ABSTRACTS

1. RISK, RETURN, AND INVESTMENT HORIZON IN EMERGING EQUITY MARKETS: EVIDENCE FROM INDIA

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ABSTRACT

Time diversification suggests that equity investments over long horizons provide excessive premia after adjusting for risk. Encouraged by this idea, and the attractive equity premia delivered by the US equity market during the past century, pension fund and bank portfolios are making equity investments. However evidence from other markets shows that the US experience could be an exception. Before generalizations can be drawn from the US data, it is useful to collate and analyze the data from various other markets. Fragile emerging markets, in particular, need to be careful while following the developed market trends. This paper attempts to present data from the Indian equity market and analyses the risk, return and investment horizon relationships embedded therein. It is noticed that while long-term trends seemed to show attractive equity returns on risk-adjusted basis, the observed results deviate significantly from the results expected from the theory. The sub-period data defies the expected risk return relationships. Even in the long-term data there are trends that deviate from the theoretical expectations. These findings indicate the need for careful examination of the equity market trends before safety seeking-portfolios are encouraged to invest in equity.

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2. THE RELATIONSHIP BETWEEN PENSION PLAN FUNDING LEVELS AND CAPITAL STRUCTURE: FURTHER EVIDENCE OF A PECKING ORDER

Aaron L. Phillips, California State University, Bakersfield
Sharon M. Moody, California State University, Bakersfield

ABSTRACT

The literature on defined benefit pension plans presumes firm managers make an economic choice to overfund or underfund their defined benefit pension plans irrespective of other firm operating conditions and/or financing practices. Theoretically, overfunding is encouraged due to the tax deductibility of the pension expense and the non-taxed status of pension plan earnings. Alternatively, underfunding might occur due to poor cash flow or the firm's ability to earn a greater after-tax rate of return on firm assets than on pension plan assets. This study demonstrates that underfunding occurs principally due to a firms' incapacity to fully fund. By examining a period when multiple defined benefit pension funding disclosure criteria existed, the results are seen not to be dependent on the form of pension disclosure requirements.

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3. HETEROSKEDASTIC BEHAVIOR OF THE INDIAN STOCK MARKET: EVIDENCE AND EXPLANATION

Madhusudan Karmakar, Indian Institute Management Lucknow

ABSTRACT

This paper investigates the heteroskedastic behavior of the Indian stock market using 'vanilla' GARCH (1, 1) model for a period of about 24 years from January 1980 to June 2003. The study reports an evidence of time-varying volatility which exhibits clustering, high persistence and predictability. Conditional volatility shows a clear evidence of volatility shifting over the period where the level of volatility for the decade Nineties is considerably higher than that of the decade Eighties and violent changes in share prices cluster around the boom of 1992, surpassing all previous records. Though the gradual shift of volatility *started in response to strong economic fundamentals, the real cause for abrupt movement appears to be the imperfection of the market.*

4. THE KUALA LUMPUR STOCK MARKET AND ECONOMIC FACTORS: A GENERAL-TO-SPECIFIC ERROR CORRECTION MODELING TEST

Mazhar M. Islam, Sultan Qaboos University, Oman

ABSTRACT

This study applies the Error-Correction Modeling technique to examine the short-run dynamic adjustment and the long-run equilibrium relationships between the four macroeconomic variables and stock returns of Kuala Lumpur stock market. The macroeconomic variables analyzed are interest rate, inflation rate, exchange rate, and the industrial productivity using monthly observations from January 1990 through June 2002. In addition, a dummy variable is included to capture the impact of the 1997 Asian financial crisis. Econometric results support the existence of short-run dynamic adjustment and the long-run, equilibrium relationships between the macroeconomic variables and the Kuala Lumpur stock market.

5. THE DETERMINANTS OF CAPITAL STRUCTURE CHOICE USING LINEAR MODELS: HIGH TECHNOLOGY VS. TRADITIONAL CORPORATIONS

Hsiao-Tien Pao, National Chiao Tung University, Taiwan
Bohdan Pikas, Niagara University, USA
Tenpao Lee, Niagara University, USA

ABSTRACT

This study adopts four linear models (multiple regression model, variance-component model, first-order autoregressive model, and variance-component moving average model) with 10 independent variables to analyze the important determinants of capital structures of the high tech and traditional industries, respectively. The results of the study show that the determinants of capital structure of the high tech industry are different from that of the traditional industry. In four linear models, the variance-component model has the smallest root MSE in both industries. These indicate that time-series and cross-sectional variations are very important in analyzing the determinants of capital structure in Taiwanese industry. Managers can apply these results for their dynamic adjustment of capital structure in achieving optimality and maximizing firm's value.

