficiency

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## Abstract

Most of the literature on deviation from absolute priority has presented these deviations as the logical outcome of a bargaining process. In addition, it is often assumed that unsecured creditors represent an homogeneous class of creditors when part of these creditors, called "soft-touch", are not only unable to adjust their loan contract but are also slower in enforcing their claims. This paper proposes a theoretical framework which examines the incentives of managers to use "soft-touch" claims as a rational strategy to buy time prior to filing for reorganization and extract rent from creditors. We show that the strict application of APR reduces these incentives and deter inefficient behavior by financial distressed firms.

## Technical Analysis and the Real Economy

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## Abstract

This paper demonstrates that a significant link exists between the real economy and financial conditions proxied by technical indicators. We show that technical indicators distill the high frequency information of asset prices into useful signals of future economic activity. In-sample and out-of-sample results reveal that technical indicators forecast co- incident indicators as well as the Conference Board's leading economic index and most of its components. Granger Causality tests support one-way causation from technical indicators to both coincident and leading economic indicators. Technical indicators further forecast financial stress, uncertainty, and recessions. Moreover, combining information from technical indicators and combination forecast methods lead to substantial gains in forecasting GDP including out-of-sample R2 statistics of 28% over the last 30 years and 42% during recessions. We show that technical indicators 'work' because they jointly forecasts both economic conditions and stock returns.

# Measuring Marginal q

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## Abstract

Using asset prices I estimate the marginal value of capital under general assumptions about technology and preferences. The state-space measure of marginal q relies on the joint measurability of the value function, i.e. fi?rm market value, and its underlying fi?rm state variables. Unlike existing methodologies, the state-space measure of marginal q requires only very few general restrictions on the stochastic discount factor and the fi?rm investment technology, and it uses only market values maximally correlated with the underlying state variables implied by the model. Consistently with a large class of neoclassical investment models, I construct the state-space marginal q using the ?firm capital stock and profi?tability shocks. I show how this new measure of real investment opportunities increases the correlation with investment and provides more plausible and robust estimates of capital adjustment costs.

## Macroeconomic Drivers of Crude Oil Risk Premia

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## Abstract

We derive an affine term structure model to assess how macroeconomic risks drive risk premia on short and long-term crude oil futures. New to the literature, we construct the term structure of convenience yields to obtain insight into the theory of storage. While the short-term convenience yield is related to contemporaneous crude oil scarcity, the slope of the curve re?ects anticipated changes in the availability of future physical oil. Macroeconomic risks are unspanned by both the risk free and convenience yield term structures. Both the unspanned macroeconomic risks and the slope of the convenience yield curve are important drivers of the oil futures risk premia.

# Information Effect of Delisting and Informed Trading

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## Abstract

This paper analyzes the information effect of involuntary delisting and the possibility of informed trading in the Korean stock market. We find that stock prices fall by 70-80% due to involuntary delisting in the Korean market, where liquidity all but disappears as a result of delisting unlike the U.S. market, where delisted stocks continue to be traded in the over-the-counter market. Prior to delisting, however, individual investors are net buyers of delisted firms while both institutional and foreign investors are net sellers. In addition, the share ownership of large shareholders, on average, declines by 25%-35% over the course of two years prior to involuntary delisting. Finally, we find evidence that rather than correctly anticipating the delisting of the firms, institutional and foreign investors have sold their shares defensively in fear of the possibility of further fall in stock prices whereas large shareholders reduce their share ownership in anticipation of delisting. In conclusion, the huge loss from involuntary delisting is primarily concentrated on individual investors suggesting that in the emerging markets delisting does not function well as a mechanism to secure investor protection.

# Does the Seasonal Affective Disorder influence IPO Underpricing?

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## Abstract

We examine the effect of seasonal affective disorder (SAD) on IPO underpricing. The effect of SAD on participants in the IPO issuance process is analysed using four IPO theoretical models. In these models, underpricing is an outcome of information asymmetry of some form. Based upon the implications of theory, we develop testable hypotheses. Using a sample of 4770 US IPOs from 1985 through to 2007, we test our hypotheses and find no evidence that SAD affects IPO underpricing for the average firm. However, we find weak evidence that, with lower public exposure (information), SAD reduces IPO underpricing, the degree of the reduction being higher the lower the public exposure.

# Patience and Impatience of Traders: Formation of the Value-At- Price Distribution as Competition for Liquidity

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## Abstract

The simplest behavioral effect in market microstructure is the distinction between patient and impatient traders. Yet, to quantify this effect of micro-liquidity one has to resort to a consistent theory of formation of the execution price from the market expectations and quotes. This theory was provided in 2005 by Foucault, Kadan and Kandel. I derive an asymptotic distribution of the bids/offers as a function of the ratio of the patient and impatient traders using my modification of the Foucault, Kadan and Kandel dynamic Limit Order Book (LOB) model. My modification of the LOB model allows stylized but sufficiently realistic representation of the trading markets. In particular, dynamic LOB allows simulation of the distribution of execution times and spreads from high-frequency quotes. Significant analytic progress is made towards future empirical study of trading as competition for immediacy of execution between traders. The results are qualitatively compared with empirical volume-at-price distribution of highly liquid stocks.

# Co-Integration & Error Corretions Models in Estimations Causality Between Finance & Growth in India

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## Abstract

The paper attempts to test empirically the hypothesis of Finance – led growth in India. For this it traces the relationship between growth rate of GDP and the M3/GDP ratio, well researched indicator of Financial Deepening for the period of 39 years (i.e, 1971-2010) with the help of recently developed time-series techniques (i.e, Unit roots, Johansen's Co-integration test and VECM led causality). Unit roots were checked in the data with the help of ADF test and Phillips Perron Process. Two variables of interest i.e. GDP growth rate and M3/GDP are integrated at first difference level and significant at 5% level. Co-integration results obtained with the help of co –integration technique developed by Johansen and Juselius (1991) confirm one co-integrating vector which tells about long term equilibrium in the data. When normalized. 1% increase in the level of M3/GDP causes growth rate to rise by 0.54%. Then VECM is estimated. The coefficient of ECT which measures the speed of adjustment is found significant and sign is consistent and negative. The ECT is found to be (-0.6766) which implies 68% of the error is corrected within one year. The value of this parameter is high and indicates high speed of adjustment and sign is also consistent with the theory. The significance of ECT implies the presence of causal relations from independent variables to the dependent variable even in the case when the lagged independent variables are individually insignificant. Our results support the view that finance is a leading sector in the process of Economic development. We find considerable evidence of unidirectional (i.e. causality runs from finance to growth) in India. In other words, Indian financial system follows "Supply Leading Hypothesis." The policy of increasing the level of Financial Deepening will serve as major determinant to the growth rate in India.

# Intellectual Capital and Bank Performance in European Union: An Integrated CAMEL Indices and DEA approach

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## Abstract

This study focuses primarily on the causes of the differences in a bank's performance among the 26 EU countries with an eye toward drawing more general conclusions about the connections between the level of efficiency and IC performance, since the issue of Intellectual Capital (IC) has grown exponentially in the last decade. While CAMEL (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity) is currently the method most often used to evaluate a bank's performance, the study demonstrates the application of Data Envelopment Analysis (DEA) in conjunction with five perspectives of CAMEL to evaluate performance efficiency value. In addition, a modified tiered DEA is utilized to establish the bank rating mechanism to help investors avoid investment risk. Finally, truncated-regression is employed to discuss whether or not IC would affect the performance of banks. The findings indicate that IC has a vast impact on the operating performance of banks. The potential applications and strengths of DEA in assessing the European Union (EU) banking industry are highlighted.

# Voluntary Dual Class Share Unifications - A Mixed Bag of Governance Improvements and shareholder expropriation

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## Abstract

We study 105 voluntary dual class share unifications in Europe during 1996-2009, and uncover a mixed tale of governance improvements and shareholder expropriation. Corporate governance improvement is attained by abolishing the wedge between ownership and voting rights and by significantly decreasing controlling shareholders' voting power. Shareholder expropriation occurs when some controlling shareholders exploit the unification hype to sell part or all of their holdings at inflated prices. On average, the corporate governance positive valuation effects prevail, and voluntary unifications are accompanied by an economically appealing increase of Q.

# Risk Aversion and Monetary Policy in a Global Context

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## Abstract

In this article, we analyze the relationship between the direction of Eurozone monetary policy and the implicit risk aversion of the European Stock market. For this purpose, we initially used the model used by Bekaert et al. (JME, 2013) for the U.S. market. We later broadened the model to also incorporate the monetary policy of the U.S. Federal Reserve. The methodology used throughout the analysis is that of structural vector autoregression (SVAR). The results corroborate those found in the U.S. by the authors cited above and also show that disregarding U.S. monetary policy, the model proposed for the Eurozone could lead to erroneous conclusions.

# Exchange Rates Responses to Macroeconomic Surprises: Evidence from the Asia-Pacific Markets

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## Abstract

This paper reports new findings from Asia-Pacific economies on macroeconomic shocks from exchange rate revisions. Regional macroeconomic shocks are as important as the U.S. macroeconomic shocks that affect exchange rate returns. All Asia-Pacific currencies with the exception of Thai Bhat react significantly to local macroeconomic shocks. Australian dollar is identified as the most elastic currency responding to macroeconomic shocks, and is more responsive than the yen. Interest-rate related shocks are generally the most influential events. We provide a ranking list on the relative impact sensitivity of macroeconomic shocks. The announcement effect of the U.S. open market actions via Fed Rate revisions is recognised as the most significant event among the 107 macroeconomic announcements examined.

# Ownership Structure and Investors´S Sentiments for Dividends

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## Abstract

This paper is built upon the predictions of the catering theory of dividends and examines the interaction effect between catering incentives and corporate ownership structure in a behavioral context with catering effect. We intend to evaluate how the ownership structure affects the disposition of companies in Eurozone countries to adjust their payouts to the investors' sentiments. To achieve this aim, we propose a dividend model that incorporates a variable at a firm-level proxying for the catering effect. The results from the estimation of the model by using the GMM provide interesting results. Our findings of the empirical analysis reveal an interaction effect between catering and ownership variables, particularly the level of managerial ownership and the interaction between the first and second largest shareholders, taking into account whether there is collusion or contestability between them.

# Institutional Investment Horizon, the Information Environment and Firm Credit Risk

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## Abstract

We provide evidence that the impact of the investment horizon of institutional investors on industrial firms' credit risk level is both statistically significant and economically sizable. Specifically, we find that during the sample period of 2001-2011, higher institutional ownership is negatively related to five-year CDS spreads. This result is primarily driven by short-term institutional investors. Trading by short-term institutional investors also reduces firm's credit spread, implying that firm's creditors benefit from the improved information environment created by short-term institutions. On the other hand, long-term institutional ownership is positively related to firm's credit risk. Concentrated ownership of both types of institutional investors increases firm's risk level, consistent with conflicts of interest between shareholders and bondholders. However, during the financial crisis period from 2007 to 2008, higher ownership by long-term institutional investors is associated with lower credit risk . Hence, long-term institutions play an important role in enhancing financial stability during the crisis period by mitigating risk. These results are robust to estimation with endogenous institutional ownership.

# R2 and the Benefits of Multiple-Fund Portfolios

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## Abstract

Recent research shows superior performance of equity funds which differ the most from their benchmarks. However, existing studies have not examined important questions about risk, such as the impact of holding a portfolio of low R2 funds on the reduction in portfolio risk achieved through diversifying across funds. Our study provides some answers. Using a variety of risk metrics, we evaluate the benefits of diversification among both monthly and annually reconstituted portfolios, where funds are sorted into portfolios based on their quintile rank of R2. We find that the benefits of diversification are most pronounced within a portfolio of low R2 funds and that the benefits are increasing in the length of the reconstitution period.

# Competition and Efficiency in the Banking Sector. The Case of Macedonia

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## Abstract

The research shows an empirical analysis of bank efficiency in Macedonia. This analysis is made through different than the standard perspective, using Data Envelopment Approach (DEA), which allows to compare the effectiveness of individual banks and after they are grouped in appropriate criteria. Key points of the issues are shaping the theoretical and empirical analysis criteria, the classification of banks as well as tracking their results. The results suggest that a positive trend of efficiency development of the Macedonian banks is in place, in which significant role play the increasing competition and the penetration of foreign players on the local market.

# Volatility Spillovers between Spot and Futures Markets - Investigating China's First Stock Index Futures

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## Abstract

This paper examines whether the introduction of Chinese stock index futures had an impact on the volatility of the underlying spot market. To this end, we estimate a variety of Generalized Auto-Regressive Conditional Heteroscedasticity (GARCH) models. To shed light on the somewhat difficult structure of Chinese stock markets, we devote considerable attention to the institutional setting in the futures market and compare our findings for mainland China with Chinese stock index futures that are traded in Singapore and Hong Kong. Our findings indicate that index futures decrease volatility in the respective spot markets. In spite of the fact that China's stock market is a relatively young market largely dominated by private retail investors, our evidence is favorable to the stabilization hypothesis usually confirmed in mature markets.

# Global Portfolio Management Under State Dependent Multiple Risk Premia

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## Abstract

In this paper we assess the benefits from international factor diversification under a regime based portfolio construction framework that takes into account the dynamic changes in stock markets. We show that there are significant costs to investors who fail to (a) pursue an international diversification strategy using sources of return other than the market premium and (b) take into account the existence of regimes in portfolio construction and asset allocation. Short sale and tracking error constraints reduce but do not eliminate the gains from a dynamic global factor portfolio. Implementation through commercially available, investable factor indices to provide efficient and low cost building blocks to construct a dynamic diversified factor portfolio preserves most of the benefits from state dependent portfolio construction.

## Spanning with Indexes

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## Abstract

This paper presents several approximation theorems of a general contingent claim in terms of index options. We demonstrate that any contingent claim on the primitive securities in an infinite state economy can be approximated arbitrarily close by a portfolio of index options. In addition, these index options are associated with the same payout function, which belongs to a large and explicit class of one-variable measurable functions. We also characterize the layer structure of a general contingent claim.

# The Coupled Effect of PE/VC Ownership Retention and Cash Reserves on the Long-Run Aftermarket Performance

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## Abstract

The paper examines the link between PE/VC syndicate ownership retention and backed IPOs' cash reserves post-flotation, as well as the monitoring of excess cash conducted by financial sponsors and its impact on the aftermarket performance. The results suggest that backed IPOs with higher ownership concentration maintain significantly higher cash ratios post-flotation. I find that cash reserves of PE-backed IPOs are driven by precautionary motive, while cash holdings of VC-backed IPOs are determined by both precautionary and monitoring motives. This paper contributes to the existing literature by documenting that PE investors' continued ownership mitigates agency problems associated with cash reserves, which positively affects the aftermarket performance. This paper documents that syndicate characteristics (bank affiliation and syndicate size) have a significant impact on newly public firms' cash reserves. The spending patterns of PE-backed IPOs are driven by the PE syndicate retention decision, while those of VC IPOs' are influenced by the cash ratio level.

# Return-Based Classification of Absolute Return Funds

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## Abstract

We apply a return-based classification procedure on a sample of absolute return funds registered for sale in Europe. The classification process results in eight distinct groups with specific return profiles ranging from low risk, normal distributed returns to asymmetric return distributions with high tail risks. We describe each group by two dimensions of an underlying investment style: asset allocation and trading strategy. While the returns of one group are largely determined by the asset allocation, the returns of the other seven groups are driven by different trading strategies. Our estimated classification explains 20% of the in-sample and 13% of the out-of-sample cross-sectional return variation, which is superior to existing approaches. Our classification may help investors to select an appropriate absolute return fund and to compare absolute return funds relative to their peers exhibiting the same investment style.

# Entrepreneurial Optimism, Self-Financing, and Capital-Market Effi ciency

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## Abstract

We study the impact of entrepreneurial optimism on self- financing and capital market effi ciency in a setting where entrepreneurs are better informed about the quality of their projects than investors. Projects have either low- or high-quality. Entrepreneurs use self- finance to signal the perceived quality of their projects. Investors observe self- financing decisions and know the fractions of high-quality projects, realistic and optimistic entrepreneurs. We show that entrepreneurial optimism improves capital market efficiency when the returns of high-quality projects have a high variance, entrepreneurs' have high absolute risk aversion, and the gap between the mean returns of high- and low-quality projects is small.

# Debt Covenant Violation and Cost of Borrowing: Evidence from Quarterly Bond Issues

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## Abstract

Do debt covenant violations increase the cost of borrowing for violating firms? By examining the SEC filings and bond issues of all US nonfinancial firms from 1996 to 2005, I find that debt covenant violations play an important role in determining the cost of debt for firms. The results indicate that debt covenant violations are important in three aspects: the incidence of the violation, the timing of the violation and the frequency of the violation. This is the first study that presents explicit estimates of their costs. First, I find that violating firms on average have a higher cost of borrowing (40 to 61 bps) compared to non-violators. Second, I find that firms which report a violation in the bond-issue quarter have a higher cost of borrowing (30 to 44 bps) compared to firms that do not report a violation. In addition firms that report a debt covenant violation in the quarter preceding the bond-issue report a higher cost of borrowing (88 to 105 bps) compared to non-violators. Third, I find that firms that report exactly one debt covenant violation have a higher cost of borrowing (13-47 bps) than non-violating firms, although the increase is not significant. I also find that firms that report more than one debt covenant violation have a higher cost of borrowing (39-48 bps) than non-violating firms. In addition, I find that for each violation the cost of debt increases by 5-7 bps. I conclude that there are significant benefits to not violating a debt covenant.

