ABSTRACTS

1. THE PERFORMANCE OF SIN STOCKS IN CHINA

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ABSTRACT

Sin stocks are publicly traded companies, which are involved in the production of alcohol, tobacco, or gaming/gambling services. This research is the first to focus on the sin stocks' performance in Asian stock markets. It examines both sin stocks' financial and operating performances in the Chinese stock markets including A shares in the Shanghai and Shenzhen stock exchanges, and H shares in the Hong Kong stock exchange. Sin stocks outperformed their market index in both Mainland China (5.94%) and Hong Kong (29.11%) over the period from 1995 to 2007. The operating performances of these sin stock companies were indifferent to other non-sin companies, both in Mainland China and Hong Kong.

Keywords: Sin, Social Responsibility, China, Hong Kong

2. AN EMPIRICAL ANALYSIS OF MARKET CONDITION, STRATEGIC COMPETITION, AND THE WEALTH EFFECT OF NEW PRODUCT INTRODUCTIONS

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ABSTRACT

We study the impact of change in real economic activity on the extent to which strategic competition influences market response to new product introductions. With a sample of 844 new product introductions made during 1987-2000, we find a significant association between the nature of the strategic competition and the stock price change around announcements during economic downturn, but not during economic expansion. Market responds more favorably to products introduced by firms competing in strategic substitutes than those by firms competing in strategic complements. Our results suggest the ability to retain the competitive advantage brought by innovations is important and valuable, especially during bad times.

Keywords: strategic substitutes; strategic complements; competitive strategy; new product introduction

3. THE ROLE OF DERIVATIVES IN AMERICA'S FINANCIAL CRISIS

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ABSTRACT

A great deal of criticism has been levied against the misuse of derivatives as a contributing factor to financial markets volatility, which according to many experts led to the 2008 financial crisis. Of course, not all derivatives are to blame. If regulated and utilized appropriately they can serve as a tool for hedging or mitigating risk. This paper describes briefly the background and context concerning the role of derivatives in the 2008 crisis that affected the U.S. and global financial markets. Specifically, we look at the events leading up to the financial meltdown and the impact of derivatives, regulatory reform, subprime mortgages and mark-to-market accounting.

Keywords: *Derivatives, Regulatory Reform, Subprime Mortgages, Financial Meltdown, Mark-to-Market*

4. STRATEGIC RESPONSIVENESS OF CHINESE ENTERPRISES UNDER THE CURRENT GLOBAL FINANCIAL CRISIS

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ABSTRACT

Along with the intensity of globalization characterised by the multi-polarization of international political forces, closer integration and interdependence of world economy, and global operations of enterprises in the last decade, more and more Chinese enterprises have been actively involved in the globalization of markets and production. In fact, many Chinese enterprises embarked on their global operations in the early 1990s, and doubled their efforts in executing their "Go Global" strategy in the last 10 years, facilitated by China's entry into the World Trade Organization (WTO) in December 11, 2001 and prompted by the revaluation of the Chinese currency Renminbi yuan on July 21, 2005. By the end of 2010, more than 12,000 Chinese enterprises in mainland China had established 13,000 invested firms offshore, with total assets exceeding US$ 1 trillion and stock of FDI outflows reaching US$258.8 billion. While the global FDI has substantially shrieked due to the international financial crises, the last three years have witnessed an unprecedented surge of outward FDI by the Chinese enterprises in global market with the year of 2010 marking the peak of US$59.1 billion.

This paper firstly deals with the features of the globalization trend and environmental factors related to the internationalization initiatives of the Chinese enterprises, and secondly, focuses on the "Go Global" strategy of Chinese enterprises by utilizing a three-dimensional model, namely, the industry factor, the market focus, and the strategic positioning of enterprises. Using some successful Chinese companies located in the full-completive industries such as home electrical appliances and telecom equipment manufacture for illustration purposes, and systematically analysing the interactions of the above-mentioned three variables, the author draws the conclusion that under the current multi-factor conditions, Chinese enterprises are not only encouraged but also forced to modify their existing strategy and to shift to the global strategy by expanding their overseas investment and engaging in in-depth global operations across the board.

The author further discusses the global operations of Chinese enterprises by applying a two-dimension model, i.e. cost reduction vs. local responsiveness, and suggests that the localization strategy is most appropriate for the Chinese enterprises in their present globalization drive. Based on a detailed analysis of some model Chinese enterprises in the perspective of the industrial value chain, the author specifies priorities for the Chinese enterprises in their global operations, in addition to the recommendations on modes of entry, forms of support, training of cross-cultural talents of high calibre, and enhancement of core and distinctive competences.