6. RISK AVERSION AND GROUP DYNAMICS IN THE MANAGEMENT OF STUDENT MANAGED INVESTMENT FUND

Peter A. Ammermann, California State University, Long Beach
L.R. Runyon, California State University, Long Beach

ABSTRACT

The Student Managed Investment Fund (SMIF) at California State University, Long Beach, has been in operation for eight years, a time span that has covered a wide spectrum of market conditions. The records of the decisions of the SMIF managers over this time period allow for an examination of both the attitudes towards risk and return of the students and some of the factors that contribute to the formation of their expectations about the risk and return of investment alternatives. Using information about the numbers of stocks analyzed, the numbers of stocks actually approved for purchase, and the numbers of students in the class in each of the eight years, three main hypotheses are examined. First, that the *students are return-seeking, in which case higher anticipated returns should lead to higher levels of stockmarket activity. Second, that the students are risk-averse, in which case greater anticipated volatility would lead to reduced levels of stock-market activity. Third, that, due to the group dynamics of the class, the larger the class, the greater the apparent degree of risk aversion reflected in the students' decisions. Correlation analysis is used to examine these three hypotheses, and evidence is found in support of all three hypotheses, although the evidence in support of the third is not significant. Interestingly, the evidence also suggests that the students' risk and return expectations are informed by the stock market activity over the two years prior to the students' entrance into the SMIF program, roughly the length of their academic careers prior to commencing SMIF.*

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7. THE IMPACT OF FOREIGN INVESTMENT, REGULATORY MEASURES AND BLACK MARKETS ON A COUNTRY'S ECONOMIC GROWTH

Imtiaz Ahmad, University of Maryland Eastern Shore, Princess Anne
Dinesh K. Sharma, University of Maryland Eastern Shore, Princess Anne
Julius A. Alade, University of Maryland Eastern Shore, Princess Anne

ABSTRACT

The study explores the impact of economics and institutional factors on a country's economic growth. These factors include: trade, taxation, government intervention in the economy, monetary policy, foreign investment, banking, wages and price policies, property rights, regulation, and black markets. The study estimates a formulated linear regression model. The results of the regression analysis demonstrate that despite the positive and low level contributions of the variables in a country's overall growth, three of the factors namely, absence of black market, lower level of government intervention, and unrestricted direct foreign investment show a more statistically significant impact on a country's growth (GDP).

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8. THE FAILURES IN THE FINANCIAL MARKET: MARKET FAILURES VS. GOVERNMENT FAILURES

Ge Wu, Fudan University, Shanghai, China
Jun Liao, Fudan University, Shanghai, China

ABSTRACT

The paper compares the "failures" in the U.S stock market with Chinese stock market recently. The authors find that the phenomena of the failures in two markets are very similar: the boom-bust of the stock prices, the corporate accounting scandals, and the negative effects on the whole economy. However, the causes of failures are much different. The failures in the U.S stock market are "Market Failures", caused by the lack of regulations relative to the rapid changes of the financial market. While the failures in the Chinese stock market are "Government Failures" caused by too many interventions in the financial market. Therefore, we should take different actions to avoid the "failures".

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9. RESIDUAL VALUE RISK IN THE LEASE-OR-BUY ANALYSIS

Wenyuh Tsay, California State University, San Marcos

ABSTRACT

Whether debt and lease are substitutes or complements is one of the major issues in leasing literature. Most of the academic literature on leasing focused on the tax deduction as one of the main motivations for the leasing alternative. Some of them discussed the issue of residual value in pricing the leasing contracts. However, no one carefully examined the impact of both taxes and residual value on the leaseor-buy decision. This study intends to incorporate both the tax liability and the residual value risk in the analysis of lease-or-buy decisions and the relation between debt and leases. This paper develops a simple model to illustrate the effects of tax liability and residual value risk on the lessee's lease-or-buy decision and whether debt and leases are substitutes. It is shown that when the earning and residual value processes are negatively correlated, the debt and leases are indeed substitutes and the firm is better off buying the assets rather than leasing. When the correlation of earnings and residual value is positive, debt and leases can be complements and it is better for the firm to lease in order to eliminate the redundancy of nondebt tax shields. The implications obtained in the analysis for the lessee and lessor can be further formulated as empirically testable hypotheses. Both the firm characteristics and asset attributes are determinants of the corporate leasing policy. The impact of the interaction between the asset attributes and the firm characteristics on a firm's financing decision can be readily tested.