## Asymmetric Exchange Rate Exposure in BRIC Countries.

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## Abstract

This work contributes to the literature on exchange rate exposure in emerging markets. We studied dataset of exchange listed companies from four BRIC countries (Brazil, Russia, India, China) and discovered that exchange rate movements in US dollar and Euro affected for more than 10% of these firms between 2003 and 2013. The interesting finding of this research was that stock returns behaved differently with increasing and decreasing currency rates. For capturing asymmetric relationship of stock and exchange rate movements we applied nonlinear dynamic model which significantly improved our results compared to empirical findings of simple versions of Adler Dumas (1984) and Jorion (1990) model. We studied determinants of exposure to positive and negative currency movements separately. Although significant determinants in both cases were mostly similar, their weights were different. For example, the ratio of export sales was asymmetrically correlated to exchange rate exposures for all countries except Russia. For better understanding of sources of asymmetry in exchange rate exposure we studied separately positive and negative coefficients of currency exposure from nonasymmetric model. This was never done before and natural in a way that determinants should affect differently positive and negative currency exposure. We found evidence of contrasting impact of export sales and foreign debt in both cases.

## Leverage, Profit and Risk: Evidence from a Sample of International Banks

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## Abstract

We examine the relationship between risk adjusted profits and the amount of equity for a sample of international banks using an unbalanced panel over the period 2005-2011. Risk adjusted profits are obtained as the difference between average return on equity of the implied cost of capital. We approach the topic using both bank-level and country- level variables to control for several other factors aside from capital. The use of panel OLS and the GMM methodologies- to control for the endogeneity and the unobservable heterogeneity problems- let us document a significant positive non-monotonic link between the capital ratio and the excess profitability for the international banking industry. These results are robust to a number different model specifications and provide some support to the rationale behind increased minimum capital requirements.

# Dynamic Equilibrium with Rare Disasters and Heterogeneous Epstein-Zin Preferences

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## Abstract

We consider a general equilibrium Lucas (1978) economy with one consumption good and two heterogeneous Epstein-Zin investors. The output is subject to rare disasters or, more generally, can have non-lognormal distribution with higher cumulants. We demonstrate that the heterogeneity in preferences generates excess stock return volatilities, procyclical price-dividend ratios and interest rates, and countercyclical market prices of risk when the elasticity of intertemporal substitution (EIS) is greater than one. We show that the latter results cannot be jointly replicated in a model where investors have EIS  1. Our model produces endogenous time-variation in equilibrium processes without assuming time-varying probabilities of disasters, as in the recent literature with homogeneous investors. We propose new approach for finding general equilibrium, and characterize optimal portfolios and consumptions in terms of tractable backward equations. Finally, we extend analysis to the case of heterogeneous beliefs about disaster probabilities.

# Technological Heterogeneity and Corporate Investment

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## Abstract

We study a dynamic model of corporate investment with fixed and convex capital adjustment costs, and estimate the parameters of the model separately for each firm in a sample of U.S. companies. We evaluate empirically the degree of parameter heterogeneity among firms; quantify the cross-sectional distribution of capital adjustment costs; and assess the magnitude of the estimation bias when one assumes that firms are characterized by a homogeneous set of parameter values. The results show that a considerable amount of parameter heterogeneity exists across firms. Average fixed adjustment costs are 1.15% of the firm's capital, they account for the majority of total adjustment costs, and they are underestimated when assuming parameter homogeneity across firms. Adjustment costs decline with firm size, and convex adjustment costs are positively related to a firm's average merger and acquisition expenditure.

# The Composition of Top Management with General Counsel and Tax Avoidance

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## Abstract

We examine whether the composition of top management with general counsel is associated with a firm's tax avoidance because it is essential to better understand the role of the general counsel in firms' tax decisions (Hanlon and Heitzman, 2010). We find that firms with a general counsel as part of top management are more aggressive in their tax planning, as evidenced by a larger permanent book-tax difference, larger discretionary permanent book-tax difference, a higher likelihood of engaging in tax shelter activities, and more uncertain tax positions. This result is consistent with the general counsel among top management using her legal expertise to help the firm minimize explicit taxes. However, we find that the positive association between general counsel in top management and tax avoidance is attenuated in the post-FIN 48 periods, consistent with FIN 48 constraining the general counsel from facilitating tax avoidance. Finally, we document some evidence that the positive association between general counsel in top management and tax avoidance is stronger when the CEO has relatively more power than the general counsel, and is weaker when the general counsel also sits on the board of directors or has more equity incentives.

# Capital Budgeting Practices: Evidence from Japan

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## Abstract

In this paper, we conducted a survey about capital budgeting techniques and the cost of capital for Japanese firms. We find that Japanese firms use payback period method more frequently than NPV and IRR in capital budgeting. Multivariate analyses also show that more financial constraints firm use payback period method and firm size and experience of M&A have influence on the usage of NPV. International comparisons indicate that capital budgeting practices of Japanese firms are different from US and other countries firms in some respects.

## Factors Affecting Japanese Corporate Bond Spreads and Primary Bond Holder Investment Activities: Flight to Liquidity

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## Abstract

We empirically examine the market liquidity and funding liquidity of Japanese bond spreads from the perspective of primary bond holder, banks, investment activity during two financial crises, the 1990s and the 2008 global financial crisis. Through empirical analysis, we identify three key issues. First, Japanese bond spreads are affected by the following factors: credit risk, macroeconomics, market liquidity, primary bond holder funding liquidity, and bond-issuing company funding liquidity. Second, the liquidity impacts of the Japanese financial crisis of the 1990s and the 2008 global financial crisis are quite different. During the financial crisis of the 1990s, bond spreads were affected by two types of liquidity—market liquidity and funding liquidity. During the 2008 global financial crisis, bond spreads were affected only by market liquidity as a result of different investment activities conducted by the primary bond holders. Since, bond holders did not face a funding liquidity problem during the 2008 global financial crisis. Finally, during periods of temporary bond market paralysis in Japan, banks have faced high demand for loans and have preemptively transferred assets from illiquid corporate bonds to highly liquid Japanese government bonds. This bank behavior affects bond spreads and causes flight to liquidity. The findings in this study suggest that if banks continue to experience systemic funding stress, the liquidation of a bond at a fair price may be difficult.

## Roll-Over Parameters and Options Pricing

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## Abstract

For S&P 500 options, we examine the pricing and hedging performance of several options pricing models with respect to the roll-over strategies of parameters. The traditional roll-over strategy of the parameters, the nearest-to-next approach, and those using the new roll-over strategy, the next-to-next approach are compared. It is found that the next-to-next roll-over strategy can decrease pricing and hedging errors of all options pricing models and mitigate the over-fitting problems. The "absolute smile" traders' rule has the advantage of simplicity and is the best model for pricing and hedging options.

# Measuring the behavioral component of financial fluctuations: an analysis based on the S&P 500.

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## Abstract

We estimate a Bayesian, mixture model of financial decisions with two types of agents: one rational (endowed with preferences that are compatible with subjective expected utility theory) and one behavioral (with either an S-shaped or a reverse-S-shaped utility function). Agents take investment decisions by ranking the alternative assets according to their performance measures. We estimate the evolution of the behavioral component over time by using monthly data on the constituents of the S&P 500 index from January 1962 to April 2012. Our results confirm the existence of a significant behavioral component, which is more likely to emerge during periods of recession. We find a strong correlation between the behavioral component and the VIX index, with the relationship being stronger under the specification based on the S-shaped utility function.

## The Effects of Liquidity Regulation on Bank Assets and Liabilities

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### Abstract

Under Basel III rules, banks become subject to a liquidity coverage ratio (LCR) from 2015 onwards, to promote short-term resilience. We investigate the effects of such liquidity regulation on bank liquid assets and liabilities. Results indicate co-integration of liquid assets and liabilities, to maintain a minimum short-term liquidity buffer. Still, microprudential regulation has not prevented an aggregate liquidity cycle characterised by a pro-cyclical pattern in the size of balance sheets and risk taking. In line with pro-cyclical risk taking, our error correction regressions indicate that adjustments in the liquidity ratio have mainly been driven mainly by the denominator, i.e. liabilities. This finding contrasts established wisdom that the LCR is mainly driven by changes in liquid assets. Policy implications focus on the need to complement microprudential regulation with a macroprudential approach. This involves monitoring of aggregate liquid assets and liabilities and addressing pro-cyclical behaviour by restricting leverage.

# Global Corporate Bond Issuance: What Role for US Quantitative Easing?

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,

## Abstract

The paper investigates the impact of US quantitative easing (QE) on global non-financial corporate bond issuance. It distinguishes between two QE instruments, MBS/GSE debt and Treasury bonds, and disentangles between two channels of transmission of QE to global bond markets, namely flow effects (purchases) and stock effects (holdings). We control for a number of domestic and global macro-financial factors. In particular, we control for weaknesses in cross-border and domestic banking which might have induced the corporate sector to issue more bonds. The results indicate that US QE had a large impact on corporate bond issuance, especially in emerging markets, and that flow effects (i.e. portfolio rebalancing) were the main transmission channel of QE. A counterfactual analysis shows that bond issuance in emerging markets since 2009 would have been halved without QE

# Trade and finance: is there more than just 'trade finance'? Evidence from matched bank-firm data

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## Abstract

Using unique matched bank-firm data on export, import and ordinary loans for a large sample of Italian manufacturing exporters for the years 2007-2010, this paper investigates the role of trade finance in a credit shock. We find that the credit shock faced by exporters in the aftermath of the Lehman Brothers' collapse was due more to a diminished availability of ordinary loans than to specific constraints in trade finance. We also show that the credit shock had a negative impact on exports: firms, especially financially distressed ones, that borrowed from banks which were more exposed to a negative funding shock exported less compared with firms that borrowed from less exposed intermediaries.

# The Role of Executive Stock Options as Insurance for CEOs against Hold-up

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## Abstract

Following Oyer (2004) and Rajgopal, Shevlin and Zamora (2006), we provide evidence that the level of stock option compensation results from outside opportunities in the managerial labor market for a sample of 3,214 CEO-year observations from S&P1500 companies between 1996 and 2010. We argue that stock-based compensation converts into severance pay in the case of forced CEO departure. Consistent with Almazan and Suarez (2003), we argue that severance pay protects CEOs' relation-specific investments from hold-up by firms. Our analysis also provides some evidence that equity grants are inversely related to labor market competition in the penultimate year of forced CEO departure.

# Asset Prices in General Equilibrium with Recursive Utility and Illiquidity Induced by Transactions Costs

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## Abstract

In this paper, we study the effect of proportional transaction costs on consumption-portfolio decisions and asset prices in a dynamic general equilibrium economy with a financial market that has a single-period bond and two risky stocks, one of which incurs the transaction cost. Our model has multiple investors with stochastic labor income, heterogeneous beliefs, and heterogeneous Epstein-Zin-Weil utility functions. The transaction cost gives rise to endogenous variations in liquidity. We show how equilibrium in this incomplete-markets economy can be characterized and solved for in a recursive fashion. We have three main findings. One, costs for trading a stock lead to a substantial reduction in the trading volume of that stock, but have only a small effect on the trading volume of the other stock and the bond. Two, even in the presence of stochastic labor income and heterogeneous beliefs, transaction costs have only a small effect on the consumption decisions of investors, and hence, on equity risk premia and the liquidity premium. Three, the effects of transaction costs on quantities such as the liquidity premium are overestimated in partial equilibrium relative to general equilibrium.

# Mutual Fund Performance Evaluation and Best Clienteles

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## Abstract

This paper develops a performance measure that considers a mutual fund's best potential clientele in incomplete market with investor disagreement. Based on the law of one price and no good-deal conditions, we obtain an upper bound on admissible performance measures that identifies the most favorable evaluation. We find that an increase in admissible investment opportunities equivalent to half the Sharpe ratio of the market index leads to generally positive performance for the best clientele. Augmenting monthly Sharpe ratio opportunities by only 0.04 is sufficient for their evaluation to achieve zero alpha. These results are robust to the use of different basis assets and conditioning information, and to adjustments for false discoveries.

## Trust, Happiness, and Financial Decisions

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## Abstract

Using detailed survey data from a sample of Dutch households, we show that the impact of happiness on the households' financial decisions works in the opposite direction and is more economically important compared to trust. Specifically, happiness leads to a lower probability of investing into risky assets and having insurance, while trust has the exact opposite effect. Yet, the negative marginal effect of happiness on the ownership of risky assets is 6% higher compared to the positive equivalent of trust. Similarly, the negative marginal effect of happiness on the ownership of insurance is 3% compared to the positive equivalent of trust.

# Geographical Influences on IPOs

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## Abstract

Firm geographic location matters in IPO decision and outcome. Firms headquartered in wealthier areas with fewer geographically neighboring listed firms are more prone to go public and to be exposed to the "money left on the table" effect. Even controlling for the geographic self-selection bias, first-day return is still negatively affected by the proximity to other listed firms. Findings are consistent with a location premium that comes out suddenly, i.e. when firm goes public, and the myopia of actors taking part of the going public decision process.

# The Strictness of Insider Trading Law and Corporate Information Policies: Evidence from Share Repurchase Decisions

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## Abstract

This study explores the effect of insider trading laws on corporate share repurchase decisions using a large sample of firms across 22 economies. We find that firms in countries with stricter sanction for violating insider trading laws exhibit a higher propensity to undertake share repurchase and pay higher amount on repurchase after controlling for anti-director rights, creditor rights, employee protection and economic development. This relationship holds using alternative measures of insider trading restrictions and share repurchase. Furthermore, we find that the effect of insider laws is more pronounced in countries with stronger private and/or public law enforcement power. In addition, our evidence also documents that insider trading laws play a more significant role in ownership concentrated firms. This study emphasizes the substitution effect of insider trading and corporate repurchase on signaling firm value.

# Can CRRA Preferences Explain CAPM-Anomalies in the Cross-Section of Stock Returns?

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## Abstract

A large number of empirical studies find evidence for systematic deviations from the CAPM. The CAPM tends to understate the returns on low-beta stocks and overstate the returns on high-beta stocks, which means that the security market line is too steep. Other well-documented anomalies are the size premium and the value premium. The CAPM is a special case of the consumption-based CAPM. This study adresses the question whether the consumption-based CAPM with constant relative risk aversion preferences can explain CAPM-anomalies. An example of an economy with power utility and lognormal returns is examined that can be solved in closed form. The model leads to a security market line that is flatter than in the CAPM and generates a size and a value premium. The comparative statics suggest that cross-sectional anomalies and the equity premium puzzle are of a very similar nature.

# The Effects of Foreign Manufacturing Companies Activity in Poland in the Context of Polish Economy Changes

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## Abstract

The main of the article to analyze the financial effects of foreign manufacturing companies activity in Poland in 2003 – 2012. Author states that changes in Polish economy has a direct impact on foreign companies financial condition. However it appeared that Polish access to European Union has the influence on Foreign Direct Investment flows but did not affected significantly the financial effects of foreign companies in Poland. The results of conducted analysis also show that Poland appeared to be resistant to the global shocks and, as a result, the financial condition of foreign companies located in Poland was stable.

# The Determinants of Firms' Currency Derivatives Usage: A Panel Data Analysis

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## Abstract

We document extensive use of currency derivatives by S & P CNX 500 non-financial firms for the years 2009 and 2010 and examine the determinants and extent of hedging among these firms. Our results indicate that among firms with disclosure on notional amount of currency derivatives, 78.70% of the sample firms go for hedging and the remaining sample firms do not hedge their foreign exchange risk. Out of hedgers, 17.29% of the firms prefer complete hedging and the remaining of them go for selective hedging. Our empirical evidence suggests that for managing currency risk, forwards are the main instruments followed by options and swaps. The objectives, in the order of priority, are reduction in exposure associated with foreign currency receivables, foreign currency long term loans, and foreign currency payables. The extent of hedging is negatively related to profitability and investment opportunities, and positively related to foreign exchange exposure and size. The profitability and investment opportunities are negatively associated, and foreign exchange exposure is positively associated to the extent of hedging given that the firm hedges. Finally, our findings support the argument that firms with higher currency risk and financial distress costs tend to use more derivatives. JEL Classification: G3, G32.

# The Dynamic Interactions between the Chinese Yield Curve and Macro Economy

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## Abstract

In this paper, we employ the dynamic Nelson-Siegel model to estimate the term structure of Chinese Treasury yields, and study the interactions between the yield curve factors and macroeconomic variables. Our analysis shows that the model fits the data very well, especially for the middle part of the yield curve. We also find that the bidirectional relation only exists between yield curve and money supply. For most macroeconomic variables, the interactions with yield curve are one-way relationship. In particular, the yield curve contains the information of inflation, economic growth and liquidity, such as CPI, industrial added value and interbank offered rate. This observation is important for policymaker and investors. Meanwhile, the yield curve is also affected by some macroeconomic variables, which is useful in forecasting the yield curve.

# The Right Time to Enter

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## Abstract

We analyze the dependence of future returns on past drawdowns of the monthly time series of the S&P500 index, from 1967 to 2012. From historical data, it appears that when the drawdown increases in absolute value, future returns increase, both in mean as well as in distributional values. We then run a Monte Carlo simulation on three models used in asset pricing, namely the Black-Scholes model, the CEV model and the exponential Ornstein-Uhlenbeck model, to assess whether these models reproduce this drawdown effect. It turns out that, while the first two do not exhibit a dependence of future returns on past drawdowns, in the exponential Ornstein-Uhlenbeck future returns increase when past drawdowns increase in absolute value, consistently with the empirical findings on the S&P500 index.

# Analysis of Possibilities to Apply DEA Method in Scoring Models in Companies Insolvency Examination Process

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## Abstract

The purpose of this study is to analyse whether the scoring models applied by banks and other financial institutions are effective and whether any modifications thereto would be justified. A premise for conducting this study was the analyses of A. Feru? carried out in 2006 (based on data of the 2001-2003 period), in which the Author proposed applying the DEA method (Data Envelopment Analysis) to the scoring models for the purpose of credit risk forecasting. The results of this research into insolvency of enterprises (conducted on the basis of 2010 and 2011 data) reveal poorer predictions made by the scoring models alone compared to the scoring models combined with the DEA method in terms of: (1) appropriate customer classification, (2) Receiver Operating Characteristic (ROC) Curve.

