ABSTRACTS

1. CORPORATE GOVERNANCE AND ITS EFFECT ON THE COST OF CAPITAL

Vivian O. Okere, Providence College, Providence, Rhode Island, USA

ABSTRACT

The effect of corporate governance on the cost of capital is a matter of considerable interest to corporate insiders, investors, security analysts and other market participants. The benefits and costs of corporate governance have not been adequately established and quantified in many countries especially the emerging economies. This paper presents evidence that suggest that the firm's corporate governance standard is affected by the country's governance index in which the firm is domiciled which will invariably affect the firm's cost of capital.

Keywords: *Worldwide governance indexes; institutional quality, corporate governance and the cost of capital*

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2. DIFFERENTIAL INFORMATION-ARRIVAL EFFECTS ON THE CME FLOOR AND GLOBEX MARKETS: EVIDENCE FROM EURODOLLAR FUTURES CONTRACTS

Timothy T. Perry, University of Minnesota Duluth, Duluth, Minnesota, USA
Larry J. Prather, Southeastern Oklahoma State University, Durant, Oklahoma, USA

ABSTRACT

Utilizing short and long-term Eurodollar futures contracts during times of heightened market volatility, we investigate the relative performance of the automated Globex and open-outcry CME floor market structures. We compare bid-ask spreads in the automated and open-outcry market structures prior to, contemporaneously with, and after the release of regularly scheduled macroeconomic news announcements to facilitate a direct comparison between the competing structures. Results reveal that Globex has uniformly smaller bid-ask spreads than the CME floor during times of heightened market volatility.

Keywords: *Eurodollar futures contracts, automated trading, open-outcry, Globex, bid-ask spreads*

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3. MANAGING A PORTFOLIO OF COMMON STOCKS: IS IT IMPORTANT TO ADJUST FOR CHANGES IN THE MACROECONOMIC DATA?

Charles W. Johnston, Center for Graduate Studies, Baker College, Flint, Michigan, USA

ABSTRACT

Do individual investors need to consider changes in macroeconomic data to efficiently make buy, hold, or sell decisions, in developing and managing a portfolio of individual common stocks? This research paper analyzes and evaluates the use or non-use of domestic and international macroeconomic variables, in principle, for an optimal stock portfolio in an efficient market, and in practice, by some of the most successful professional stock portfolio managers in the U.S. in recent decades. This research paper explains that the most successful professional stock portfolio managers do not consider important changes in macroeconomic variables in their investment strategies, and that including them would inefficiently violate some of the important fundamental principles of financial investing. The findings of this research paper are useful for individual investors and professional stock portfolio managers. They are also useful for teaching economics and finance students more about the efficient use or non-use of macroeconomic data by investors.

***Keywords**: Personal Finance, Portfolio Choice, Common Stocks, Financial Markets and the Macroeconomy, Macroeconomic Aspects of International Finance, Teaching Economics*

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4. A CASE STUDY OF THE VOLATILITY OF PRODUCER PRICE INDEX: GARCH MODELS VIS-À-VIS ALTERNATIVE MODELS BASED ON STRUCTURAL CHANGE AND QUALITY CONTROL METHODS

V. Reddy Dondeti, Norfolk State University, Norfolk, Virginia, USA
Bidhu B. Mohanty, Norfolk State University, Norfolk, Virginia, USA

ABSTRACT

In recent years, it has become a standard practice for researchers to use the basic GARCH model and several of its variants such as EGARCH, IGARCH, PGARCH, QGARCH, and TGARCH, etc, in analyzing the volatility of macroeconomic or financial time-series data. While all these models yield useful results, there is no easy or definitive way to identify the best model. In this paper, we first look at the results of a GARCH(1, 1) model fitted to the quarterly Producer Price Index (PPI) data covering the period 1960Q1 through 2002Q1. Because of the 1973-74 oil crisis, the PPI was very high and also very volatile from 1973Q1 to 1975Q1 compared to the earlier period. When the data covering these nine quarters is included in the analysis, the GARCH coefficient is significant. However, if it is excluded, the GARCH coefficient is found to be statistically insignificant. Using quality control techniques, we identify the outliers, and explore simple alternative models based on structural change to explain the inconsistencies in the results of the GARCH models. The results of the study illustrate the point that though the GARCH models are extremely useful in analyzing the volatility of time-series, it is sometimes worthwhile to explore simple alternative models based on structural change and quality control techniques.