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10. EMPLOYEES' STOCK OPTIONS FROM A SHAREHOLDER'S PERSPECTIVE

Karim S. Rebeiz, American University of Beirut

ABSTRACT

Although employee stock options (ESO) have existed for some time now, corporate watchdogs are becoming increasingly wary about potential abuse of ESO and have seriously challenged the value of such compensation schemes. Undoubtedly, this renewed scrutiny, being fueled by the recent corporate scandals, is not without justification. Indeed, many boardrooms have automatically acquiesced management requests for excessive and unwarranted amounts of ESO without engaging in due diligence and without questioning the financial impacts of such compensation schemes on the existing shareholders. This study draws on 34 survey results and six structured interviews with experienced individuals who have served in the compensation committees of the board of directors for many years and who have been extensively exposed to ESO issues to sort out between the myths and realities of such compensation schemes. From the shareholders' perspective, the utilization of ESO could reduce agency costs provided that there is an appropriate mechanism of self-imposed discipline at the level of corporate governance and a more independent and autonomous boardroom configuration.

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11. SHAREHOLDERS VALUE MAXIMIZATION: ABANDONMENT VALUE, ECONOMIC LIFE OF AN ASSET AND BUYING TIME ALTERNATIVES

Bhavesh Patel, Myers University, Cleveland, Ohio

ABSTRACT

This concept paper is focused on the determination of the economic life of an asset from the angle of maximization of the shareholder value. The paper considers options of buying used assets, as the used assets can be sold in the market. The options of buying new as well as old assets have been verified under the assumptions of one-time investment plans and also under the assumption of chain of repeat investment plans. The shareholder value creation is measured in terms of net present value because the reinvestment assumption of the net present value method of evaluation is more realistic and sound especially in evaluation mutually exclusive investment plans. The model developed proves that as there exists good opportunity for risk-adjusted value maximization through abandonment timing decision, there also exists value maximizing opportunities through the decision of buying used assets of right age.

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12. IN THE LONG END OF THE SPECTRUM

Aaron L. Phillips, California State University, Bakersfield

ABSTRACT

One theory of the term structure of interest rates holds that markets are segmented by maturity, with each segment offering a yield resulting from the supply/demand equilibrium. Using data from United States Treasury constant maturity series, I document significant bond market reactions to Treasury announcements of reduced supplies of 30-year bonds coupled with Treasury's debt buyback program. The results support the market segmentation theory. Supply-demand imbalances pushed bond prices up (and yields down) while the yield curve segment comprising 3-month through 5-year maturities displayed its characteristic upward-sloping shape.

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13. EMPIRICAL EVIDENCE OF THE IMPACT OF FOMC MONETARY POLICY ON THE U.S. EQUITY MARKET, 1990 - 2002

Jasmine T. Yur-Austin, California State University, Long Beach
Jonas Neubauer, California State University, Long Beach
Khai Nguyen, California State University, Long Beach
Mark Veale, California State University, Long Beach

ABSTRACT

This study re-measures the sensitivity of indices returns to selected macroeconomic factors. The results show three most influential factors – capacity utilization, consumer sentiment and depository reserves – are overall significantly priced as sources of risk. Unlike previous studies, CPI and PPI are not useful in terms of predicting indices returns. Furthermore, indices returns are mainly responding to the FOMC rate cuts than to rate hikes. In particular, NASDAQ is the most sensitive to rate cuts through the study period, 1990-2002. Finally, we show that different patterns of indices returns after rate cuts during prime bull market (1995-1999) and recent bear market (2000-2002), respectively. Thus, the overall results are consistent with the notion that the market situation, at least, partially affects the effectiveness of the Fed's monetary policy.

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14. FUTURES MARKET EFFICIENCY AND THE FEDERAL BUDGET DEFICIT

Mahmoud M. Haddad, The University of Tennessee at Martin
Omar M. Benkato, Ball State University
Amin M. Haddad, Palestinian Monetary Authority

ABSTRACT

Stock index futures contract trading originated in the United States. One of the major financial innovations of the 1980s is the introduction of stock index futures in 1982. As a result of the tremendous growth in the futures index trade, many researchers focused on the relationship between futures contracts and the underlying indices, namely S&P 500. This study will investigate the impact of the federal budget deficit on futures contract prices. The sample period runs from January 1, 1984 to December 31, 1999. Monthly price quotes for stock index futures contract prices are obtained from the International Monetary Market.