## Escaping financial crises? Macro evidence from SWFs' investment behaviour

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## Abstract

This paper examines investment strategies of sovereign wealth funds (SWFs), with particular reference to investment choices determinants in terms of characteristics of the target country, and how SWFs react to financial crisis. The analysis relies upon a database specifically built for SWFs, encompassing 1,903 acquisition deals spanning the period 1995-2010 and involving 29 out of the 59 existing SWFs. We find that SWFs prefer countries where financial markets are more developed, where institutions in terms of protection of legal rights are more effective, which are more open to foreign trade, and which are characterized by a more stable macroeconomic environment. We also find that SWFs invest more in countries hit by crisis and their investments are not affected by stock market returns i.e. they do not trend-chase returns. Overall SWFs seem to behave as countercyclical investors, contributing to stabilize markets. This is in stark contrast with the behaviour of other institutional investors such as mutual funds who tend to divest from crisis hit countries, thus contributing to the propagation of shocks globally.

# The Role of Blockholders in Firm Governance.Empirical Evidence from the US

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## Abstract

This paper investigates the role of blockholders in US listed firms, particularly the relationship between the number of blockholders and share volatility. After controlling for potential endogeneity problems, we found that the number of blockholders positively affects share price volatility, but the reverse is not true. Furthermore, the largest blockholders differ from other blockholders. The largest blockholders limit the agency problems in a firm, while the number of blockholders affects volatility. Last, firms with multiple blockholders show distinct characteristics, suggesting that multiple blockholder firms are not simply a mid-point between single blockholder firms and widely held firms but should instead be considered as a specific type.

## Modelling the crash risk of the Australian Dollar carry trade

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## Abstract

This paper investigates the nature and the determinants of the Australian dollar (AUD) carry trades using a Markov regime shifting model over the period 2 Jan 1999 to 31 Dec 2013. We find that the AUD has been used, except for a number of short periods notably surrounding the outbreak of the GFC, as an investment currency in a carry trade regime. That is, a positive differential between Australian and US interest rates was associated with an AUD appreciation which is contrary to the prediction of the UIP condition. We also investigate the determinants of the AUD carry trade regime probabilities. Prior to September 2008, carry trade regime probabilities are significantly lower in response to higher realized volatility of the USD/AUD exchange rate, number of trades, unexpected inflation and unexpected unemployment announcements. The carry trade probabilities are significantly higher when order flows are positive (more buyer than seller initialed trades of AUD) and when RBA policy interest rate unexpectedly increase. On the other hand, post-September 2008 period shows a breakdown on the relationship between carry trade regime probabilities and the determinants. Only the US unemployment news elicit significant response – unexpected increase raises the AUD carry trade probabilities.

# The Effect of Reference Point Theory on Mergers and Acquisitions: UK Evidence

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## Abstract

We study the effect of reference point theory on M&A performance using a universal data of U.K. market from 1985 to 2012. Using target company 52-week price high as the reference point, we find an overall significantly positive relationship between the reference point and offer premiums, and the effect of the reference point is much stronger in large firms. We find that the reference point provides an alternative explanation for the choice of payment. In particular, cash payment is associated with a lower level of the reference point whereas stock payment is associated with a higher level of the reference point. Moreover, market reacts significantly positive to targets using the reference point in favour of the shareholder around the announcement date, which implies that the reference point enhances the target bargaining position and therefore translated into target shareholder benefits. We find insignificant relationship between the reference point and bidder returns in both short-term and long-term consistent with the prospect theory in previous literature.

## Private Equity Funds' Incentive for Leverage

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### Abstract

Private equity owned companies typically use more debt in their financing mix than public companies. I show that in addition to the standard explanations for financial structure of public companies there is an additional reason for private Equity fund managers to increase leverage. Private equity fund managers receive a higher expected fee from choosing riskier investments. Increasing the leverage translates to an increased risk and a higher fee. Furthermore, private equity fund managers have independent control over the leverage in the companies they invest. This control creates an moral hazard problem, since the private equity fund managers have (some) independent control over their expected fees. In a typical situation a fund manager could increase the expected fee with about 35 percent by increasing leverage in the investments. It seems reasonable that this is the reason for the dramatic difference in leverage between private equity owned firms and other firms.

## Discount Rates for Seed Capital Investments

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### Abstract

So far, the estimation of discount rates required by entrepreneurs for seed capital investments has remained a mystery. Mongrut and Ramirez (2006) made a contribution to this area by deriving the lower bound discount rate for a non-diversified entrepreneur in an emerging market. However, they used a quadratic utility function, which does not have desirable assumptions. In this research one extends the previous work by deriving expressions of discount rates using a Hyperbolic Absolute Risk Aversion (HARA) utility function that includes the quadratic and the logarithmic forms as special cases. Furthermore, one also assumes the less risk-averse entrepreneur that invests almost all his capital in his project or firm and whose level of wealth approaches to zero. One finds that both expressions depend upon de entrepreneur's risk aversion parameter and a measure of the project total risk. By holding constant the risk free rate, one simulates the discount rates for the quadratic and the logarithmic forms. As expected, the entrepreneur's required returns (discount rates) are highly sensitive in both specifications and all of the values were lower than 50% and most of them were lower than 25%, but higher than the assumed risk free rate.

# Pricing Default Risk: The Good, The Bad, and The Anomaly

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## Abstract

Empirical literature that finds a negative relation between default risk and returns comes in contrast to theory. This study aims to shed light on this academic debate. We follow Vassalou and Xing (2004) to calculate monthly physical probabilities of default for individual firms from 22 European countries and, in accordance with recent studies, we find evidence of a default anomaly in a portfolio setting that uses monthly PDs to sort the stocks. We also measure exposures of firms to systematic default risk as the beta from 24-months rolling regressions of their physical probabilities of default on CBOE VIX. When we use the monthly systematic default risk beta to sort the stocks, the default anomaly disappears and we document a positive and significant relation between default risk and returns. We argue that the default anomaly is due to the idiosyncratic component of the probabilities of default, the estimated alphas from the 24-months rolling regressions. The paper contributes to the literature in several ways. First, we follow a novel approach and decompose systematic and idiosyncratic exposures directly from estimated physical PDs. Second, we shed more light on the relation between default risk and stock returns by exploring a new European dataset. Third, we use a simple and intuitive method to calculate systematic default risk exposures as sensitivities of PDs to VIX.

# Disclosure Practices and Option Implied Probability of Default

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## Abstract

This paper examines the relationship between the firms' disclosure decisions and the market value of expected default probabilities. I use option prices to estimate the option implied probability of default, whereas the level of disclosure is measured by a self-constructed voluntary disclosure index for the largest 80 U.S. bank holding companies. I show that the enhanced disclosure in the current year is followed by reduced market implied default probabilities in the subsequent year. I also attempt to correct the self-selection bias by employing an instrumental-variable approach and provide evidence that banks respond to the plausibly exogenous variation in the supply of public information by providing higher level of disclosures. This evidence suggests that by mitigating the information asymmetries between the bank management and their depositors and regulators, disclosure affects investors' assessments of the riskiness of a bank.

# Managing Foreign Exchange Risk Using Currency ETFs: Understanding the Implications of Return Dynamics

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## Abstract

The emergence of currency exchange traded funds (ETFs) has provided an alternative vehicle for both speculation and hedging in the currency markets. Because currency ETFs trade like equities and have no relevant expiration date, they represent an intriguing alternative for managing certain types of foreign exchange risk. This paper reviews the particular advantages and disadvantages to currency ETFs as hedging instruments relative futures and forward contracts. Next, a discussion is provided of the potential divergence from initial intended ETF hedging results based on the particular characteristics of certain currency ETFs. The technique of dynamic rebalancing is then introduced and discussed in the context of currency ETF hedging. A potential test of ETF hedging using the technique is then outlined for a dataset of historical currency ETF prices and exchange rates. Finally, recommendations are made concerning how market participants might assess the utility of currency ETFs in their specific foreign currency risk hedging application based on the expected results.

# Typological Classification, Diagnostics, and Measurement of Flights-to-Quality

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## Abstract

This paper proposes a total return-based framework to study flight-to-quality phenomenon of fixed-income securities. It consists of three elements: (i) the general definition of event; (ii) the typological classification of the phenomena to be able associate them with the phases of business cycle; (iii) automated technique to diagnose the time frames and to measure the impact of flight-to-quality on debt instruments. The proposed framework is applied to analyse capital movements from Emerging Markets public debt to the U.S. Treasuries and vice versa within the period 1998-2010. The results show that different phases of business cycles and GDP rates behaviours, including turning points, could be associated with flights-to-quality of different types and nature.

## Family Benefits in Taxes – case of Poland

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## Abstract

Pro-family preferences exist in tax systems in European Union countries. Rules of its functioning are very diversified. There are countries with extender system of reliefs and tax exemptions and countries that do not predict any convenience connected with having families. There are also tax benefits in Polish tax system. Both of them– common tax settlement and pro-family relief are not available for all of the taxpayers, especially for those who really need it. The role of the pro-family relief was the tax reduction for the large families. After five years of the relief existence in the taxes system in Poland it is seen that its functioning in the present form is not effective. Large families with low earnings can not often use it for decreasing the total tax. Apart from this, it can even happen that when the family use the pro-family relief it will lose the other family benefits. The pro-family relief is beneficial mainly for the rich families.

# The Financial Efficiency of Public Health Expenditure in Turkey Between 2003- 2012

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## Abstract

Turkey has accomplished remarkable improvements in the National Health Service System over the last three decades, particularly after introducing the new Health Transformation Programme (HTP). Turkey's health-care system has been undergoing a far-reaching reform process named HTP since 2003 and some radical changes have occurred so far both in the provision and the financing of health care services. Health services are today financed through a social security scheme, the General Health Insurance Scheme (GHIS), in which the majority of the population is covered and services are provided by both the public and the private sector facilities. The Social Security Institution (SSI), is financed through social security payments made by employers and employees. Government contributions, in case of budget deficit, have become a monophonic (single buyer) power on the purchasing side of health-care services. However on the provision side, the Ministry of Health (MoH) is the main actor that provides primary, secondary and tertiary care through its facilities across the country. University hospitals overall are also a major provider of tertiary care. The private sector, meanwhile, has increased its operational range over the recent years, particularly after new arrangements paved the way of the private sector-based provision of services for the SSI. Public health expenditure consists of recurring items and capital expenditure from the government budgets (central and local) together with external borrowings and grants (including donations from international agencies and non-governmental organizations), and social (compulsory) health insurance funds. Total health expenditure is the sum of public and private health expenditure incurred over a specific period. It covers the provision of health care services (preventive and curative), family planning activities, nutrition activities, and emergency aid services designated for health care but do not include the provision of water and sanitation. In addition to a control mechanism over public healthcare expenditure, the other primary goals identified in the 2003-2013 reform process incorporate restructuring of the health ministry to enhance its core functions in respect of policy development, setting standards and ensuring service quality, introducing compulsory health insurance for the entire population, increasing accessibility to healthcare facilities previously reserved exclusively for members of the various social security institutions and their dependants; improving training for doctors, nurses and administrators; and

providing incentives for a more even distribution of the personnel nationwide. A family practitioner's service, which should improve primary care, is also being rolled out across the country, but it would take time to adopt the service in full due to the shortage of trained general practitioners (GPs). In this study, initially, Turkish National Health System will be articulated on a literature-study basis approach to measure the efficiency of public expenditure on health. Then, the measured level of the efficiency will be analysed in greater detail in Turkey. Most pieces of academic research into health-care efficiency focus on measuring the level of organisational efficiency. However, this article basically aims to give a comparison of the technical efficiency of health-care between the major public hospitals in Turkey by the use of specific health indicators. In order to improve the health status of the country as a whole, a government needs to recast its policies by auditing the performance of the public hospitals with reference to their respective health indicators. Our article serves a purpose to analyse the finacial efficiency based on the outcomes of heath service such as satisfaction with public health services over the period of 2003 -2012. ANOVA statistics were employed to test the degree of statistical relation between public health expenditure and satisfaction with public health care services.

# Explaining Cross-Country and Over-Time Differences in Bank Capital Regulations

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## Abstract

This paper investigates the empirical determinants of cross country and over time variation in the stringency of bank capital regulations. Despite the extensive attention that the Basel capital adequacy standards received internationally, there exists significant variation in the implementation of these standards across countries. Furthermore, a significant number of countries increase or decrease the stringency of capital regulations over time. The paper investigates the empirical determinants of the variation that is seen in the data based on the theories of bank capital regulation. The results provide strong evidence that countries with high average returns to investment choose less stringent capital regulation standards. There is also some evidence that capital regulations are less stringent in countries with higher ratio of government ownership of banks where government ownership is used as a proxy for the regulatory capture: the degree to which regulators are captured by the financial institutions under their control. The results provide somewhat weaker evidence that countries with more concentrated banking sectors impose less strict capital regulation standards.

## A Study of Price Transmisson Mechanism in China

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## Abstract

This article examines the fluctuation and transmission between PPI and CPI in China from 2000 to 2013. We find that (1) the rise of CPI is mainly due to the changes of food price, which inducted the structural price rise; the price rises of means of production and means of subsistence are caused by the price increase of food and raw materials respectively. (2) After 2000, PPI and CPI are observed to have a bidirectional transmission at the initial stage of the test; no transmission at the interim stage and bidirectional transmission at the last stage. (3) The main reason of those two backward transmissions is the fluctuations of the food price; the fluctuations of the purchasing price of raw materials, fuels and power are the main reason of forward transmission between PPI and CPI at the initial stage, and the fluctuations of food price are the main reason for the forward transmission at the last stage.

# Determination of Financial Feasibility of Real Options for Anturios Production

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## Abstract

This research develops the concerns of a group of women Cuitláhuac Township, Veracruz, to determine the financial feasibility of the production project called: Production of anthurium (Anthurium andreanum Lindem ) in the town of Cuitlahuac , Veracruz, México. It was performed in 2011 and the project was aimed at evaluating the investment project for the production of anthurium in the municipality noted, through the integration of traditional techniques of project evaluation and real options approach. NPV ( Net Present Value ) of $ 132,986.00 , benefit-cost ratio (B / C ) of 1.07 , Value Profit - Invested Capital ( N / K ) of 1.274 and Internal Rate of Return (IRR ) of 17 % , were the results obtained at which concludes the project feasibility . When evaluated with the technique of real options under scenarios of expansion, contraction, abandonment and strategic option, the following values were obtained: $169,209.26, $147,894.73, $145,798.53, $184,038.33, respectively for each of the scenarios, so it is determined that the most important scenarios are the strategic option and the expansion.

## Geography and Executive Compensation

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## Abstract

This paper investigates whether institutional investors intervene in firms to affect their incentive systems. We use geographic closeness among institutional investors as a proxy for strategic interactions. We find that when institutions are geographically closer to each other, firms tend to adopt executive compensation contracts with more performance-based mechanisms, greater incentives to induce additional effort, and greater incentives to take on more risk. We also find that geographic distance between institutions is a significant determinant of the executive pay gap. Our study considers all senior executives at different levels of top management including CEO. Throughout the analysis we use the dynamic panel generalized method of moments (GMM) methodology that fully accounts for unobservable heterogeneity, simultaneity, and other endogeneity concerns.

# The Behavior of the Residential Bulding Construction in Brazil: 2008 – 2012

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## Abstract

The current article analyzes the performance of the residential building construction companies listed in the Novo Mercado of BM&F BOVESPA. The period analyzed is from 2008 to 2012. The main instruments used were the economic-financial indicators and the reports released annually by the board of Directors of the companies. We identified a context of financial fragility of the companies, which is not potentially critical due to the government housing credit policy. We identified the investment needs in bank land s one of the main problems of the sector, given the valorization of this asset. There are potential risks to macroeconomics, for the Brazilian capital market depends intensively on the valorization of the assets in this sector. JEL: G3. Company Finance.

# Convenience yield estimation through the stochastic modelling of future contracts

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## Abstract

This paper proposes a methodology to estimate the convenience yield using the Bayesian estimation of stochastic processes associated with futures contract prices. This procedure is performed to Commodity contracts related to energy, metals and agriculture, in order to verify the proposed approach consistency with the traditional cost of carry method; and, consequently, the feasibility to generalize this analysis to the case of non-storable assets such as energy. Each futures is analysed individually as a simple process of mean reversion. This paper also analyses econometric and stochastic properties of the Series searching for common patterns among them, taking as reference their economic sector. In addition to this, a graphical analysis is presented in order to study the dynamic relationship between the term structures of convenience yields and futures contracts.

# Assessing the idiosyncratic risk and stock returns relation in heteroskedasticity corrected predictive models using quantile regression

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## Abstract

This paper provides a new insight into the ‘idiosyncratic-volatility puzzle’ using Australian data. The least squares and the quantile regressions of stock returns on lagged-idiosyncratic volatility estimated from daily data using two measures (including a GARCH measure) reveal identical relationship-forms for both measures. The relationship is parabolic, but significant only at the extreme quantiles. The parabolic-form changes from being convex at the lower quantiles to concave at the upper quantiles of the returns’ conditional distribution. The changing relationship-form reflects the complex nature of the relationship and uncertainity in predicting the returns’ direction. Small rolling estimation samples support the idiosyncratic-volatility puzzle.

## Price Discovery in US-Canadian Cross-listed Shares

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## Abstract

While considerable attention has been paid to the location of price discovery, few studies have considered what drives price discovery between exchanges. In addition, endogenity issues have been overlooked in previous studies looking at determinants. In this paper we investigate the determinants of price discovery for Canadian firms cross-listed onto major US exchanges for the period 1996-2012. We compute annual Gonzalo and Granger component shares and employ dynamic GMM panel regressions to control for persistence in price discovery and endogeneity between the component shares and the market quality determinants we consider. We find evidence that price discovery is strongly persistent, meaning that once an exchange gains price discovery from another exchange, it will be slow to lose it. We also find strong evidence of simultaneity between price discovery and the market quality measures we employ. After controlling for endogeneity, we conclude that lower relative transaction costs and higher relative trading activity increase an exchanges contribution to price discovery. Unlike previous studies, we also find evidence that it is small trades that drive price discovery.