***Keywords**: Time-Series Volatility, GARCH Models, Structural Change, Quality Control, Outliers*

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5. AN EMPIRICAL ANALYSIS OF SHAREHOLDER PROPOSALS

Maggie Foley, Jacksonville University, Jacksonville, Florida, USA
Chengru Hu, State University of New York at Canton, Canton, New York, USA
Biqing Huang, Angelo State University, San Angelo, Texas, USA

ABSTRACT

This paper examines shareholder proposals during the period of 2004-2007. We separate the full sample into five subgroups by proposal sponsors, and divide the dataset into eight subgroups by proposal issues. We also verify the resolution of each proposal and explore the phenomenon of withdrawn shareholder proposals.

Keywords*: Shareholder Proposals; Shareholder Activism; Corporate Governance*

JEL classification: G32, G34

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6. THE EFFECT OF SARBANES-OXLEY ACT ON MANAGERIAL OPPORTUNISM OF LAYOFF FIRMS

Chialing Hsieh, University of Texas at Tyler, USA
Hongxia Wang, Ashland University, USA
Jasmin Lin, Robert Morris University, USA

ABSTRACT

This study investigates whether the Section 403 of the Sarbanes-Oxley Act affects the extent of CEO's timing manipulation of option awards aimed at enhancing the value of executive stock option awards during the years of employee layoffs. We compare abnormal returns around stock option awards between the pre and post-SOX periods for firms that announce employee layoffs. Our results indicate that the accelerated reporting requirement of SOX 403 reduces layoff CEOs' influence over grant date stock prices in the post-SOX period. We provide important new evidence on the economic impact of SOX on mitigating layoff firms' managerial opportunism associated with stock option grants.

Keywords*: Executive Compensation; Layoff*

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7. DETERMINANTS OF FOREIGN EXCHANGE EXPOSURE IN US MULTINATIONALS

Baeyong Lee, Fayetteville State University, North Carolina, USA

ABSTRACT

This study investigate determinants of foreign exchange exposure for US multinationals during the time period from 1985-1997. The cross-sectional differences in the degree of exchange exposure are negatively related to firm size and positively related to the degree of foreign operation. Firm liquidity is shown to be a determinant of exchange exposure. Other firm characteristic variables have weak or no significance whatsoever in terms of explaining exposure.

Keywords: *Foreign Exchange Exposure, US Multinationals, Hedging Incentives*

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8. CAUSALITY BETWEEN INTERNATIONAL TRADE, EXPORT INSTABILITY AND ECONOMIC GROWTH IN BANGLADESH

Eric Kam, Ryerson University, Toronto, Canada
Mostafizur Rahman, Ryerson University, Toronto, Canada

ABSTRACT

International trade is one of the important components of economic growth of an economy. This is rather more important for a developing economy like Bangladesh. Hence, this paper aims at identifying the relationship between international trade and the economic development of Bangladesh. Long run Granger Causality Model was used to explore the relationships between economic growth, export, import, and export instability in this study. It uses time series econometrics tools to investigate the relationship by adding an additional component such as, export instability in the analytical model. Study found that there is a limited support in favor of export-led growth hypothesis in case of Bangladesh. This indicates that the analysis only supports short run growth estimates in international trade. That means export, import, and export instability cause GDP growth only in the short run. Moreover, the unidirectional casualty exists between export and export instability to income growth of Bangladesh. This can be attributed by the short run influence of export and export instability on income.

Keywords: *Granger causality; Error–correction model, Export; Economic Growth*

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9. CURRENT ACCOUNT EFFECTS OF CENTRAL BANKING

Tobias Duemmler, Darmstadt University of Technology, Darmstadt, Germany
Stephan Kienle, Darmstadt University of Technology, Darmstadt, Germany

ABSTRACT

We enlarge the absorption approach of the current account by taking the German central bank's contribution to the capital account explicitly into account. Within a VECM approach we reveal a relationship between several variables of interest, among them German net exports as well as the Bundesbank's net claims within the Eurosystem. In line with intuition, an increase in net claims which are mainly driven by the TARGET2 balances seems to be positively related to the current account.