The prices of the nearby contract were used. This study employed the co-integration methods to test our hypothesis. An important issue in econometrics is the need to integrate short-run and long run equilibrium. Our results indicate that the cyclically adjusted federal budget deficit (fiscal policy) has exerted a statistically significant Granger-causal impact upon futures prices, at least at the 10 percent level of significance ($X^2 = 2.82$, $X^2 = 2.21$). Darat (1990 a, b) investigated spot prices and found similar conclusions. Note also that there is no Granger-causal impact in the reverse direction (DFC-->DG), since the coefficient of DFC in the DG equation is zero and over-fitting it produced was insignificant $X^2 = 1.60$. We also found that, there is a one-way, unidirectional Granger-causality from fiscal policy to futures prices. This may imply that futures prices are economic stabilizers and do not increase the budget deficit.

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15. AN EXTENDED APPLICATION OF FACTOR ANALYSIS IN ESTABLISHING PEER GROUPS AMONG BANKS IN ARMENIA

Nancy J. Scannell, University of Illinois - Springfield
Cyrus Safdari, Michigan State University) USA
Judy Newton, American University of Armenia

ABSTRACT

The introduction of this paper provides an historical backdrop to a modern-day analysis of banks in Armenia. Illustrated then are results from an extended application of Factor Analysis performed on a set of 17 banks and 13 financial variables, which are drawn from Armenia's Arka News Agency data. Factor Analysis procedures determine how banks can be classified based upon their disparate and common characteristics. Plots of outputs depict clusters of banks, which correspond with the statistical classification of banks based upon the 13 financial variables. Banks in any given cluster are deemed members of a 'peer' group which is a useful construct in performing comparative analyses among banks or for regulatory and policy-making purposes.

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16. THE MARKET IMPACT OF CHANGE IN CORPORATE DIVERSIFICATION (FOCUS): SOME NEW EVIDENCE

Mojib U Ahmed, SUNY-Empire State College, New York
Niazur Rahim, Christopher Newport University, Virginia
Muhammad Moshfique Uddin, University Of Dhaka

ABSTRACT

Market reaction to seasoned equity issue is mostly negative but the effect of the level of a firm's diversification on the market response is not clearly understood. This paper examines the impact of corporate diversification on seasoned equity offerings. It has been found that for high focused (i.e. less diversified) firms market reaction is less negative. But when the relationship between the change in focus and market impact is examined, it is observed that market reacts more negatively to firms which have increased their focus in the recent past. This finding supports the arguments of both information asymmetry and free cash flow theories.

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17. ANALYSIS OF THE PORTFOLIO BEHAVIOR OF BLACK-OWNED COMMERCIAL BANKS

Valentine Okonkwo, Kentucky State University, Frankfort

ABSTRACT

Several studies have been done and conclusions drawn on the operating efficiency of black-owned banks. This study differs because it did not seek to compare the economic performance of black-owned banks to non-black-owned banks. Rather, the study attempts to explain their asset choice, determinants of bank loans, using the profit maximization versus the loan accommodation principles models. The result suggests that, the management of black-owned commercial banks is straddling between both approaches to asset choice.

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18. ISLAMIC FINANCIAL HOUSES IN TURKEY

Ayse Yuce, Ryerson University

ABSTRACT

Islamic banking activities started in Turkey with the opening of two Islamic finance houses at 1985. At the end of 1996 four more finance houses has founded. Initially a special rule was passed to regulate these houses. The politicians were skeptical about these institutions claiming that these institutions were not financially sound and their objectives were increasing Islamic awareness. Although the number of Islamic institutions and their assets grew approximately at an average annual rate of 15% in the world, Turkish Islamic houses have not experienced significant growth. In the last two decades the percentage of deposits and loans of these institutions among the traditional banks has been at most 3%. After the 2001 financial crisis at Turkey, one finance houses was declared bankruptcy, two of them have been sold to new owners. As of the beginning of year 2003 there are five Islamic finance companies (special finance companies) in Turkey. Their total deposit amount is only 1 billion 958 million Turkish Liras.