# Systemic Risk, Financial Crisis and Vulnerability of Economy

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## Abstract

We develop a measure of systemic risk of network of economic sectors, both financial and real sectors, based on symbolic transfer entropy (STE), by incorporating the strength and asymmetry of information ow and by calibrating the works of Billio and et. al. (2012). Investigating the time variation of systemic risk in the United States using size weighted index return of Fama and French 48 industries, we document that systemic risk of whole economy as well as financial sector start to increase beginning from the year 2001 and grow continuously until it reaches a peak in 2008. In addition, we find that systemic risk pops up during Asian and Russian currency crisis in 1998 albeit for short duration. In addition, we find that systemic risks are closely linked to the rest of the economy. We use a battery of macro-economic variables, and show our systemic risk measure is robust with unemployment, treasury rate, return and volatility of stock index among other macro-economic variables. Interestingly, the systemic risk in 2010 remains at same high level as in nancial crisis period of 2007/2008.

## Does FDI improve financial deepening of host country stock markets?Evidence from sectoral FDI.

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## Abstract

We examine the impact of foreign direct investment (FDI) on stock maker deepening, measured by stock market capitalization. We estimate the effects of sector-level FDI (mining, manufacturing, financial and non-financial services) using a dynamic GMM methodology and a sample of sixty countries for the period 1998-2009. We examine this impact within groups of countries based on geographical region The evidence suggests that financial services FDI tends to contribute to domestic stock markets listings, while manufacturing FDI is associated listings migration away from domestic stock markets towards global exchanges. These effects are primarily seen in developed country groups suggesting activity involving Western Europe and the US. There is little evidence of the effect of FDI on stock market depth in emerging market economies.

# Investor Behaviour and Lottery Stocks

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## Abstract

Two theories currently exist to predict investor behaviour conditioned on past investment performance. Under prospect theory, investors are risk averse following gains and risk seeking following losses. The 'house-money' effect, on the other hand, predicts investors are more risk-seeking following gains. This study analyses investor behavior using brokerage data for Australian retail investors from 1 Feb 2010 to 28 Feb 2013. Specifically, we examine investment into and performance of lottery stocks as well as risk-seeking conditioned on performance of existing investments. Consistent with past findings, lottery stocks are shown to offer inferior returns and represent risk-seeking behaviour. At the portfolio level, investment in lottery stocks results in significant underperformance. This result is not biased by portfolio size or diversification, which has implications for behavioural finance research and portfolio management. Our results indicate investors are more likely to invest in lottery stocks following past portfolio gains, supporting the house-money effect. This result is robust over various holding periods and alternative behavioural explanations as such as over-confidence.

# MACROECONOMIC DETERMINANTS OF MERGERS & ACQUISITIONS: EVIDENCE FROM INDIA

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## Abstract

The phenomenal increase in Indian M&A activity in the post liberalisation period raised several empirical issues for investigation. In spite of this development, studies on Indian M&As have not looked at the macro economic determinants of this phenomena. This paper strives to investigate the linkages between the macroeconomic parameters of Indian Economy and M&A activities for the Indian industry vis-à-vis food processing industry (FPI) for the 1990-2011 period by constructing a data bank of Indian M&As. FPI sector is selected to compare with the pan Indian performance because it is considered as the sunshine industry with huge potentials of contribution to GDP and this is an attempt to examine the trend of M&A in a significantly growing sector of the economy with respect to overall economy. As per the expectation, results reveal that FPI experiences significantly high number of M&A vis-à-vis all industries. M&A activity in all sectors including FPI has responded positively to GDP, net exports and capital invested. The variable employment is positively influencing M&As decisions for all sectors excepting FPI. However, inflation and growth in stock market index negatively impact M&As for all sectors including FPI. The results are insignificant for Index of Economic Freedom, IIP and FDI for both categories revealing the nature and structure of Indian M&As. Impacts of major financial events or policy frameworks were also found to be insignificant.

# Corporate Governance in Higher Education Institutions

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## Abstract

Manuscript Type: Empirical. Research Question/Issue: We analyze agency problems in the context of Higher Education Institutions (HEIs). The approach underlying agency theory and three classical agency problems serves as input in the analysis and understanding of agency problems that may arise in HEIs. We argue that at HEIs face at least three agency problems: between HEIs' top management team members and other stakeholders, among internal HEIs' stakeholders, and between internal and external HEIs' stakeholders. Research Findings/Insights: Our theoretical proposal is supported with the analysis of twelve semi-structured, in-depth individual interviews that we conduct at the top management level in twelve Colombian HEIs. Those occupying positions in different governance structures of the institution, mainly principals, were interviewed. The sample consists of twelve HEIs in Colombia and takes into account the following aspects: public and private institutions, accredited and nonaccredited by the National Accreditation Council, different size, complexity, and location in different regions of the country. Theoretical/Academic Implications: Dramatic changes in HEIs in recent decades related to increased demand and diversification have led to new forms of organization and the extension of the conventional analysis associated with the corporate model to higher education. Because of the impact that higher education has on economic development, the study of agency costs and efficient governance structures in higher education institutions (HEIs) is relevant not only for the stakeholders of these organizations but for society as a whole. Practitioner/Policy Implications: This paper contributes to the literature by proposing and exploring conceptual and empirical issues of higher education governance in the context of corporate governance. Our analysis shows that HEIs are not immune to agency problems and highlight the need for governmental surveillance bodies or policies to regulate higher education provision as a public good, whith the purpose of mitigating agency tensions in HEIs. Keywords: Corporate Governance, Agency problems, University Governance, HEIs

# Islamic banks impaired financing: Relationships between shariah committee meetings frequency and shariah risk compliance on assets quality

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## Abstract

This study made a pioneering attempt to econometrically examine what factors determining impaired financing using attendance of the shariah committee at shariah meetings from data on Islamic banks in Malaysia and how do shariah risks compliance affect on the quality of the assets. The objective of the study is to improve assessment of their asset quality so as to increase the reliability of their financial statements. The European Central Bank may find the findings from this study useful in their exercise to assess risks and assets quality of their commercial banks, a move to tackle the ailing banks towards centralizing an oversight in late 2014. The major components of the Islamic banks' asset quality are impaired financing and provisions for financing impairment. In the Islamic banks, shariah committee principally manages the shariah risks non-compliance with other risks; however because their management is not straightforward, the study uses the shariah risks committee as an indicator for the asset quality. The study found the less-than-full attendance of shariah committee members at shariah meetings resulted in less guidance and conformation of shariah principles, and consequentially on the quality of the assets.

# Tax Expenditures: A Comparative Study of the Role of Tax Subsidies in Selected OECD Countries

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## Abstract

This paper provides a comparative analysis of selected countries' tax incentives and subsidies, referred to in the public finance field as 'tax expenditures', to determine if countries differ significantly in the extent of their use, the relative purposes for which they are used and the implementation issue of the types of expenditures used to provide the incentives. Such an analysis is important since firms' financing choices are often influenced by, or at the mercy of, macroeconomic variables, particularly governmental tax policies. Taxes have a direct effect on individual firm's effective tax rates, and therefore, the cash flows that influence investment decisions at the margin. Indirectly, at the governmental level, tax revenues affect budget deficits (surplus), which in turn, are a variable that affect the interest rates a firm will face. Tax effects become even more complicated for firms operating internationally, as different countries provide a different mix of direct expenditures and indirectly with tax expenditures. Tests of hypotheses of equal tax expenditures patterns for a panel of sample countries indicate that significant differences exist in their total use, purpose and how they are implemented. The results extend the work of OECD (2010) and provide suggestions for future research.

# Are Firms Capital Constrained? Evidence from Corporate Financing in India.

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## Abstract

Firms in India face varying degree of macroeconomic constraints. Most important of these constraints relate to the availability of capital and cost of funds. The paper here highlights the implicit value losses incurred by the firms in India owing to such constraints. The paper identifies that the increasing tax burden on firms is attributed to shedding of debt by these firms overtime. In an unbalanced panel of more than 53,000 firm-year observations we find that within-firm movement in firm-specific factors indicate a rather increase in debt ratios for these firms. It seems that, while firms are forgoing the tax benefits of the debt tax shields, these firms do not seem to be facing distress of similar magnitude. Further, upon closely observing the financing pattern, one can see the reduction in external financing by these firms overtime. This is confirmed when we find that overall issuance activities of these firms do not explain the leverage changes comprehensively. While the average profitability remains robust and stable, this points towards a possible underinvestment problem on account of systematic factors which are not directly controlled by the firms. The key argument put forth in the paper is that firms in India are facing severe macroeconomic credit constraint which is primarily responsible for declining incremental investments by these firms despite robust operating profitability.

# The Structure of Corporate Boards and Private Benefits of Control: Evidence from the Russian Stock Exchange

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## Abstract

This paper revisits the role of board size and composition in corporate governance using a measure of private benefits of control (PBC) as indicator of governance problems in firms. We calculate PBC using the voting premium approach for a sample of dual class stock companies traded on the Russian stock exchange between 1998 and 2009. Using fixed-effects regressions, we find a quadratic relationship between PBC and board size, implying the optimality of medium-sized (about 11 directors) supervisory boards. This result is substantially stronger for PBC than for traditional measures of corporate performance. There is also some evidence that director ownership helps mitigate governance problems. Most remarkably, we find that non-executive/independent directors are associated with larger PBC and thus do not seem to help improve corporate governance. In contrast, regressions with accounting performance measures as dependent variables tend to suggest a positive role of these directors in corporate governance.

## Efficacy of the Fama-French Factors

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### Abstract

We examine the relative performance of the factors included in the three-factor model. We find that the market factor dominates the other factors in terms of explaining the return variation of portfolios formed on size and value, and portfolios formed on the basis of beta. We also find inconsistencies in the ability of the SMB and HML factors to explain variation across different types of size-value portfolios, and question whether these factors should be considered systematic risk factors. Further, we report that the HML factor has almost no ability to explain variation of beta-based portfolios.

# Financial Crisis and Flight to Liquidity

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## Abstract

A generally accepted belief about the liquidity risk, among many others, is that its gravity which at other times would remain dormant would suddenly dash into prominence during a crisis. Contrary to such a belief, existing empirical literature fails to show such a behavior. In this paper, we explore the time-series properties of the liquidity risk and its amplification amid the crisis by investigating a unique financial instrument, the Japanese floating-rate note, which can be priced almost by no-arbitrage pricing restrictions alone, thereby providing clean measure of liquidity risk. By using the Bayesian MCMC technique, we estimate the 'liquidity discount rate' (LDR hereafter) latent in the notes along with the structural parameters of a liquidity term structure model which introduces a Markovian regime shifts into the discrete Vasicek model. The time-series behavior of the estimated LDR demonstrates the dramatic vicissitude in market liquidity conditions in accordance with the conventional belief. In addition, we empirically analyze the relationship between the market liquidity and funding liquidity as suggested by Brunnermeier and Pedersen (2009) who theoretically explain the sudden liquidity dry-up during the crisis. We find that in normal times, the market liquidity risk is relatively dormant and it has a tendency to co-move with the domestic funding liquidity risk. During the crisis, however, the global funding liquidity is shown to drive market liquidity into deterioration. Additionally, as the market for Japanese floating-rate notes did not restore its pre-crisis status, we discuss the plausibility and possibility of the market collapse following the liquidity crisis.

# Organization Structure and Corporate Risk Management: The Case of the Japanese Non-Life Insurance Industry

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## Abstract

This study investigates the impact of organization structure on corporate risk management by insurance purchase. Past research has shown that the unique corporate groupings in Japan known as the “keiretsu” have relatively low bankruptcy costs, low agency conflicts, low information asymmetry and low effective taxes. Under these conditions, insurance purchase should be of small benefit. This conjecture is tested by examining demand for reinsurance of Japanese non-life insurance companies during 1974-2005. Consistent with the prediction, keiretsu non-life insurers have lower reinsurance purchase than independent non-life insurance companies. The effects of the keiretsu structure also receded when keiretsu groupings’ power was weakened after the asset bubble burst in 1990s. Finally, it is documented that, among listed Japanese insurers, reinsurance purchase is positively related to firm valuation.

## Equal or Value Weighting? Implications for Asset-Pricing Tests

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## Abstract

Does the choice of weighting scheme used to form test portfolios influence inferences drawn from empirical tests of asset pricing? To answer this question we first show that, with monthly rebalancing, an equal-weighted portfolio outperforms a value-weighted portfolio in terms of total mean return, four-factor alpha, and Sharpe ratio. We explain that this outperformance is partly because the equal-weighted portfolio has higher exposure to systematic risk factors; but, a considerable part (42 percent) of the outperformance comes from the difference in alphas, which we demonstrate is a consequence of the rebalancing to maintain constant weights in the equal-weighted portfolio. Finally, we demonstrate that the inferences drawn from tests of asset pricing models are substantially different depending on whether one uses equal- or value-weighted test portfolios. We illustrate this by considering four applications: (1) test of the CAPM, using the methodology of Gibbons, Ross and Shanken (1989); (2) test of the spanning properties of the stochastic discount factor, using the approach of Hansen and Jagannathan (1991); (3) test of the relation between characteristics and returns, using the multivariate weighted two-stage procedure of Fama and MacBeth (1973); and (4) test of whether expected idiosyncratic volatility is priced, using the non-parametric methodology of Patton and Timmermann (2010). For all four experiments, we find that inferences depend on the weighting scheme, and for each experiment we explain how the weighting scheme influences the inference.

# "Corporate Finance…What else?" The case of the Production Chain Networks in North-East Italy and the scaffolding finance adopted by their "Leader".

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## Abstract

In the Italian North-East district there is some evidence of the presence of production chain networks, in which firms tend to specialize in specific risk management (Mantovani Daniotti 2012). Such evidence agrees with studies on hybrid organizational forms that incorporate market and hierarchy mechanisms and generate collaborative networks of firms, in which strategies and resources are shared (Coase 1937, Williamson 1975, 1981, Alchian and Demsetz 1972, Butler 1982, Butler and Carney 1983, Eccles 1981, Nacamulli 1985, Rugiadini 1985, Teece 1980, Allen and Phillips 2000, Boot et al. 2000, Jacobides and Billinger 2006).We agree with Zingales (2000), and demonstrate that firms' resource sharing within a production chain network, must also consider financing resources (and not just the asset side of resources). This is, more so, necessary when the main resource shared is working capital: that is, when leader firms (LF) expand working capital by paying immediately suppliers (SF), thus – thanks to costless access of LF to debt or equity resources – raising financial resources that are re-allocated among SF chain. Evidence on inter-firm "working capital finance" would be the definitive proof that corporate finance needs to be re-designed, considering firm's networks. In this paper we present a statistical methodology to identify the presence of production chain collaborative networks and classify firms in relation to their network role: leader firms, supplier firms and standing alone firms (SA).

# Life-time of Limit Orders in the EBS Foreign Exchange Spot Market

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## Abstract

The dataset allows measuring how long an individual limit order stays in the market. A limit order exits from the market by either cancelation/revision or transaction executed with another (counter-side) limit order. With the measured lifetime of limit orders, we find that volume, gap between quote and market price, and a slower pace of the market all contribute to a longer stay in the order book for a limit order, whereas large outstanding orders in the order book shorten the lifetime of a new limit order.

# The Information Content of Limit Hits for Continually Trading Stocks

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## Abstract

This paper performed an empirical analysis of spillover effects between group constituents to observe the liquidity and price impact of limit hits from informationally related and continually trading stocks. Reference stocks were found to have lower quote-based liquidity, higher trade-based liquidity, and a larger price impact. A closer informational relationship tends to weaken the liquidity impact but strengthen the price impact. Furthermore, stocks in industries with fewer firms seem to have stronger price impact at lower limit hits. Our findings show that information asymmetry increases when limit hits arise and support the substitution effect hypothesis.

## CVA with Wrong Way Risk: Sensitivities, Volatility and Hedging

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### Abstract

We propose a CVA model capturing the wrong way risk that is not product-specific and is suitable for large-scale computations. The model is based on a doubly stochastic default process with the default intensities proxied by credit spreads. For different exposure structures, we show how credit-market correlation affects the CVA level, its sensitivities to credit and market factors, its volatility and the quality of hedging. The wrong way risk is most significant for exposures highly sensitive to the market volatility in a situation when credit spreads are at moderate levels but both the market factors and credit spreads are volatile. In such conditions, ignoring credit-market correlations results in important CVA mispricing. While the benefits from hedging are always magnified in the situation of the wrong way risk, the right way exposure case is more delicate: only a well-designed mix of credit and market hedges can bring volatility down. Our results raise doubts on the Basel III policy of recognizing credit but not market hedges for computing the CVA volatility capital charge.

# The Influence of Non-Cognitive and Cognitive Ability on Individuals' Stock Market Participation

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## Abstract

Stock market participation is found to be positively related to non-cognitive, as well as cognitive abilities. Interestingly, effects are of comparable and economic significant magnitudes. For example, participation decrease with on average 7.2% and 8.1%, comparing those with highest and lowest non-cognitive and cognitive abilities, respectively, while with 11.80%, comparing the effect of joint ability limitations (low-low versus high-high). Results are even more pronounced among the wealthiest, almost a 30% difference in participation for those with joint limitations in abilities (low-low versus high-high). Results hold when controlling for individuals risk preferences and risk aversion is found negatively correlated with both cognitive and non-cognitive abilities, implying that participation is affected both through an effect on risk preferences, as well as through a non-risk-preference driven mechanism.