Keywords: *Current Account; Central Bank Net Claims; Cointegration*

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10. (DYNAMIC) BALANCE OF TRADE DEFICITS DUE TO CURRENCY DEVALUATIONS: A TEST OF THE J-CURVE AND KULKARNI HYPOTHESIS

Micahel Deinlein, University of Denver, Denver, Colorado
Kishore G. Kulkarni, Metropolitan State University of Denver, Denver, Colorado

ABSTRACT

This paper analyzes the exchange rate effect on the balance of trade in three African nations. With proper consideration of the J-Curve hypothesis, which states that currency devaluation will only precipitate an improvement in the balance of trade if the demand elasticities for imports and exports are large enough to satisfy the Marshall-Lerner Condition. The paper goes further to describe the Kulkarni Hypothesis and the potential for "persistent, dynamic balance of trade deficits" in the extreme case of a series of currency devaluations. After proper consideration of the theoretical framework, this paper applies this relationship to three African countries: Malawi, Burundi, and Zambia, and finds that the three *countries provide evidence for both the J-Curve and Kulkarni Hypothesis, however, the effects do vary across the three due to disparate country specific conditions.*

***Keywords**: J-Curve Hypothesis, Devaluation, Exchange rate Policy, Kulkarni Hypothesis, African Currencies*

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11. MEASUREMENT OF THE HOMESTEAD EXEMPTION UTILIZING HOME VALUES

Robert J. Landry III, Jacksonville State University, Jacksonville, AL, USA
Benjamin B. Boozer Jr., Jacksonville State University, Jacksonville, AL, USA
S. Keith Lowe, Jacksonville State University, Jacksonville, AL, USA

ABSTRACT

Homestead exemption laws vary widely from state to state and under the federal bankruptcy exemption statutory scheme. The disparity among the homestead exemption and its impact on consumer bankruptcy has been a large part of the consumer bankruptcy empirical research and the public policy debate for decades. Empirical research and the policy debate often employ measures of the homestead exemption that do not adequately offer a measure of the actual "value" of the homestead exemption. The research presents a novel approach to measuring the "value" of the homestead exemption based on the value of the home, rather than merely employing nominal or ordinal measures of the homestead exemption as most prior research has done.

***Keywords:** Homestead exemption*, *consumer bankruptcy, bankruptcy exemption*

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12. THE APPROPRIATE RETURN INTERVAL FOR BETA ESTIMATION

Sandip Mukherji, Howard University, Washington, DC, USA

ABSTRACT

For stocks in the Dow Jones Industrial Average index, using annual rather than monthly returns produces stronger correlations of stock returns with market returns, but it reduces the volatility of stock returns relative to volatility of market returns. The beta estimate increases for some stocks and decreases for others, resulting in similar average betas based on monthly and annual returns. Contemporaneous annual returns are not significantly related to betas based on monthly returns, but are significantly positively related to betas based on annual returns, which explain 20% of variations in annual returns. There is no significant difference between the returns of high- and low-beta stocks for betas estimated with monthly returns, but for betas estimated with annual returns, the annual return on high-beta stocks is significantly higher by an average of 3.74%, compared to the return on low-beta stocks. These findings for individual stocks are consistent with earlier evidence for size portfolios that the appropriate return interval for measuring beta is annual, which matches the evaluation period for long-term investment decisions.

***Keywords:** Beta Estimation, Return Interval*

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13. THE IMPULSE RESPONSE FUNCTIONS OF ECONOMIC POLICY UNCERTAINTY AND STOCK MARKET RETURNS: A LOOK AT THE EUROZONE

Vichet Sum, University of Maryland, Eastern Shore, Princess Anne, Maryland, USA

ABSTRACT

This paper examines the impulse response functions of economic policy uncertainty (EPU) and stock market returns in the Eurozone. Using a vector autoregression analysis, this study explores how the Eurozone's stock market responds to the impulse of economic policy uncertainty; a response feedback from the stock market is also examined. Using monthly data of the changes in economic policy uncertainty index and returns on the index of Eurozone stock market from 1993 to 2012, this study shows that Eurozone stock market returns respond positively to the changes in economic policy uncertainty; this response is statistically significant in the second, seventh and eighth months. However, the pooled OLS shows that the increase in the changes in economic policy uncertainty predicts lower stock market returns. The results also reveal a strong feedback from the stock market. The changes in economic policy uncertainty are significantly lower in the first, fourth and eighth months when the impulse is stock market returns.

Keywords: *economic policy uncertainty, stock returns, Eurozone*

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14. USE OF CURRENCY DERIVATIVES IN US MULTINATIONALS: EVIDENCE FROM FOREIGN EXCHANGE EXPOSURE

Baeyong Lee, Fayetteville State University, North Carolina, USA

ABSTRACT

This study examines the relation between foreign exchange exposure and the use of currency derivatives of the U.S. multinational firms. Using a sample of S&P 500 nonfinancial firms for over the period 1991-1993, the paper finds that there is a negative, statistically significant association between the absolute value of the exposures and the use of currency derivatives and a firm's exchange-rate exposure is positively related to its ratio of foreign sales to total sales.

Keywords: *Foreign Exchange Exposure, US Multinationals, Currency Derivatives*