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19. THE ROLE OF MICROENTERPRISE FINANCE IN ECONOMIC DEVELOPMENT

Julius A. Alade, University of Maryland Eastern Shore, Princess Anne
Dinesh K. Sharma, University of Maryland Eastern Shore, Princess Anne
Hari P. Sharma, Virginia State University, Petersburg

ABSTRACT

In this paper we address the role of micro-enterprise development in stimulating social capital and strategy for mobilizing neighborhood residents, working together or individually on concrete tasks that take advantage of new self-awareness of their collective and individual assets, and in the process, create human, family and social capital that lay the foundation for improved economic condition and help lowincome individuals achieve economic self-sufficiency. To demonstrate the significance the role of microenterprise development and finance, and gender in economic development, particularly with reference to the less developed economies, the paper uses theoretical and case analysis from countries in SubSahara Africa. The issues of micro-financing and economic development, micro-lending programs and institutions, gender gap and micro-enterprise development, and major constraints in micro and small enterprise development are discussed. The paper draws some lessons from the progress review of past activities of institutional supports and community building and presents some recommendations for microenterprise development with reference to the emerging nations of the less developed economies.

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20. CREATING WEALTH THROUGH MERGERS IN CANADA

Alex Ng, University of Northern British Columbia
Ayse Yuce, Ryerson University

ABSTRACT

Using financial event study method, weWe examine the impact of merger announcements on shareholder wealth of Canadian companies between 1994 and 2000 during an exceptional worldwide merger boom. Our results show that both target companies and the acquirer companies earnobtain significant positive abnormal returns in the short termat this time period. However, beyond five days after the eventrun, we observe that abnormal returns diminish to become significant and negative for acquiring companies and diminish to be non-significant and positive for target companies. Consistent with previous Canadian studies, merger announcements have positive signaling effects on stock performance. Our large sample study updates and fills a void in Canadian merger studies during this important and recent time period in merger and acquisitions.

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21. THE IMPACT OF FDI ON TRADE: EVIDENCE FROM CHINA'S BILATERAL TRADE

Yong Li, University of Science & Technology of China, Hefei
and Finance University of Shandong, Jinan

ABSTRACT

Within a gravity model framework, this paper investigates the impact of foreign direct investment (FDI) on the trade performance of China using trade and stock data on a bilateral basis between China and 75 partner countries/regions over the period 1989 to 2000. It has been found that outward FDI has a larger predicted impact on China's exports than does inward FDI. On the other hand, inward FDI is found having a larger predicted impact on China's imports than does outward FDI. The results from regional breakdown analysis show that the extent to which FDI is trade-enhancing appears to depend on FDI's motivation and region-specific characteristics.

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22. AN EXPLORATORY INVESTIGATION OF INTERNATIONAL PHARMACEUTICAL FIRMS' FDI DECISION INTO CHINA: A COMPARISON BETWEEN EASTERN-FIRMS AND WESTERN-FIRMS

Fuming Jiang, Charles Sturt University, Australia

ABSTRACT

This paper investigated the determinants of international pharmaceutical firms' foreign direct investment (FDI) into the Chinese pharmaceutical manufacturing industry during the period from 1980 to 1998. The analysis of 43 cases showed that international pharmaceutical firms' FDI into China were predominantly driven by China's specific location factors. China's market size with its great potential played the most important role. China's rapid economic development & growth and its open-door policy were other two important determinants. Relative stable political conditions and incentive policies provided by China were also considered as important factors. The impact of relatively stable political conditions in China on western pharmaceutical firms' FDI into China was significantly greater that that on eastern firms'. Incentive policies provided by China received more attention from eastern firms.

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23. GROWTH ANNUITY: ELIXIR OF SUSTAINABLE GROWTH?

Ali Nejadmalayeri, University of Nevada, Reno
Caroline Patrick, University of Arizona

ABSTARCT

This paper shows that growth annuity payment plans akin to graduated mortgage payments reduce the overall lending risk by alleviating the borrower's life-time likelihood of default particularly during the early years of the mortgage. This paper then argues that such lending practices not only reduces the overall default risk in the economy but also provides an alternative growth mechanism which is appealing to a much wider demography than traditional mortgage loans.

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24. GLOBAL EQUITY MARKETS: A STUDY OF COINTEGRATION

Golaka C. Nath, NSEIL, India
Bhavesh Patel, Myers University, Cleveland, Ohio

ABSTRACT

The interlinkage global equity markets has been widely studied covering developed markets and some of the emerging markets. This study has focused on Indian equity market's interlinkage with some of the leading emerging markets and developed markets. We have used the Johansen's cointegration approach and Granger's causality to analyze the interlinkages. We have tried to use the VAR framework to test the interlinkages. We did not find any long-term equilibrium relationship among these markets. But we found that the existence of significant short-term relationship among the emerging markets excluding India. We found some amount of causality from the global markets to Indian market. The study covers the period from July 1990 to May 2003.