# Some Notes on “Stock Return vs. Market Return”, and its Effects on Behavior of Traders

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## Abstract

This study investigates the correlation of the relative status of a stock in respect to the whole market, i.e. whether a stock has under or outperformed the index in a period of time. Indeed we have proposed a model which considers the relative performance of each stock as a signal to buy or sell the stock. The model parameters have been computed for components of 3 indexes: S&P100, Dow Jones Industrial Average, and PHLX gold/silver sector. Historical data ranges as far as available in our database until June 2011. We observe that, most of the time, this correlation is negative and there is a negative feedback in trading behavior of traders. Next we investigate the effect of considering volume of trading in each day on this correlation, by using volume weighted least square method. We observe that the correlation is more notable when we consider volume of trading. Also we investigate the asymmetry of traders’ behavior in response to positive relative status _good news_ and negative relative status_ Bad news. The result shows that the negative feedback in traders’ behavior is weaker when a stock has underperformed the whole market i.e. has a negative relative status. Also we categorize the stocks in each index into different categories according to their capital markets and other characteristics, and then we investigate the correlation and asymmetry factor for each category.

## Why does co-movement of daily yields of stock indices change over time?

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## Abstract

The contribution of this paper is threefold. First, we introduce the concept of time-varying covariance and correlation coupled with its estimation method based on GARCH model. Second, we propose an alternative method for estimating time-varying parameter in a two variable linear regression setup using time-varying variance and correlation series. Third, we show that the proposed alternative method for estimating time-varying parameter is suitable to serve as a decomposition technique that is able to identify the factors that drive changes of the parameter over time. We use daily yields of two leading European stock indices to illustrate empirically our proposed contributions. Empirical results show that the co-movement of the daily yields has changed significantly over time. Moreover, based on the proposed decomposition method, it is apparent that the majority of the variation in the time-varying parameter estimate stems from the change in relative volatility of daily yields. The time-varying parameter seems to be higher in a bearish market. However, the correlation of daily yields is higher in a bullish market and in time of high volatility.

# Can Low-Cost Carriers in the Middle East bypass Traditional Carriers' Financial Performance: Air Arabia versus Emirates Airlines

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## Abstract

The initial appearance of U.S. low-cost carriers forced incumbents to create new forms of competitive advantage. These were successful hindrances for nearly two decades. Nevertheless, it has been recorded that in just four years the low-cost carrier sector in the Middle East has established itself as a booming industry with great potential, especially in the Gulf region according to a new report by NBK Capital, a Kuwait-based investment bank. This paper will attempt to highlight some of the differences between the two markets and explain how low-cost airlines in the Middle East may have more advantages to bypass traditional carriers' financial performance

# Diversification, Risk Sharing, and Asset Pricing

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## Abstract

This paper studies the implications of diversification for risk sharing and asset pricing in a Lucas economy populated by heterogeneous investors. The equilibrium quantities are either derived explicitly or characterized in terms of conditional expectations well-suited for Monte-Carlo simulations. The main advantage of the simulation approach lies in its straightforward extension to many assets which facilitates an analysis of the role played by diversification. Through numerical calibrations diversification is shown to decrease the consumption share of more risk tolerant and/or optimistic investors, increase the risk-free rate, and increase the equity premium on a large asset that proxies the market portfolio.

## Money Markets and Treasury Auctions with Heterogenous Bidders

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### Abstract

In the paper I will design a model of the multi-unit auction of T-bills and T-bonds. The model will focus of the panel individual data of bank balance sheet merged with the data from Treasury auctions and interbank market and the data of individual bidder bids (price-quantity pairs) provided by Ministry of Finance of the Czech Republic. During the crisis the Czech National Bank started to use new extraordinary policy tool-facility. I will analyze any changes in the mechanism determining the interest rates before and after the global financial crisis break up, namely those related to the swings in liquidity and credit risk for various market participant types. The aim is to capture heterogeneous impact of global financial crises on individual banks from disagregated level data perspective. Although the banking system in the Czech Republic was not directly hit by sub-prime crises because the exposure to toxic assets was not significant, the liquidity hoarding and interest rate spread widening is present in the Czech Republic similarly to markets in the US, UK and Euro Area, albeit to a much lesser extent. Through the model of bidding we will argue that the bank value for short-term liquidity has been much more dispersed than the raw bidding data show. I compare the impact of various changes in the auction rules on the bidder behavior and the revenue collected in the auction that determines costs of state debt service of the Czech Republic.

## Sovereign, Bank and Insurance Credit Spreads: Connectedness and System Networks

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### Abstract

Macrofinancial risk has become increasingly important over time as global markets have become increasingly more connected. We apply several econometric measures of connectedness based on Granger-causality networks to the changes of sovereign risk of European countries and credit risk of major European, U.S., and Japanese banks and insurers to investigate the evolution of these connections. Credit risk for banks and insurers is measured using a version of the Merton Model (Contingent Claims Analysis) applied to risk-adjusted balance sheets. We highlight connections among banks, insurers, and sovereigns by quantifying the effects of risk transmission within and across countries and financial institutions.

## The Sensitivity of VPIN to the Choice of Trade Classification Algorithm

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## Abstract

The recently well-published metric/variable VPIN (Easley et al. 2012) aims to detect the toxicity of order flow and is intended to be applied both by practitioners like regulators as well as researches. The computation of VPIN uses a heuristic approximation to classify raw trading data. We wonder why one should abandon the preciseness of deterministic classification algorithms given their proven performance in financial literature. and compare the outcomes of both approaches on all levels up the ladder of aggregation, that is, from trade classification to order imbalance to VPIN itself and to the event of "toxic periods". This study enriches existing evidence by extending the sample to a large set of equities instead of futures, by evaluating more complex trade-by-trade classification algorithms in comparison to just the tick rule, by using a layered, bottom-up approach and by extending the geography to Germany.

## Regime Shifts and Stock Return Predictability

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### Abstract

Identifying economic regimes ought to be useful in a world of time-varying risk premia. Stand alone, we find some indicators arising from regime switching models to be relevant in forecasting returns. Moreover, the relevance of these indicators is preserved in the presence of fundamental variables known to predict equity risk premia. This finding continues to hold when additionally considering technical indicators.

# Credit default swaps from an equity option view

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## Abstract

We compare the implied probability of default on the credit market and on the equity market of the same underlying. In order to compare these two different markets, we use the price of premium leg of a credit default swaps as the price for an American digital option. If called, this option pays the same amount as the protection seller in a credit event. The applied volatility will be extracted from implied volatility surface. Via an optimization procedure we find the corresponding strike to the option price which we call "strike of default". This number can be seen as a risk measure or an individual hedging limit for this underlying hence the markets assume a default at this share price before or at the maturity of the credit default swap.

## Darwinian Selection in the Hedge Fund Industry

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## Abstract

This paper provides evidence that hedge funds that su ffer a very large negative return and survive exhibit outstanding future performance with abnormal returns as high as 13.3% annually. The outperformance is more pronounced for hedge funds that: 1) provide higher discretion to their investors, reflected as shorter withdrawal periods, 2) suffer more severe negative returns, and 3) experience lower fund outflows. Surviving funds also exhibit lower fund outflows during crisis periods than dying funds. All this evidence is consistent with a Darwinian hypothesis: During periods of turmoil, fund managers are more willing to disclose information about their investment philosophy to avoid fund outflows and liquidation of the fund. The process results in the survival of funds managed by truly talented managers. The evidence is not consistent with competing hypotheses such as illiquidity of hedge fund holdings, rebalancing, or managerial self-confi dence.

# An Analysis of teh Beta Coefficient´s Stationarity Regarding Brazil Public Companies Traded Between 2002 AND 2011

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## Abstract

In this paper we examine the reliability of historical data as basis for the estimation of stocks' and portfolios' future risk, through the analysis of the assets' beta coefficient's stationarity. We estimated betas from logarithmic returns on stocks publicly traded between 2002 and 2011 on the Brazilian stock exchange (BM&FBOVESPA), and on logarithmic returns on Ibovespa and IBRx portfolios under the CAPM model. We performed correlation studies between 52-week betas and the following 52 weeks betas, finding little no evidence of strong correlation, either for individual stocks and industry portfolios. Companies that were traded since 2002, however, converged to a higher degree of beta stability from 2008 to 2011, benefiting from the stabilization of the local economy. We conclude that the usage of betas estimated from past market data must be approached with caution when estimating the cost of equity of securities publicly traded on the Brazilian market.

## Local Government Financing in China: signaling game

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## Abstract

With a signaling model analyzing the asymmetric information problema between local governments and financial banks, it is found that the real estate price becomes a signal of another kind. There are many factors pushing the estate price up. While from 2009 to 2013, it was the local governments who promoted the price, to send signals to the banks in order to obtain capital funds.

## Foreign currency borrowing by households: lessons from Hungary

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## Abstract

Over the last decade foreign currency indebtedness in Hungary has become a systemic financial problem, and its crippling impact on the real economy - through its effects on income and lending - has been aggravated by its significant constraints on economic policy. In international comparative terms, however, there are certain specific features relating to Hungary which make this issue particularly problematic, and during the financial crisis both exchange rates and interest rates were important factors in increasing the burden on individual households. Our research focuses on the causes and determining factors of the pricing of Swiss franc denominated mortgage loans. In our judgement, there were basically four main price shocks which affected the pricing decisions of credit institutions: generally higher foreign currency rates and risk premiums, a deteriorating loan portfolio quality and the taxes levied on banks. The questions which arise concern how these costs were related to the changes in interest rates and the extent to which these cost shocks were passed on by banks to clients. Using a structural vector autoregressive model, we found that the interest rates charged on housing loans were influenced by all of these.

## Profitability and Stock Returns in Production-Based Asset

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## Abstract

In a production-based asset pricing model with decreasing returns to scale following Brock (1982) stock returns at the firm level no longer identically equal investment returns but, instead, are determined by a measure of gross profitability, the book-to-market ratio, and the change in future profitability prospects. Firm decisions of capital investment and utilization both negatively predict profitability and future returns. Book-to-market ratios positively forecast returns as is typical, but with specific predicted exceptions. These implications are confirmed empirically and the production-based model with decreasing returns predicts costs of equity capital better than traditional asset pricing models.

# The impact of IFRS on analysts' forecasts under times of uncertainty: Empirical evidence from the UK, France and Germany

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## Abstract

This paper investigates the impact of IFRS adoption on the firms' information environment. Using a sample of major index constituents in UK, France and Germany we investigate the properties of analysts' forecasts on a monthly basis before and after IFRS adoption. We further investigate the role of goodwill, intangible assets and acquisitions controlling for firm specific characteristics. We observe an asymmetric effect on analysts' forecast accuracy, forecast dispersion and analyst following post IFRS. We find some support to argue that the new accounting rules for goodwill reduce the information asymmetry and that intangible assets and business combinations have an heterogeneous impact across the three countries after IFRS adoption. We develop an approach to assess corporate disclosure and we content analyse more than 28,000 company announcements and 2,800 annual and quarterly reports. We evaluate the IFRS disclosure impact on the analysts' information environment and highlight a diverse effect across the three countries.

# The Earnings Present-Value Relation: Theory and Evidence

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## Abstract

This paper examines several valuation properties of the now popular earnings present value relation. The primary feature of the valuation model in this study is the finite earning prediction horizon. Empirical investigations based on the analytical analysis create the following results. First, the aggregate earnings prediction horizon is about 3.5 years on average and is associated with firm characteristics. Second, the variance bound test is unable to support the hypothesis that the market sets the stock prices according to the rational expectations formula. The result is also consistent with the prior results that stock price contains information other than earnings and dividends. Third, the price-earnings regression finds that the estimated coefficient of the earnings component in the valuation model is consistent with the theory in magnitude whereas the estimated coefficient of the dividends component is more than twice the theoretical value.

## The impact of trading and hedging derivatives on banking efficiency in Eurozone

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## Abstract

The impact of derivatives is again in caution in the banking industry since the emergence of the subprime crisis. This debate is not recent as Diamond (1984) already introduced it claiming for derivatives use to let banks focus on their delegate monitoring comparative advantage. We contribute to this debate by analysing the impact of derivatives on banking efficiency in the Eurozone over 2006-2010. The Eurozone is particularly relevant for this analysis as it is the most integrated banking sector with comparable accounting rules. We measure efficiency with two non-parametric approaches to avoid speci cation issues, data envelopment analysis and free disposal hull approach. Our unique dataset allows us to disentangle all types of derivatives and their impact on efficiency. We conclude that both hedging and trading derivatives enhanced banking efficiency in the Eurozone over our sample.

# Investments and their impact in economy-construction sector analysis.

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## Abstract

Albania is a Mediterranean country with a population of more than three million people at a very young age. Albanian cities are cities with rapid growth and have the capacity to provide high-level services .The economy ofour country has significantly increased by more than 5 % each year since 1998 . Our country is a good investment opportunity and able to provide opportunities in various sectors. They are signed free trade agreements with Balkan countries.Foreign direct investments play an important role in the coverage of current and fiscal deficit .During recent years, Albania has undergone a dynamic development sector accompanied by the redistribution of income and factors of production. Two key components of GDI are - service sector and agriculture sector, while the construction sector plays an important role in annual growth rate. The construction sector is one of the most important branch of economic progress .This sector is directly related to the requirements of the population and offer of the market . Albanian economic situation currently is in the stage of an economic crisis that is clearly reflected in many sectors, but more in the construction one. The purpose of this study is to analyze how foreign direct investment affect the development of the economy of a country like Albania.

# The Coupling of Domestic Banks and the State: An Examination of Bank Sovereign Bond Holdings

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## Abstract

In this paper we examine the determinants of domestic sovereign bond holdings using panel data of 260 financial institutions operating in 11 countries between 2002 and 2008. We investigate whether the proportion of bank's holdings on domestic sovereign bonds can be explained by their ownership structures( domestic, foreign or state ownership) and/or the quality of governance and institutional environment of the countries at which banks operate. The empirical results show that state owned banks hold more home sovereign debt, mainly when bond yields are high. Banks whose ultimate owner is a foreign entity are less prone to home bias on their bond holdings and banks that operate in countries with high quality institutional environments are less exposed to home sovereign bonds.

## Are Leveraged and Inverse ETFs the New Portfolio Insurers?

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## Abstract

This paper studies Leveraged and Inverse Exchange Traded Funds (LETFs) from a financial stability perspective. Mechanical positive-feedback rebalancing of LETFs resembles the portfolio insurance strategies, which contributed to the stock market crash of October 19, 1987 (Brady Report, 1988). I show that a 1% increase in broad stock-market indexes induces LETFs to originate rebalancing flows equiv- alent to $1.04 billion worth of stock. Price-insensitive and concentrated trading of LETFs results in price reaction and extra volatility in underlying stocks. Implied price impact calculations and empirical results suggest that they contributed to the stock market volatility in the 2008-2009 financial crisis and in the second half of 2011 when the European sovereign debt crisis came to the forefront. Although LETFs are not as large as portfolio insurers of the 1980s and have not been proven to disrupt stock market activity, their large and concentrated trading could be destabilizing during periods of high volatility

# Loan Management and its Ex Ante&ex post Role in the Lending Process

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## Abstract

Bank loan management is crucial and it is instrumental in ensuring the success or failure of any credit institution. Albanian banking system as a relatively newcomer in the market economy, started to apply modern lending rules & procedures after the major loan portfolio was already created, whereas the key role of risk management and its respective procedures was mostly unknown for the majority of banks in Albania, during the credit boom. On the other side, Bank of Albania has been relatively late in taking up its role in controlling and monitoring the process of setting up the lending structure and regulation, as a mandatory standard, applicable in lending practices for commercial banks in Albania. The adjusted Basel I standards helped banks in Albania to weather the effects of the last financial crisis, but proved incomplete, in terms of ensuring long - term loan quality management. The paper shed light on main reasons why Albanian banks lagged behind in terms of applying and implementing modern risk management practices and procedures, during the credit boom period and explain why applying rules, procedures, intending to correct mistakes done during lending process, or improving the low quality portfolio, proved to be costly and of less success. Also, the paper put emphasis on lack of properly qualified and well-trained credit officers, within Albanian banks, as most of them practiced “on job training”, and only a few banks took care of training the staff, and arranging proper organizational structures, which were mostly focusing to sales rather than risk. Finally, the paper provides some recommendations on improving internal lending practices and procedures, along with modern risk management principles and near-future full implementation of Basel II standards by Bank of Albania.

## Predictability of Bank Stock Returns During the Recent Financial Crisis

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### Abstract

We document compelling evidence of quarterly bank stock return predictability in the US based on fundamental variables relating to banks' profitability, loan asset quality, capital adequacy and equity risk, over a sample period that covers the recent financial crisis. An important and innovative discovery is that the future trading activities in bank stocks were also predicted by these fundamental variables. This predictability was strongest for small and mid cap banks. By studying the turnover ratios and order flows, we show that bank stocks with the weakest fundamentals were traded more actively during the crisis, with this higher trading intensity shown to be dominated by selling pressure. The evidence lends empirical support to our 'fire sale' or 'flight-to-safety' hypothesis and reveals that banks' fundamental variables and size were the major criteria used by investors in formulating their portfolio rebalancing decisions during the crisis. To show the economic significance of these findings, we propose ex ante investing strategies and demonstrate how investors could generate economically significant profits.

## Portfolio Selection using directional distance function and FDH approach

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### Abstract

This paper proposes a nonparametric efficiency measurement approach for the static portfolio selection problem in a general inputs-outputs space, where inputs can include variance, and outputs include mean and skewness. Using production frontiers estimation methods like Free Disposal Hull (FDH) and directional distances, we study optimal portfolio performances and obtain global optimal solutions. Our work is very closed to Briec, Kerstens and Jokung (2007) who focus on a mean-variance-skewness setting, but by the means of operation research techniques we get rid of computational limitations and give a very simple algorithm to obtain efficient portfolio frontier with optimal weights. An empirical section on a small sample of assets serves as an illustration.

# Equity Premium Predictability Using Bayesian Regression Mixtures

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## Abstract

This study investigates the predictability of equity returns in a mixture modelling framework that address several potential shortcomings of standard regression-based tools. We find that static single-equation predictive models are strongly rejected by the data in light of 2 and 3-component mixture regression specifications. We generalise standard regression mixtures to accommodate the possibility that predictive variables can be used to forecast time-variation in mixing weights. While within-sample variation in mixing weights appear forecastable, we find little benefit to forecasting such variation on an out-of-sample basis.