Keywords: *Chinese Enterprises, Go Global Strategy   Global Operations*

5. **CULTURAL DIFFERENCES AND THEIR EFFECTS ON KNOWLEDGE ASSETS AND U.S. MNCs' FIRM VALUE: A THREE-MODEL APPROACH**

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ABSTRACT

This study examines the effect of cultural differences (CD) between U.S. multinational companies (MNCs) and their foreign subsidiaries on the firm value of the U.S. parent companies. Three different valuation models are used to test for consistency in the findings: (1) Tobin's Q, (2) Discounted Cash Flow (DCF), and (3) Market Value Added (MVA). The analysis using Tobin's Q found an inverse relationship between CD and firm value. In contrast, the DCF and MVA models indicated a direct relationship. Our findings suggest that CD has a relationship with the U.S. parent company's firm value, but leave open the question of direction. The analysis reveals that risks or rewards can result from the exchange of knowledge and other intangible assets, and points to DCF as the optimal model for assessing the effects of cultural distance on firm value.

Keywords: CD's, Knowledge Assets, Knowledge Transfer, Multinational Corporation (MNC), Valuation.
JEL Classifications: F30, G30

6. **CORRELATION OR CAUSATION: THE RELATIONSHIP BETWEEN THE S&P 500 INDEX AND THE CONSUMER CONFIDENCE INDEX**

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ABSTRACT

The financial press consistently refers to the movement of the consumer confidence index and its impact on the stock market or the stock market's impact on consumer confidence as though the relationship between the two variables was a well-established scientific fact. However, is there really any correlation? This paper explores the relationship between these two variables over the last 20 years on a month to month basis seeking to determine whether or not any correlation in fact does exist. Our analyses validate a relationship running one-way from the stock market to the consumer confidence index. Our finding also shows that this relationship holds during both bull & bear markets as well as a complete market cycle. Finally our results also indicate that although the relationship is strong in the short term, it fades in two to three months indicating that the effect is moving and continuous.

KEYWORDS: *S&P 500 Index, Consumer Confidence Index, Correlation, Causality*

7. **HEDGING BUSINESS AND FINANCIAL RISKS UNDER POLITICAL TURMOIL: EVIDENCE FROM THE MIDDLE EAST AND NORTH AFRICA**

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ABSTRACT

This paper examines the primary options that multinational companies (MNCs) can employ to hedge operational and financial risks in countries that do not have a liquid futures market for either their currency or major exports. Political, economic, and social events in one country have the potential to impact other

neighboring regions both directly and indirectly. Due to interconnectivity, the overall scope of risk has increased for all multinational businesses. We explore options to deal with that risk when it arises in the Northern Africa and Middle East, such as in Egypt and Tunisia. The results indicate that financial and operational hedging strategies help MNCs to mitigate the economic and transaction exposure in order to stabilize firms' operations and cash flows.

Keywords: *currency hedging, futures market, economic risk, political unrest, Middle East and North Africa* (MENA)

8. THE ROLE OF TERM SPREAD ON REAL ECONOMIC ACTIVITY: A COMPARATIVE ANALYSIS FOR KAZAKHSTAN AND RUSSIA

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ABSTRACT

The term spread between the yields on long and short-term treasuries has shown consistent predictive power on real economic activities in many previous studies. A positive or increasing slope of the yield curve is associated with a future increase in real economic activities and a negative or flattening of the yield curve predicts a lower level of real outputs. Although the yield curve has shown a consistent predictive power in the studies of mainly the U.S. and European regions it may show different results in the transition countries such as Russia and Kazakhstan. The capital markets of these countries are still in nascent stages showing significant volatilities and lack of liquidities. In addition, the monetary policies and tools might have been different from those of advanced countries since they had faced the urgent needs to transform their economic and financial infrastructure from the centrally planned into the market oriented over the past 20 years. Frequent market interventions and stabilizing currency values have been popular monetary tools in these countries. Therefore, the signals produced from the treasury market may contain distortions due to inadequate liquidity and market imperfections, and the term spread may not be able to show a predictive power on future economic activities. This paper analyzes the term spread of these countries to see if the results are consistent with the previous studies on advanced markets. The results show, however, that the term spreads in both Russian and Kazakhstan markets are unable to predict future economic activities. These inconsistent results may be due to different levels of financial market development compared to advanced markets and/or historically different monetary reactions of these countries to the deviations of economic variables from expectations.

Keywords: *Term Spread, Predictive Power, Economic Activity, Kazakhstan, Russia, CIS Countries*

9. ALTERNATIVES FOR PUBLISHED AND CALCULATED BETA ESTIMATES

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ABSTRACT

Students and practitioners frequently use published betas rather than calculating their own betas. This paper documents that betas from Yahoo!, MSNBC and Value Line are inconsistent across the three sources. This variation is frequently significant and our results indicate the differences are driven by the return interval (monthly vs. weekly) and the market proxy (NYSE Composite vs. S&P500). However, the choice of the return horizon (3-years vs. 5-years) does not seem to be significant source of variation in beta estimates. Additionally, published betas do not adjust for the inefficiency caused by potential serial correlation among the regression residuals. While failure to correct for serially correlated residuals has a

minimal effect when using a weekly return interval, the effect when using a monthly return interval can be highly significant.

10. THE IMPACT OF BARRACK OBAMA`S ELECTIONS ON THE MARKET AND INDUSTRY RETURNS IN KENYA

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ABSTRACT

This paper uses an event methodology in analyzing the impact of Barrack Obama`s election on the market returns and the industries` returns in Kenya. The results showed that the Kenyan market returns were positively impacted by the election of Barrack Obama. The Agricultural and Commercial services industries earned significant positive abnormal returns as well.

11. FOREIGN DIRECT INVESTMENT RETURN DIFFERENTIALS

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ABSTRACT

This paper studies the relative performance of U.S. Foreign Direct Investment (FDI) vis-à-vis FDI in the U.S. We show that while Balance of Payments data suggests that U.S. multinationals consistently earn a higher return abroad than their peers in the U.S., disaggregated data reveals a different picture on an industry and regional basis. At the industry level, U.S. firms have had an advantage over foreign ones in mining, manufacturing, information, and finance. On a geographic basis, we find that while U.S. firms have earned a higher return from their operations in Canada, U.S. multinationals underperform relative to Latin American, African, Middle Eastern, and Asian firms in the U.S. This finding opens new avenues for research and questions the efficiency of the allocation of productive capital around the world.

12. CAPITAL MARKETS AND DERIVATIVES' TRADING: FOCUS ON EMERGING ECONOMIES

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Eugenia Ana Matiş, Dimitrie Cantemir Christian University, Cluj-Napoca, Romania

ABSTRACT

Our paper contributes to capital market analysis by focusing on the particularities of emerging economies. The first part of the study introduces some conceptual grounding regarding capital markets and investors. The latter are being discussed by considering their relationship with informational intermediaries. Literature review methodology is employed in establishing both the advantages and risks related to trading derivatives in emerging countries capital markets.

13. ESTIMATED MOVING AVERAGES: A STUDY IN PROFITABILITY

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ABSTRACT

This paper compares the performance of two different estimated moving average trading systems against a simple buy-and-hold system. The two systems that are being analyzed use a system of two estimated moving averages (EMA), one short and one longer, that are used to generate buy and sell signals for a given stock or financial instrument. If the small moving average moves above the large moving average, the investor should buy the stock, and when the large moves back above the small, the investor should sell the stock. This is a very basic trading principle that intends to make it easier for the investor to identify when an instrument is trending up and when it is trending down. The time period of experimentation was set constant from January 1st, 2006 to December 31st, 2009. The conclusion finds little evidence to support the use of these systems.

14. THE EFFECT OF MACROECONOMIC FACTORS ON BUSINESS FAILURES IN CHINA: AN EMPIRICAL ANALYSIS BASED ON CHINESE LISTED COMPANIES, 1991-2008

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ABSTRACT

The operational capability of companies can be restricted by the macroeconomic factors in the business environment. Those companies which cannot adjust their operations in response to environmental factors will be prone to failure. The paper divides the macroeconomic factors which affect the business failure into economic cycle fluctuations, macroeconomic policy and industrial structure adjustment, the level of the governance and the rule of law, market operation and market competition. We explore how these factors affect the failure of the companies listed on the Chinese securities markets. The paper considers GDP growth rate, consumer price index growth rate, the money supply growth rate over the previous year, the overall labor productivity growth, the Shanghai Composite Index growth rate and the market process index growth rate. The results show that all of the factors, except the market process index growth rate are inversely related to Chinese business failures.

Key words：*Chinese securities markets, business failures, cointegration, unit root test*

15. EFFECT OF BANK CREDIT CONTRACTION DUE TO THE CAPITAL REGULATION

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ABSTRACT

It is shown that banks often meet the need to increase their capital ratio by reducing the amount of loans they provide. A simple banking model shows that if all banks follow this strategy, there will be a net deposit withdrawal, which would further shrink the credit supply. A heuristic calibration shows that these results apply to the Korean banking industry within a reasonable range of parameter values.

Keywords*: Capital Adequacy Ratio; Credit Supply*

16. INFLATION TARGETING: THE STORY OF SOUTH KOREA

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ABSTRACT

This study chronicles the development of the inflation targeting monetary policy framework undertaken by the Bank of Korea in 1998. I first give a background on inflation targeting by discussing what it is and how it works. I then describe the advantages as well as the disadvantages of inflation targeting. Finally, I outline the Korean story by presenting the steps and methods the Bank of Korea follows when selecting the inflation target.

17. THE IMPACT OF MACROECONOMIC SHOCKS ON STOCK PRICES: NEW EMPIRICAL EVIDENCE FROM DEVELOPED ECONOMIES

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ABSTRACT

This article employs a vector error correction model (VEC), to study the effects of aggregate supply, aggregate spending, portfolio and money supply shocks on stock prices for the stock markets of the U.S., Japan, England, Germany, and France. Overall, the empirical results suggest that portfolio shocks are the main drivers of future stock performance. The results also suggest that aggregate supply shocks and money supply shocks have strong effects in stock returns. The impulse response functions analysis shows that real stock price responses to various macroeconomic shocks are in line with the standard present-value equity valuation model, and they shed considerable light on the well known negative correlation between real stock returns and inflation.