# The good, the bad, and the ugly: A survival guide to M&A in distressed times

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## Abstract

Mergers and Acquisitions (M&A) were a common exit route for companies in financial distress during the 2007-2008 financial crisis. However, the question of whether distressed M&A can be a value generating strategy for either the buying or selling counterparty remains unanswered. Provided that a selective acquisition strategy is in place, the potential acquirer should be able to do well in all markets, even in downturns. Acquirers of distressed/bankrupt targets and healthy/distressed targets typically enjoy positive announcement abnormal returns. In acquisitions of distressed/bankrupt targets the long-term post-M&A performance of the combined firm increases compared to the combined pre-acquisition performance which is evidence of synergy realization. However, the combined post M&A performance deteriorates when compared to the pre-acquisition performance of the acquirer as a stand-alone firm. Distressed targets are typically acquired by firms in the same industry and tend to suffer from financial and economic distress while bankrupt targets experience insolvency.

## Working Capital in European SMEs: Is It about Rule of Law?

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## Abstract

dPrevious studies have suggested that the usage of trade credit varies by country. This paper focuses whether the rule of law or capital market development can explain observed differences in levels of working capital in small and medium size enterprises (SME) in 13 EU countries. Our findings indicate that the legal score has a negative impact on working capital measured by Cash conversion cycle (CCC), working capital to total assets, accounts payable and accounts receivable. This implies that the levels of working capital are lower and working capital management thus more efficient in countries with safer legal systems and better investor protection. We also find that operating in a market based capital system has a positive effect on CCC. This implies that firms operating in countries with market based systems as opposed to a bank-based system invest more heavily in working capital. Overall, these findings indicate that country level legal instruments explain much of the cross-country differences observed in working capital. The results also suggests that working capital practices and the extent to which trade credit is used, are a product of the legal system and the financial systems in place in each country and that if the financial system changes, trade credit practices can also be expected to change.

## Target Strategy: a practical application to ETFs and ETCs

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### Abstract

During the last 20 years, many asset/fund managers proposed different absolute return strategies to gain a positive return in any financial market condition. These kind of financial products were created without a comparison benchmark, but only with a floor return given by Euribor. The Euribor plus products became very popular during the period 2000/2007 but few of them were able to obtain good returns during the following years 2008/2011. The main problem was that no one had a methodology for tracking the target return they described in the prospectus. In this study we propose a new absolute return strategy based on a quantitative methodology which exploit a risk-adjusted performance indicator (Diaman Ratio) and the logic of Konno and Yamazaki model in order to offer, at the risk-averse investor, a tool that allow him to get a target return in a defined time period whichever will be the beginning of the investment horizon. An application to ETFs and ETCs will be analyzed.

# Decision making of Corporate Governance for Modernization of the Central Bank of Kosovo

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## Abstract

As the result of the challenges that the global economy is currently facing, today the crucial era for corporate governance is to forerun 'locally' based on the 'global' trends for continuous change of the economy. Therefore, the Corporate Governance of the Central Bank of Kosovo should take to consideration the best practice of developed countries, and implement the necessary changes within its Corporate Governance in order to emerge for the current quarantined, and to transfer into Modern Banking System. Through the academic elaborations and practical arguments this paper will bring in perspective of decision making at the Corporate Governance of the Central Bank of Kosovo, issues that are facing and that should overcome its current operation in order to meet the global trend of the economy, by implementing the best practice of the Governance.

# Explaining Failures of Microfinance Institutions

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## Abstract

We empirically study the determinants of failures of microfinance institutions based on the CAMELS rating components and microfinance-specific measures by applying logit regression techniques. Our findings confirm the capital adequacy (C), the asset quality (A), the management risk (M), and the sensitivity to market risk (S) to be explaining factors of failures of microfinance institutions. Regarding microfinance-specific effects, there is a positive influence of the percentage of female borrowers and a negative influence of the regulation on the likelihood of failure. Moreover, our results suggest that microfinance institutions that are organized as banks are more likely to fail than non-governmental organizations.

# Executive Attributes, Director Attributes, and Firm Performance

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## Abstract

This paper investigates the impact of individual executives and directors on firm performance. In the German two-tiered system of corporate governance the tasks of running and monitoring the firm can be clearly assigned to the members of the executive and the supervisory board. My study is based on a comprehensive panel data set of 889 German firms covering the period 1993-2011. I find that fixed effects of individual executives and directors are equally important in explaining firm performance and explain as much of the variation in firm performance as observable board, manager and firm characteristics. The results further indicate that transitions of former executives to the supervisory board are not a cause of concern for shareholders. Moreover, only the aggregate sum and not the dispersion of the executive and director fixed effects between or within the executive and supervisory boards has an impact on firm performance. As studies about the relation between board characteristics and firm performance implicitly assume a link between board characteristics and board actions, my results suggest that the inclusion of director fixed effects could be important for other topics in corporate finance as well.

# The Effect of Social Screening on Bond Mutual Fund Performance

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## Abstract

This study measures the financial impact of screening for environmental, social and governance (ESG) criteria on bond portfolios. Therefore ESG scores over all fund holdings in corporate and sovereign bonds of socially responsible funds are compared with a matched sample of conventional funds. Financial performance of 29 US and 68 Eurozone socially responsible bond mutual funds is measured in comparison to conventional peers with an Elton et al. (1995) multiple-indices regression over the period 2001-2012. US and Eurozone socially responsible funds with considerable ESG integration outperform conventional funds by 0.4-0.6% annually. The analysis of fund holdings indicates an exclusion of bond issuers with low ESG scores by these SRI funds. The socially responsible bond funds in the Eurozone yield a 0.4-0.5% higher average annual fund alpha compared to conventional funds. This is mainly driven by those funds with above average ESG scores. Out of all socially responsible bond funds almost half of the US and one third of the Eurozone funds appear to be conventional funds in disguise. For these funds the ethical ranking and the financial performance just match conventional peers. All financial performance findings are considered to be survivorship-bias free as well as robust after controlling for fund characteristics and alternative factor models.

# On the Non-Neutrality of the Financing Policy and the Capital Regulation of Banking Firms

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## Abstract

It has been argued that higher capital requirements are not expensive for the banking system, by exploiting a renewed edition of a standard argument from corporate finance, the Modigliani-Miller theorem (1958 and 1963). However, the M&M model must be carefully analysed before endorsing the general statement that “bank equity is not expensive”. In fact, specific attention should be posed to three features: a) the role of the banking system as liquidity provider, b) the value of the explicit/implicit government guarantees, and c) the risk-shifting behaviour of banks’ equity holders. To highlight these issues in the first part of the paper we focus on the key differences between accounting and market-based/financial values. We argue that market prices (notably price-to-book ratios) should play a primary role in bank supervision. To support our thesis we present an empirical analysis that shows how market values had a superior signalling content compared to accounting aggregates in predicting banking system distress/losses during the financial crisis. In the second part of the paper we use a standard Merton model to formally show how the M&M’s leverage irrelevance theorem is inapplicable to banks when guarantees are considered. Then, we analytically derive the cost of a capital injection for the old shareholders by highlighting how risk-shifting phenomena on banks’ assets, notably when price-to-book values are below one, may increase the overall risk of the bank, and, ultimately, of the financial system as a whole. A strict and prompt supervision may mitigate, at least in part, the threat of these unintended consequences associated to new capital injections. However, in case of severe stress it seems difficult to eliminate completely this risk shifting incentive. In the third and final part the paper we use a simple model of corporate finance and firm’s valuation to stress that a bank’s stability cannot be achieved if the markets’ expectations of its future profits stay below its cost of funding.

## Bank dividends and signaling to information-sensitive depositors

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## Abstract

This study investigates if the composition of debt affects the payout policy of banks. We identify that information-sensitive depositors (institutional investors) are targets of dividend signaling by banks. We use a unique database of Brazilian banks, for which we are able to identify several types of debtholders, namely institutional investors, nonfinancial firms and individuals, which are potential targets of dividend signaling. We also exploit the features of the Brazilian banking system, such as the existence of several closely held banks, owned and managed by a small group of shareholders, for which shareholder-targeted signaling is implausible, and find that banks that rely more on information-sensitive (institutional) depositors for funding pay larger dividends, controlling for other features. During the financial crisis, this behavior was even more pronounced. This relationship reinforces the role of dividends as a costly and credible signal of the quality of bank assets.

# Determinants of Executive Compensation Disclosure

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## Abstract

Executive compensation practices are frequently debated in academia and the business press. Knowledge of these practices stems primarily from disclosures in financial statements. To better understand disclosure practices, we use exceptionally detailed hand-collected data on executive compensation disclosures for 2,505 firm-year observations (years 2001 to 2010). The studied time period is affected by several important reforms. We prove that executive compensation disclosure is explained by economic incentives. Interestingly, mandatory disclosure reforms have spill-over effects on unregulated areas. We also show that standard-setters' intentions are not always fulfilled. For example, firms with high ownership concentration disclose less information and increase their disclosure less because of mandatory reforms.

## Empirics of Currency Crises: A Duration Analysis Approach

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### Abstract

This paper analyzes the origins of currency crises for 20 OECD countries and South Africa from 1970 through 1998. The main contributions are in three areas. First, it tests for contagious crises and attempts to recognize contagion channels by employing a duration analysis. Second, to minimize the concerns regarding the accuracy of identified crisis episodes, our paper uses crisis episodes that are identified by a relatively more objective method based on extreme value theory. Third, we make use of several robustness checks, including running our models on two different crisis episodes sets that are identified based on monthly and quarterly type spells. Our findings show that high values of volatility of unemployment rates, inflation rates, contagion factors (which mostly work through trade channels), unemployment rates, real effective exchange rate, trade openness, and size of economy increases the hazard of a crisis.

## MARKET-DRIVEN SECURITIZATIONS

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## Abstract

This paper tests the hypothesis that ?nancial maket performance contributes to shape the decision to securitize loans from the banks. Results based on a large sample of European and American banks over the period 1999-2010 suggest that an increase in the stock market performance spurs securitization activity, and banks react to stock market burst by freezing securitizations, even if there were other good reasons for secu- ritization. Surprisingly, the impact of the stock market performance on securitization is higher for not listed than listed banks. Moreover, market sentiments have a asym- metric e¤ect in the boom and the burst, a¤ecting not listed banks?securitization only

# Commodity derivatives sensitivities

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## Abstract

The financial literature is now rich in various commodity models allowing to get closed pricing formulas both for future contracts and related options. Though various available models have been applied in situations corresponding to some specific historical time-series, very few academic papers provide general analyzes and statements focused on the risk tools aspects, as the sensitivity parameters and their involvement in hedging. Therefore, our purpose here is to partially fill this lack. The emphasis is put on options on future contracts, as most of available hedging illustrations are essentially focused on forward/future contracts. The sensitivities for an option on commodity future contract derived here, allow some flexibility that the standard Greek parameters, given in terms of the underlying future contract, do not have. Indeed, the classical Delta cannot be really fully exploited in hedging practice as it makes reference to a contract having the same maturity as the involved commitment and consequently possibly not traded on the market. Our sensitivities are built in the spirit of risk management of portfolio positions, for which the main important point is about the compensation between all components. It means that the right sensitivities to consider are the one related to the underlying uncertainty risk factors common to the (few) available tradable instruments.

# Ponzi or not Ponzi in Banking: A cash-flow statement analysis

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## Abstract

Traditional performance indicators, based on accounting information contained in balance sheets and income statements, overlook one key aspect of a bank's performance: its ability to generate cash from core activities. To assess any sources of cash generated, in accordance with IAS 7, we restructure and analyse the cash flow statements of the EU's 25 largest banks that published cash-flow statements between 2005 and 2011. We find that all banks in our sample accumulated negative free cash flow over the period reviewed, including sometimes from their operational business. We analyse dividend policies and assess the extent to which banks generated enough cash through their operational business to pay out dividends. We conclude that assessments of banks' financial performance based on a cash-flow analysis can produce results that differ substantially from those suggested in the literature.

# Corporate Governance, short-run and long-run performance of Initial Public Offerings on the Polish Alternative Investment Market (NewConnect)

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## Abstract

The phenomenon of abnormal positive stock returns (underpricing) in relation to Initial Public Offering (IPO) of issuers listed on regulate markets has already been widely studied. Despite the growing significance of the Alternative Investment Markets (AIMs) in Europe, not much research has been conducted in the underpricing area so far (Wu, Hsu 2012, Woloszyn 2012, Zawadka 2012). In the literature, there are several groups of theories which explain reasons and consequences of shares market underpricing, like: asymmetric information theories (Amihud et al. 2003, Baron, Holmström 1980, Rock 1986, Welch 1989), institutional theories (Hensler 1995, Hughes, Thakor 1992, Tinic 1998), behavioural theories (Ljungqvist et al. 2006, Ritter 1991, Welch 1992), corporate governance theories (Brennan, Franks 1997, Pagano et al. 1998, Zingales 1995). Corporate governance theories are related to the separation of ownership and control (Jensen, Meckling 1976) when companies go public. There is a large body of academic research which examines theoretically and empirically the relation between underpricing and corporate governance, e.g.: Brennan, Franks 1997, Shleifer, Vishny 1986, Grossman, Hart 1980, Zingales 1995, Pagano et al. 1998, Mikkelson et al. 1997. The scope of this article is to analyse a short- and long-run performance of IPOs on the Polish Alternative Investment Market and explore the influence of board and shareholder composition. For this study, we use the data of issuers entering NewConnect between 2007 and 2011 (over 300 issuers). We develop models with a different time horizon in relation to IPO. The particular features of NewConnect cause a different behaviour of stock prices after IPOs in comparison with prices of securities listed on regulated markets. Our results suggest that on the NewConnect even the 1st day average adjusted return (underpricing) gains twice higher value than on the regulated market on the Warsaw Stock Exchange. Among others we also find that for issuers with lock – up and institutional investor as a shareholder IPO short - and long-run performance is correlated negatively with managerial ownership and positively with ROA. The project was financed with fund support of National Science Center based on decision number DEC-2011/01/D/HS4/05926.

# CEO compensation in the finance sector: Did the financial crisis have an impact?

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## Abstract

Economic commentators conjectured that compensation structures for top management in the finance sector may have induced excessive risk-taking behavior that contributed to the financial crisis. Banking researchers have been aware of the risk-shifting incentives in finance and hypothesized that regulation should dampen pay-for-performance sensitivity in highly regulated banks. Empirical work conducted prior to the crisis documented that pay-for-performance sensitivity in banks is lower than in manufacturing firms. We decided to revisit this issue in light of the post-crisis commentary. We find that average CEO compensation in the finance sector declined during the crisis period (2007-09), rebounded post-crisis (2010-12), but remains below pre-crisis levels (2004-06). However, we also find that pay-for-performance sensitivity in the finance sector is higher than in the technology and other sectors in all three periods. This implies that compensation incentive structures in the finance sector remain a concern from a public policy perspective.

# Do Prime Brokers Induce Similarities in Hedge Funds Performance?

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## Abstract

This paper investigates hedge fund idiosyncratic returns from January 2000 to December 2010. Even after filtering for the exposure to standard risk factors, idiosyncratic returns are still correlated across hedge funds. This raises the question about the potential channels of the similarities in the filtered returns. I conjecture that the presence of the same prime broker, the same domicile or the same style may induce these similarities. Exploiting these hypotheses, I find that dealing with the same prime broker is significantly related to the similarity of idiosyncratic returns. These results are robust to the use of alternative risk factors, subsamples, as well as to alternative similarity measures.

# Debt Financing, Survival, and Growth of Start-Up Firms

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## Abstract

We use data from Kauffman Firm Surveys to analyze how the start-up capital-structure decision of a U.S. start-up firm affects its subsequent survival and growth prospects. First, we analyze whether start-up capital structure explains whether or not a firm will remain in business after its first three years. We find that a firm using debt in its capital structure, and, in particular, business debt, is significantly more likely to survive. Second, we analyze whether start-up capital structure explains how fast a firm grows during its first three years. We find that a firm using debt, and, in particular, business debt, grows faster. In other words, the initial capital structure decision of a start-up firm does, indeed, matter—in terms of both its survival and growth. We then analyze what factors explain a start-up's decision to use credit, and, conditional upon using credit, its decision as to what type of credit to use—business or personal credit. We find that both firm and owner characteristics explain the use of credit.

# Empirical Investigation of Life Settlements: The Secondary Market for Life Insurance Policies

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## Abstract

Abstract In recent years, a secondary market for life insurance policies has developed in the United States, which enables policyowners wishing to discontinue their life insurance policies to realize the market value of their policies. In this paper, we investigate this life settlements market using a large and comprehensive dataset of 9,002 policies with an aggregate net death benefit of $24.14 billion purchased from their original owners between 2001 and 2011 across 50 different U.S. states. We find that the policyowners selling their policies collectively received more than four times the amount they would have received had they surrendered their policies to their respective life insurance companies. We also find that the average internal rate of return investors purchasing this sample of policies could have expected make is 12.5% per annum, which is 8.4% in excess of treasury yields. Finally, we find that the primary determinant of expected returns across life settlement contracts is not adverse selection relative to underlying life expectancies, but other economic phenomenon such as cost-benefit tradeoff, bequest motive, convexity of premiums, diversification of unique risks and mitigation of life expectancy estimation risk.

## Price Discovery for South African Stocks with Cross-Border Listings

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### Abstract

A number of South African domiciled companies particularly, the major mining companies, have multiple listings of their stocks in some of the major securities exchanges in the world. Many reasons account for the pursuance of cross-listing of stocks, however, the purpose of this paper is to examine the relationships between the security returns across all the Exchanges that actively trade a particular companies stock. The empirical analysis was undertaken with the aid of impulse response functions and variance decompositions from a Vector Autoregressive (VAR) process. The findings provide evidence of the role of the Euronext NYSE as the primary market for price discovery for JSE domicilled firms with cross-listings on the NYSE.

# Credit Crunched Regulated Banks

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## Abstract

Why are apparently profitable investments not undertaken? We provide an explanation based on the quality of information. When entrepreneurs need a bank to fund an investment, the bank can be uncertain about the model governing the profitability of the investment. Furthermore, banks are subject to capital requirements set by the government. Hence, banks care about risk and, in particular, model uncertainty regarding the project's profitability. We model this using ambiguity. The impact of ambiguity depends on the state of the economy. We show that ambiguity is more important in a recession than in a boom. In particular, albeit model uncertainty does not impact the risk per se, ambiguity aversion vis-a-vis capital requirements can induce a bank to neglect funding of profitable projects.

## Financial Markets and Mitigation of $CO_2$ Emissions: Global Evidence

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## Abstract

This study investigates the determinants of CO2 emissions for a panel of 38 countries for the period spanning from 1988 to 2008. Compared to previous studies, the current research explicitly incorporates the role of financial markets as they are hypothesized to play an important role in abating CO2 emissions by absorbing funds away from mostly polluting real production activities. Dynamic panel estimation is particularly convenient based on the cumulative nature of CO2 emissions. Results show strong lagged effects of CO2 emissions. Energy consumption is found to constitute the most important determinant of CO2 emissions. Interestingly, financial markets do exert a statistically significant but not economically significant effect on CO2 emissions as the elasticities values hover around -0.03 per cent to -0.04 per cent. Nonetheless, such a finding signifies that, in the long-run, developed financial markets are inherently imbued with strong scope for greening of the economies. Finally, the positive effect of reserves on CO2 emissions implies that governments could levy reserves as part of their long-term engagement in reducing the effects of climate change.

# Monetary Integration in SADC: Evaluating Policy Coordination and Real Effective Exchange Rate Stability

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## Abstract

This paper evaluates the strength of policy coordination in SADC as a prerequisite OCA criterion toward sensible monetary integration. The underlying hypothesis goes with the assertion that countries meeting OCA conditions to a greater degree face more stable exchange rates. The quantitative analysis encompasses 12 SADC member states over the period 1995-2012. Correlation matrixes, dynamic pooled mean group and mean group estimators, and real exchange rate equilibrium and misalignment analysis are carried out to arrive at robust conclusions. This study reveals that the Balassa-Samuelson effect holds true in the region. Furthermore, real exchange rate equilibrium and misalignment analysis reveal that SADC economies are characterised by persistent overvaluation with seemingly unlikely mean reverting trend - at least in the short term. This calls for further policy coordination and policy harmonisation in the region. These findings are consistent with earlier studies in other developing regions. The findings in this paper have important policy implications for financial stability and for welfare-improving monetary integration in the region.

# The interrelationship between working capital and profitability: a pre-crisis examination of the Cyprus Stock Exchange.

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## Abstract

The purpose of the current study was to investigate the interrelationship between working capital and profitability of companies listed in the Cyprus Stock Exchange. A repeated measures cross-sectional design was used. A sample of sixty companies was collected, where a balanced panel data-set of 300 observations was analysed, obtaining annual data for the pre-crisis period of 2004 to 2008. The effect of days accounts receivables, days accounts payables, stock holding period and cash conversion cycle on gross operating profit was examined, where a number of control variables were additionally included in a pooled regression framework. The results showed that there was a significant negative relation between gross operating profit and days accounts receivables, as well as a marginally significant positive relation between profitability and stock holding. In addition, industry was significantly negatively related to gross operating profit, where the most profitable firms in Cyprus were the ones belonging to the consumer goods industry, followed by those in the industrials industry, consumer services, technology and finally basic materials industry. The conclusion of the present study is that profitability of companies in Cyprus will increase if the period debtors take to pay the company is kept short, and the amount of stock held in warehouses is reasonably high.

# Quantitative EDasing and Non Conventional Monetary Policy: The Importance of Supervising Stock and Bond Market Equilibria

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## Abstract

In this paper, we examine causality links between stock markets and monetary policy in the USA over the last forty years. More precisely we want to investigate the impact of the recent quantitative easing decisions which aim at diminishing the long interest rates when the traditional instrument - the short term interest rate- has attained historically low values that cannot be further lowered. The impact we are examining concern not only the future evolution of the activity but also the stock markets, because it seems to be important to anticipate the crash that would occur if the monetary policy were going on abandoning quantitative easing decisions, as observed in the USA since 2012.

## Ambiguity vs Risk Aversion, Participation, and Interbank Market Stress

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### Abstract

We develop a theoretical interbank market (IBM) model which explains a number of facts observed during financial crises: a sudden and significant increase in IBM rates, reduced participation by lending banks, liquidity shortages (i.e. the lenders' supply being smaller than the borrowing banks' demand), and ultimately an IBM freeze. Here a crucial element is a bank's ability to assess risk correctly. The model's core feature is then the distinction between ambiguity averse and risk averse lending banks. While the latter have unique priors, ambiguity averse lenders do not and consider a set of possible priors. Our key insight is that ambiguity and risk differentially affect a bank's decision to participate as a lender in the IBM. Moreover, at a given rate, the ambiguity averse lenders supply less than the risk averse ones. Deciding on the optimal amount results in a unique IBM equilibrium where either all lenders participate (full participating equilibrium) or only the risk averse ones do (partial participating one). This distinction allows us to show how a shock with ambiguity (as at the start of a crisis) leads to a sudden spike in IBM rates, liquidity shortages, and a market freeze. This ambiguity effect is more direct and stronger compared to a rise in risk. Finally, we discuss the (in)effectiveness of different government policies in supporting the IBM.

# The Implied Equity Duration When Discounting and Forecasting Parameters are Industry-Specific

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## Abstract

The procedures for estimating implied equity duration employed by Dechow et al. (2004) are, in their own words, parsimonious but relatively crude. Therefore, improvements in the procedures should lead to a more accurate and useful measure. Within this context, this paper aims to compute the implied equity duration thought forecasting and discount procedures that use implied industry characteristics with the objective of bridging the empirical issues with the theoretical formulation. The results show that firms' IED changes 5.91 years on average and changes in absolute values up to 21.22 years. From a qualitative point of view, when we rank firms by duration, the ranks change until 32 positions, and the average of absolute changes is 14.74 rank positions. Then, we conclude that the cost of being parsimonious is high on average and also quite variable across firms, both quantitatively and qualitatively. Moreover, this cost is large enough to reverse the ranked ordering of firms based on duration.

# The Effectiveness, Determinants and Performance of Different IPO Allocation Mechanisms: Evidence from China

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## Abstract

We examine the determinants of the allocation mechanisms choice along with their effectiveness and performance for the Chinese market using a sample that comprises information for the time period between 1990 and 2011. Our results show that the "bookbuilding" (BB) is the most effective IPO allocation mechanism in Chinese markets to reduce IPO underpricing and that market conditions, a firm's risk level, capital demand and information asymmetry play an important role in the choice between the IPO allocation mechanisms. In addition, we find that firms with smaller board size or higher proportion of legal person share ownership are less likely to use the BB mechanism and that higher proportion of tradable shares is negatively associated with the use of the BB mechanism. Moreover, we report that the short-term and long-term performance of IPOs vary significantly across different allocation mechanisms.

# Long-Run Performance of IPO Stocks: Is the end of the Lockup Period Crucial?

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## Abstract

In this paper, we conduct the first large-scale investigation about the long-run performance of IPO stocks in Europe. Employing different benchmarks to measure abnormal performance, we empirically confirm the findings from existing U.S. studies on the long-run performance of IPO stocks. More importantly, we provide evidence suggesting that the end of the lockup period is not the event that triggers performance deterioration of IPO stocks, contrary to what was hypothesized when using U.S. data (see, e.g., Purnanandam and Swaminathan, 2004)

## Asymmetric transmission of a bank liquidity shock: evidence from Brazil

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### Abstract

We explore the impact of the exogenous liquidity shock that followed the collapse of Lehman Brothers in September 2008 on lending to enterprises in the Brazilian banking system. The announcements of bank bailouts throughout the world sparked a massive redistribution of deposits across Brazilian banks. Some banks suffered strong liquidity constraints, while others passively received a huge volume of deposits. This is the ideal setting to investigate whether borrowers from constrained banks are able to readily switch to unconstrained banks. To expunge possible effects of credit demand, we use the fixed effects approach, comparing firms of similar size within the same industry, so that the estimated coefficients reflect the supply of credit from banks. The results show that the elasticity of credit supply to deposits is different between the groups of banks that have increased or decreased liquidity, consistent with the models that predict that agents tend to hold more liquidity during periods of systemic uncertainty, and that there are costs that borrowers face to switch lender. In addition, we find that the dry-up of external and domestic capital market resources during the crisis led large companies to demand and obtain more bank financing, relatively to small and medium firms.

# PERFORMANCE MANIPULATION AND SKEWED BETS

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## Abstract

Recent literature has suggested manipulation proof and client based performance measures. We measure non-client based degree of manipulation as the difference between manipulation proof performance measures (MPPM) and traditional alpha. A highly manipulated fund is characterized as a large negative MPPM in excess of Fama French alpha. We find that fund managers manipulate fund performance through skewed bets, not low volatility trades, and the fund's alpha persists only in short horizons. In addition, investors cannot distinguish highly manipulated funds and lowly manipulated ones as investors appear not to redeem from highly manipulated funds and invest more cash to lowly manipulated funds. We further add investor preferences to construct the client based manipulation measure. We find that investor disagreement has negative effect on performance manipulation. A fund that more investors disagree with its MPPM is subject to high manipulation, but investors do not falsely chase such a fund.

# The Effect of FASB Statement No. 123R on Stock Repurchases: An Empirical Examination of Management Incentives

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## Abstract

This study examines management's response to the change in accounting for the stock option-based compensation imposed by SFAS No. 123R. SFAS 123R mandates the valuation and expense of employee stock options based on their fair market value. As a consequence, its implementation is expected to reduce reported income. To cope with this impact, management may be motivated to decrease the use of stock options as part of compensating employees and engage in stock repurchases in an attempt to increase the value of outstanding employee stock options. Our findings demonstrate a significant decrease in the number of stock options issued and a significant increase in the number of options vested and shares repurchased for all industries in the S&P 500 following SFAS 123R implementation. For industries that made extensive use of employee stock options in their compensation schemes, there is a contemporaneous increase in repurchases and leverage in the post SFAS 123R period, which may suggest that some of the buybacks may have been funded with debt. The results highlight changes in management incentives to repurchase stock in order to influence share prices and the unintended consequences of accounting rule changes.

# Dynamic Information Revelation

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## Abstract

We present a dynamic model of information revelation by companies. A company's privately known state (either low or high) follows a Markov process. A company wishes to do an action in one of the states that would be profitable but depending upon the legal environment must either announce this action that period or a period in advance. We characterize conditions where the first announcement causes a higher abnormal market reaction than a subsequent announcement. We also find conditions where the reverse is true. Our model explains price patterns in dividend announcements, stock repurchases, mergers and acquisitions, and profit warnings.

# Leveraged Buyout Activity: A Tale of Developed and Developing Economies

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## Abstract

We study Leveraged buyouts (LBOs) internationally over the period 1980-2012. Returns on LBOs are on average higher for developed markets; however, returns of LBOs during high economic growth periods are high for developing nations relative to developed economies; whereas returns in developing nations are lower when compared to the returns in developed nations in periods of negative economic growth. During periods of negative economic growth, the returns in developing nations do not compensate for the high risk associated with them. Exit times for LBO transactions in developing economies are shorter relative to developed economies in periods of high economic growth rate. This is because the PE investment firms would like to exit soon and lock in their profits. Also during periods of negative economic growth rate, the LBOs in developing nations exit sooner. This is because in periods of economic distress, the PE firms would like to avoid further losses and hence exit sooner. During periods of low or medium economic growth, LBOs in developing economies take longer times to exit. Reputed firms, club deals and small firms all have higher returns and exit sooner.

# Tax effects and agency effects of dividend policy: Holding companies as a separating device

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## Abstract

Higher dividends may create value by reducing agency costs, but may also destroy value by increasing tax payments. This paper analyzes how stockholders choose to own operating companies indirectly through holding companies in order to obtain the benefit of lower agency costs while avoiding the cost of higher taxes. We identify this relationship empirically by studying the effect of a regulatory shock in Norway, where dividend income became positive for individuals, while intercorporate dividends remained tax-exempt. We find that the use of holding companies increases strongly after this tax reform, and that operating companies with higher potential for agency conflicts are more often owned indirectly through holding companies. Dividends paid from operating companies to holding companies are greater when the operating company would have faced more severe agency conflicts if such payments were not made. The payout is also greater and more stable from operating companies than from holding companies. These findings are consistent with the notion that stockholders organize their ownership in ways that allow agency concerns to be separated from tax concerns in dividend policy.

## Contagion in an Economy with Heterogeneous Beliefs

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### Abstract

To the light to the financial crisis of 2007-2008, this article examines contagion from the perspective of emerging markets economies. Following Gertler and Kiyotaki (2010) and Cogley et al. (2012), I develop a theoretical model with heterogeneous beliefs that represents the case of a small economy, which is partially integrated to the rest of the world. When the economy is liquidity constrained and the rest of the world is fully integrated, I find that a bad news about the state of the international economy can lead to abrupt falls in foreign credits, to a rise in foreign interest rates, and to a change in agents' beliefs. Although these three situations may have adverse effects in the economy, the distress can be exacerbated due to a discrepancy in beliefs.

## Portfolio allocation under Model Uncertainty

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## Abstract

This is an empirical paper about model pooling. I consider popular prediction models for the equity premium and I combine the model-specific predictive densities in three different ways. So I build three new prediction models, which I use to make forecasts on the mean and variance of the equity premium and on the value at risk. I find that these pooling strategies improve the accuracy of the prediction about the VaR over the constant equity premium model, but their performance become poorer for quite extreme values. From profitability pespective, it depends on how investors price the different component of the predictive variance.

## Sub-Penny and Queue-Jumping

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## Abstract

Sub-Penny Trading (SPT) is a form of dark trading that allows traders to undercut displayed liquidity. We distinguish between SPT that is queue jumping (QJ) and mid- crossing (MID) and find that QJ is higher for NASDAQ than NYSE stocks. Consistently with Buti, Rindi, Wen and Werner (2013), QJ is positively related to depth and negatively related to stock price. We also find that QJ is associated with improved lit market quality, especially for large capitalization stocks. Sub-penny quotes are allowed for stocks priced below $1.00, and we use this fact to show that QJ increases, the spread improves but depth deteriorates as the price of a stock crosses from above to below ($1.00).

# Rational Herding toward the Poor: evidence from Location Decisions of Microfinance Instistutions within Pakistan

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## Abstract

Every single location decision is uncertain because it is made a priori. For microfinance institutions (MFIs), the uncertainty about their financial performance grows together with the level of poverty and remoteness of a region. This contributes to remove them away from this type of regions and poses the question of the lack of access to financial services there. In this paper, we theoretically hypothesize that this uncertainty is at the basis of a rational herding from MFIs that are incentivized to follow each others. From a brand new database tracking the branches' location of almost every actors of the Pakistanis microfinance sector, our empirical results support the rational herding thesis i.e. herding tends either to reverse, neutralize or moderate the negative impact of uncertainty. It allows then more locations in needier areas. These results are rather good news for those who reckon that a better access to financial services enhances economic growth and fosters poverty alleviation. Indeed, rational herding constitutes an endogenous moderator effect to the big issue that financial services penetration is too weak in the poorest rural areas.

# The impact of the central bank reference rate on investments in context of inflation targeting strategy

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## Abstract

This paper examines the impact of interest rates on investments in Poland and the euro area. In addition studies the impact of central banks reference rates on the interbank market rates and dependence of bank loans to businesses from interbank market rates. Besides I study correlation between the level of corporate loans and the amount of investments in Poland and the euro area in order to determine the indirect impact of central bank interest rates and the interbank market rates through the transmission mechanism of monetary policy on the real economy. This analysis suggests that the central bank reference rate inversely affects the level of investments, both in Poland and in the euro area. The research is important from both theoretical and empirical points of view. The formulated conclusions and recommendations determine the practical significance of the paper which may be used in the decision making process of monetary and economic authorities of the country.

# Collateral and Repeated Lending

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## Abstract

Lending is often associated with signi cant asymmetric information issues between suppliers of funds and their potential borrowers. Banks can screen their borrowers, or can require them to post collateral in order to select creditworthy projects. We nd that the potential for longerterm relationship increases banks' preference for screening. This is because posting collateral only provides the information that the current project of a given borrower is of good quality, whereas screening provides information that can be used in evaluating future projects as well as the current ones.

# Financial Dollarization, Public Debt and Systemic Risks

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## Abstract

This paper explores the persistence of financial dollarization in a group of 79 economies with different levels of development. Our main hypothesis is that a high level of domestic debt combined with default risk explains this persistence, even after a decline in inflation rates. Using the generalized method of moments (GMM) in a panel data analysis, our results show that inflation risks caused by increasing probability of default account for financial dollarization more than inflation rate itself. After the decrease in inflation rates, the foreign currency-denominated deposits remain large because of the high debt-to-GDP ratios, particularly in speculative-grade economies. High public indebtedness leads to expectations of default. Dollarization is a rational response to the future inflation associated with investors' expectations of default observed in highly indebted economies.

# Do US macroeconomics news make emerging financial markets more riskier?

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## Abstract

The aim of this paper is to analyze the impact of non-domestic macroeconomic news on the twelve emerging markets. We employ daily data on stock price index returns and U.S. macroeconomic announcements for the period from 1994 to 2010. We jointly model the return and volatility accounting for the U.S. macroeconomic news and asymmetric news. Our findings show that returns and volatility of the emerging markets are strongly determined by the US macroeconomic announcements. We show that the persistence of volatility decreases in the asymmetric volatility models after controlling inflation, unemployment and FED target rate news. Bad news increases volatility, where good news increases volatility less than bad news. Further, accounting for conditional volatility, FED target rate announcements significantly decreases volatility in Russia and Turkey. Our results are crucial building an accurate asset pricing models and forecasting of stock market volatility.

# Do OPEC announcements influence oil prices?

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## Abstract

This paper investigates the effect of OPEC production decisions (cut, maintain or status quo) on both WTI and Brent crude oil prices between 1991 and 2012 by using two indices as benchmarks (DJ-UBSCI and SPGSCI) and by employing the event study methodology. We find that the impact of OPEC's announcements is (i) less significant during periods when oil prices are higher and turbulent, (ii) more significant for production cut and maintain, (iii) different for WTI and Brent prices, and (iv) sensitive to the benchmark index.

# Optimal Asset Allocation in Radial Basis Functions Networks, and hybrid neuro-genetic RBF?s to TLRNs, MLPs and Bayesian Logistic Regression

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## Abstract

Optimal portfolio selection is supported incorporating vague information under extended accounting data and financial indices. Radial Basis Function Networks are thoroughly detected in various hybrids formations whilst results are compared to past results of TLRNs Hybrids, MLP Neural Nets and Bayesian Logistic Regression defining highly competitive methods in asset allocation and corporate evaluation. The Radial Basis Function network with 3 layers, Genetic Algorithms into input and output layers only is superior to all the neuro-genetic forms of RBF in Financial Analysis, whilst the TLRNs hybrids outperformed all the models examined.

# Insider Bank Runs: Community Bank Fragility and the Financial Crisis of 2007

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## Abstract

From 2007 to 2010, over 200 community banks failed. Many of these failed community banking organizations (CBOs) held less than $1 billion in assets. As economic conditions worsen, banking organizations are expected to preserve capital to withstand unexpected losses. This study examines CBOs prior to failure or becoming problem institutions to understand if, on average, a run on capital by insiders led to greater financial fragility at the onset of the crisis. We use a control group of similar sized banks that did not fail or become problem institutions to compare our results and to draw statistical conclusions. We use standard control variables highlighting corporate governance and managerial ownership such as S-Corporation designation and the presence of large block holders that might create incentives more conducive to insider enrichment than to the welfare of depositors or debt holders.

# Discrete Barrier Options. Exact Geometric Solution.

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## Abstract

Barrier options are some of the most actively traded exotic derivatives. However, simple analytical solution for option prices exists only in the approximation of continuously monitored barrier. In reality all barriers are monitored discretely but no simple analytical solution for barrier options with discrete monitoring has been found so far even in the standard Black-Scholes framework. We discovered exact analytical solution for discrete barrier options that does not require numerical inversion of complex z-trasforms and has significantly simpler form than anything reported in the literature. The novel approach reveals geometric nature of discrete barrier options for the first time.

## Does Gender Diversity on Board Matter

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## Abstract

The research objective is to examine if increasing board size improved the proportion of women and if increasing gender diversity on boards had a positive impact on firm's financial performance with reference to Singapore and India. Through two separate regression analysis, the relationship of board size on number of women directors and the impact of presence of women directors on firm's ROA was assessed. No significant impact of presence of women directors on firms' performance is found. Further increasing board diversity does not increase women participation on boards.

## Commodity Price Cycles and Financial Stability

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## Abstract

Commodity exporter economies usually suffer when a boom in commodity prices ends, especially if the cycle ends abruptly. Furthermore, recent literature has highlighted the role of credit booms and financial instability as either causing or aggravating financial and real crises. In this paper we look at these two aspects, and study the relationship between commodity prices, output growth and financial stability, the latter measured by domestic credit growth. Given the asymmetry we observe in boom and bust cycles, we estimate the output cost of commodity price shocks on separate samples, with a special emphasis in emerging economies. In particular, we focus on the output cost of a commodity price reversal given the credit increase observed during a boom event. We find that, in line with previous literature, the correlation between commodity shocks and output growth decreases as economies are more open to financial markets. The novelty is that we also find that this correlation is higher when countries experience very rapid credit growth during the Upturn phase of a boom. That is, rapid credit growth -- regardless of its initial level -- exacerbates the cost of a commodity price reversal. The case of four emerging economies is presented, with quantifications of what the actual cost could be given the characteristics of these economies in the present commodity boom cycle.

# Forecasting exchange rates of major currencies with long maturity forward rates

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## Abstract

This paper presents extraordinary forecasting results with a new model. Our error correction model assuming that long-maturity forward rates are stationary outperforms the random walk in out-of-sample forecasting at forecasting horizons mostly above one year, for US dollar exchange rates against nine industrial countries' currencies, using the 1990-2013 period for evaluating out-of-sample forecasts. The improvement in forecast accuracy of our models is economically significant for most of the exchange rate series and statistically significant according to a bootstrap test. Our results are robust to the specification of the error correction model and to the underlying data frequency.

# The Impact of Distance on Credit Default in Spatially Segmented (Rural) Credit Markets: An Empirical Analysis

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## Abstract

This paper theoretically considers the implications of spatial separation in a segmented credit market, such as the situation commonly found in rural financial markets in less developed countries. The theory developed predicts that with imperfect information sharing between lenders, access to credit will not be optimized. Rather, lenders will locate closer to each other than is optimal in terms of credit access in order to capture borrowers from one another that are located within mutual spheres of lender information. To test this theory, data is used from a comprehensive household survey in El Salvador. This is the first test of the effect of distance to lender on household participation in rural financial markets. The results show that distance has a significant impact on program participation. Policy implications highlight the importance of both physical and information infrastructures to financial market inclusion. This is particularly important in the rural context, where these infrastructures are most fragmented and participation in financial markets is lowest.

## The Influence of Market States on Security Returns

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### Abstract

The Influence of Market States on Security Returns Warren Thomson Griffith Business School, Griffith University, Gold Coast, Australia Graham Bornholt Griffith Business School, Griffith University, Gold Coast, Australia This empirical study considers the impact of market states on future industry returns. We investigate whether an industry's past relative performance in the same market state as the current market state predicts the industry's future performance. This new approach sorts industries into portfolios to test whether market states can be used to construct profitable dynamic industry rotation strategies. We argue that the results provide strong evidence that market states predict future industry returns

# Islamic Banking and Financial Stability-- An Emperical Evidence from Middle East

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## Abstract

Islamic banking and finance is one of the fastest growing sectors of the global banking industry and has risen to prominence recently through its distinctive characteristics. The emergence of Islamic finance can be traced back to 1963 in Egypt, while its importance comes to the global financial system only after the global financial crisis occurred in 2008. Many earlier studies have discussed theoretically the relevance of Islamic finance principles and instruments in enhancing financial stability and economic growth under different financial situations. Moreover, financial stability is an essential tool for economic growth, as most transactions in the real economy are made through the financial system. However, few studies have empirically examined the relationship between Islamic banking and financial stability. To fill this gap in empirical literature, this paper explores empirically the relationship between the development of Islamic finance system and financial stability. Three of the most important countries for Islamic finance growth from Middle East, namely Qatar, Bahrain, and United Arab Emirates (UAE), are selected for the study. To document the relationship between development of Islamic finance and financial stability, time series data from 2005 to 2010 for all fledged-Islamic banks working in the three countries are used. Firstly, the trend analysis method is utilized where yearly financial ratios of Islamic banking sector are computed using Microsoft Excel. For the analysis, liquidity ratios and capital adequacy ratios are determined. Secondly, One Way Analysis of Variance (ANOVA) is used to test hypotheses using SPSS. Our empirical results show that Islamic banking sector is stable in terms of, capital adequacy and liquidity in the period under study for the selected countries. Furthermore, Islamic finance shows its stability under various financial crises and shocks. Also, the findings of research will be of interest to western and Islamic finance practitioners, policy makers and academicians, who are interested in the stability of Islamic finance system.

## SMEs Capital Structure Dynamic Within and Economic Crisis

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## Abstract

This paper addresses the issue of the determinants of capital structure (explicitly company leverage) of small and medium-sized enterprises (now on SMEs). It builds on the work by ?rnigoj & Mramor (2009) and Frank & Goyal (2007) on the determinants of capital structure. We take their leverage-based OLS cross-section regression model as a baseline of our analysis, and cross-validate it in an economic and financial crisis situation within the 2008-2010 period. Additionally, we also include the population of micro companies, originally excluded by the authors, and perform a robust regression analysis where we further cross-check their model across micro, small, medium-sized and large companies separately. The results of our analysis show a) how the treatment of outliers affect the results of analysis, and b) how within a very heterogeneous population of Slovenian companies, the influence of a micro and small companies can drive the results of the whole model.

## Capital Structure and Firm Performance: A Panel Data Analysis

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## Abstract

The theory of capital structure irrelevance developed by Modigliani and Miller (1958 & 1963) paved a path to the development of various theories. Although Modigliani and Miller (1958) proposed the theory of irrelevance by arguing that investors do not give considerable attention to financial leverage under the perfect market condition since financial risk could be diversified away by the marginal investors. Further, Miller (1977) modified the theory by introducing the same level of personal as well as corporate taxes into the model. In 1980, Deangelo and Masulis extended Miller's work by examining the effect of tax shields other than interest payments on debts. In 1977, Ross has done research on the signalling role of debt. Another equilibrium theory of optimal capital structure is agency theory proposed by Jenson and Meckling (1976). Myers (1984) proposed pecking order theory i.e. consequence of asymmetric information. These theories motivated the researchers to do further research on this domain. Numerous studies have investigated the relationship between financial leverage and performance by using various approaches in different geographical contexts and at different points in time. The results of these studies are inconclusive. The inconclusive results motivated the author to undertake a study on the relationship between financial leverage and performance in Indian pharmaceuticals firms. A quantitative analysis has been carried out over a panel data sample of 95 listed pharmaceutical companies of BSE for the period of 2000-2012. The study employed panel data regression with pooled and random effect regression. Among the two methodologies, this study found that pooled regression is more appropriate to understand the proposed relationships in relation to pharmaceutical firms over the sample period. The relationship between financial leverage was significantly positive association with performance of a company.

# Forecasting Performance of Financial Time Series Based on Range to Standard Deviation Ratio

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## Abstract

In this study, we empirically examined the relationships between Range to Standard Deviation Ratio (R/S Ratio) of a financial time series and the predictability of that time series based on past values of the series. Financial markets theories are based on the assumption that security prices are martingales, implying the expected value of security price is the price in the previous period. Therefore, security prices follow random walks and returns from financial securities are unpredictable. And technical analysis based trading rules are unlikely to give profitable results. However, many physical and biological systems display presence of long memory or trends in their time series. H. E. Hurst, a British hydrologist, analyzed water flow characteristics of River Nile. He developed a ratio by dividing high-low Range of the water flow by the Standard deviation of the data series and found that the ratio can be used to detect dependency of the future water flow on its past values. Similar to the study of natural phenomena, the ratio has found application in the study of price variations in financial markets. If the current price of a stock depends on its past prices then the dependency can be used to forecast future prices of the stock and profitable investment decisions can be taken. The larger the R/S ratio, the stronger is the dependence on the past values of the series and higher is the chance of technical trading rule giving profitable results. The study analyzed R/S ratios of number of financial series involving stocks traded in stock markets in various periods and found out relationship between R/S ratio and performance of a technical trading rule.

# Loss Aversion and Market Liquidity in the Commercial Real State Market

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## Abstract

The most commonly observed risk-averse behavior in the commercial real estate market is loss aversion on the part of investors; i.e., investors are more sensitive to prospective losses than to prospective gains. This observation leads to the natural question: Does the market rationally anticipate investors' loss aversion? If not, then does loss aversion become stronger in a less liquid market? The answer to these questions provides strategically important implications to institutional investors. I propose to explore the impact of loss aversion on the commercial real estate market by testing two competing hypotheses: (1) the rational market expectation hypothesis and (2) the liquidity spiral hypothesis. The rational market expectation hypothesis holds that the market rationally anticipates investors' behavioral loss aversion. As a result, the interaction between lagged market liquidity and loss aversion does not have an impact on the probability of property sales. On the other hand, the liquidity spiral hypothesis holds that the interaction between market liquidity and loss aversion has an impact on the probability of property sales due to the self-fulfilling feedback effect between loss aversion and market liquidity. In the context of REITs' property transactions, I find partial evidence for the liquidity spiral hypothesis: private market liquidity and stock market liquidity each has an additional impact on the sale probability of property.

## Growth Options and Likelihood of Acquisitions in High Tech

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### Abstract

We attempt to determine how a tech firm's growth options influence its likelihood of being acquired. In particular, we develop a new growth options proxy called Gamma ( ? ) to represent the return relative to investment in research and development. We find that is inversely related to the likelihood of being acquired. Robustness tests show that this relationship holds regardless of the subperiod assessed, the size category assessed, whether tech firms are engaged friendly or hostile acquisitions, the system used to identify tech firms, and whether the R&D definition includes capital expenditures. The relationship is even more pronounced when tech targets have a relatively low valuation (based on the market-book ratio). Furthermore, we find that tech firms with a high ? are less likely to acquire targets. In general, tech firms with a high ? appear to prefer organic growth rather than expansion by combinations with other tech firms.

# Systemic Importance of Global Financial Markets and Distress Propagation

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## Abstract

In this article, we analyze stock market indices and foreign exchange daily returns for 60 countries over the period of 1999-2012. Using different correlation computation approaches and econometric tests, we observe atypical behavior of the cross correlations and community formation during the financial crisis of 2008. We build a multi-layer network model based on the correlation measures, and introduce a dynamic Susceptible-Infected network model to simulate the initializing and spreading of financial crisis. In general, core countries that have higher correlations with other countries and larger Gross Domestic Product (GDP) values spread financial crisis quite effectively, yet some counties with small GDPs like Greece and Cyprus are also effective in propagating of systemic risk and spreading of global financial crisis.

# Islamic banks impaired financing: Relationship between shariah committee meetings frequency and shariah risk compliance on assets quality

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## Abstract

This study made a pioneering attempt to econometrically examine what factors determining impaired financing using shariah committee meetings frequency from data on Islamic banks in Malaysia and how does it affects on the quality of assets. The objective of the study is to improve assessment of their assets quality so as to increase the reliability of the financial statements. The European Central Bank may find the findings from this study useful in their exercise to assess risks and assets quality of their commercial banks, a move to tackle the ailing banks in centralizing oversight supervision in late 2014. The major components of the Islamic banks' assets quality are impaired financing and provisions for financing impairment. In the Islamic banks, shariah committee principally manages the shariah risks non-compliance with other risks; however because their management is not straightforward, the study uses the shariah committee meetings frequency as an indicator of the assets quality. The study found the less-than-full frequency of shariah committee meetings resulted in less guidance and conformation of shariah principles, and consequentially the quality of the assets.

# Strategically Using the Issue Affecting The Adoption of a Common Currency for Uniting and Developing the Arab Gulf REGION

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## Abstract

conomic integration through formation of blocs is a phenomenon which cuts across continental boundaries. It exists in Europe, East Asia, North America, Africa and Middle-East. One of the vibrant, but growing economic bloc in the Middle-East is the Gulf Cooperation Council (GCC). This developmental paper explores the possibility of strategically using the issue affecting the adoption of a common currency for uniting and developing the Arab Gulf region. The theory optimum currency area provides the required foundation for this research, while relying on mixed research methods. The qualitative research aspect shall adopt interview instrument for data collection, which shall be analysed using content analysis. The quantitative research segment of the paper relies on secondary data from GCC and international financial agencies, which shall be analysed using descriptive and Cointegration (Johansen) Test. The anticipated outcome is the development of a framework for a single common currency area in the GCC region leveraging on the benefits of economic integration. As contributions to optimum currency theory and economic integration, the developmental paper proposes a politico- economic framework (PEF) for understanding the dynamics of common currency agenda in the Arab Gulf Region (AGR) with specific reference to the GCC.

# The Role of Working Capital in Shaping the Financial Situation in the Family of Farming Households

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## Abstract

The aim of this work was to investigate mutual dependencies between the level of working capital and the financial situation of the family measured by the “financial means of the household”. Research was conducted on a group of 5350 family farms collecting accounting data for the FADN PL, in the years 2004-2011. Agricultural holdings were grouped into those with negative and positive working capital. The financial liquidity and profitability of these farms was measured. A correlation analysis was also conducted. The research shows that agricultural holdings with negative working capital had higher resources of land and invested capital at their disposal. They also achieved better economic results. The profitability of own capital was higher in this group. The measurement of liquidity from a dynamic perspective showed, that farms from the group with negative working capital managed to settle their liabilities, despite significantly lower values than in the case of farms with positive working capital. A higher amount of financial means was received by families of farms with negative working capital.

# A Study on the Options Model and its Efects on a Share Portfolio´s Systematic Risk

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## Abstract

The major objective of investors is to do more with less, i.e. increase profitability with the least possible risk. Variable income is an alternative to exceed fixed income profitability. This paper intends to demonstrate the importance of call options as a manner of limiting stock market risk, providing investors with a view of their transactions in relation to risk / return, allowing a profitability projection in the light of the best and worst market circumstances. This paper's rationale describes five strategies and real case studies of transactions with call options, in a rising market as well as in a declining market. The result obtained evidences that when a covered call option strategy takes place with in-the-money (ITM) options, the transaction not only reduces risk when compared to the main asset, but may also result in profitability.

## Hang Together or Hand Separately: Global Banking After the Great Recession

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### Abstract

Global financial assets (debt plus equity) grew 8.1% annually during 2000-2007, but this growth has dropped to 1.8% annually since then (see McKinsey, 2013, page 2). This slowing of financial flows reflects the weak recovery from the last recession that featured the freezing of financial markets in 2008. Since the crisis of 2008, national monetary authorities have worked to shore up their banking systems and to devise policies to prevent future crises. Some of the proposed policies have been focused on protecting domestic creditors at the expense of other creditors. This approach is short sighted and may put world financial markets and capital flows at risk.