
ABSTRACTS**1. VALUATION OF INVESTMENTS IN OIL AND GAS: A REAL OPTIONS APPROACH**

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ABSTRACT

Real options approach is used to analyze the investment decision in oil and gas production. The price of the option to invest is estimated using a binomial modeling and the backwards induction methodology. The results indicate that the investor will exhibit a less risk-averse behavior when the expected gain is equal to or exceeds the price of the option. Contrarily, the investor will be more risk-averse if the expected gain is less than the price of the option.

Keywords: *Binomial Modeling, Investments, Risk analysis and Valuation*

2. RATINGS-ADJUSTED SECURITIES FOR MUNICIPALITIES

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ABSTRACT

The rates paid by municipalities on traditional fixed-coupon bonds are noticeably above the risk-free return, with part of the premium covering a possible future default or credit downgrading. We design a ratings-adjusted bond where the required coupon varies over the course of the loan depending on the municipality's current credit rating. This bond will bear a smaller upfront risk premium, in return for a higher premium than the fixed-coupon bond, if the credit downgrading does indeed occur. This ideal ratings-adjusted bond will be suitable for a municipality which currently enjoys a good rating and considers the possibility of its own default more unlikely than is estimated by the market.

Keywords: *Index bonds, Exogenous default risk premium, Municipal credit rating*

3. CASH FLOW RIGHT LEVERAGE OF CONTROLLING SHAREHOLDER AND EARNINGS QUALITY

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ABSTRACT

The cash flow right leverage is differences between control rights and cash flow rights. According to La Porta et al. (1999), the control rights are the voting rights to participate in setting corporate policy. Cash flow rights are financial claims against to the company (La Porta et al., 1999). This study will investigate whether cash flow right leverage effect to earnings quality. To provide empirical evidence, this paper uses the sample of the manufacturing companies listed in the Indonesian Stock Exchange during the period 2000-2007. The result of analysis of this paper shows that the higher cash flow right leverage leads the lower earnings quality. The lower cash flow right leverage leads the higher earnings quality. It is meaning that the higher conflict of interest between controlling shareholder and non-controlling shareholder will reduce earnings quality. Cash flow right leverage is proxy agency conflict in the concentrated ownership.

Keywords: *control rights, cash flow rights, cash flow right leverage, controlling shareholder, earnings quality*

4. ACCESS TO FINANCE SERVES AS A CRITICAL PROXY FOR BANKING SECTOR SOUNDNESS IN EMERGING MARKET ECONOMIES: THE CASE STUDY OF CENTRAL EASTERN EUROPE

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ABSTRACT

One of the critical repercussions in the aftermath of 2008 financial crisis was loss of public and investor confidence in the soundness and stability of large, too big to fail, global commercial banks. There is still confusion surrounding what constitutes a healthy bank. There is still a current need to quantify measure, evaluate, and compare troubled banks (i.e. bank soundness measures) in order to identify “bad and risky” behavior to prevent future financial crisis. While this has been ongoing in the form of “stress tests” in developed economies (U.S. and Eurozone), it is virtually nonexistent in emerging markets. Given the vast amounts of capital flows (over \$1 trillion) being redirected to emerging markets this analysis is imperative for emerging markets. This study investigates the robustness of using “access to finance in the banking sector” as a proxy for commercial banking stability and soundness in order for it to serve as an early warning indicator for the overall health of the financial sector in Central and East European economies. The study analyzes the change in the access to finance variable in the banking sector in two regional European grouping: Albania, Croatia, Macedonia, Montenegro, Serbia, Turkey, Bulgaria and Romania (Central and Eastern Europe group); and Germany, France and Italy (selected Eurozone comparative group) for the period 2001–2009. The preliminary findings show that greater access to finance in commercial banks improves the soundness of the banking sector in the Central and East European group because it distributes the opportunities more evenly.

Keywords: *European banks, Banking sector soundness, Access to finance, Central Eastern Europe*

5. THE EURO AND COUNTRY MARKET RETURNS OF EURO MEMBERS

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ABSTRACT

This paper examines the impact of the adoption of the Euro on member country stock market returns and on member country stock market co-movement with the European regional market return. Even before the advent of the Euro, the stock markets of the big Euro-zone economies demonstrate significant correlation with each other. This study shows that there is a marked convergence between member country market returns and the European regional market return after the introduction of the Euro. The effect of the Euro on member country market returns is found not significantly different for countries with high GDPs and for countries with low GDPs. However, the effect of the Euro on member country market returns is significantly different for the pre-Euro and the post-Euro periods when a pooled regression combining all eleven member countries and a dummy variable representing either the pre-Euro period or the post-Euro period are used. The regression result for each country shows that the Netherlands, Greece, and Ireland have statistically significant coefficients for the pre/post Euro dummy variable, and that these three countries have significantly lower market returns during the post-Euro period. In addition the results show that there are significant differences in the amount of synchronization among the bigger and smaller economies of the Euro-zone.

Keywords: *the Euro, Exchange Rate Risk, Market Convergence, International Portfolio*

6. THE HEALTH CARE SECTOR AS A TARGETED ASSET ALLOCATION

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ABSTRACT

This research study examined whether a special allocation to equity health care sector investments could improve the overall risk and return characteristics of an investor's long-term portfolio. We find that across the 1984-2011 time period of our study, a targeted allocation to health care equity investments would have enhanced the risk and return characteristics of the equity component of a portfolio.

7. THE ROLE OF PROPOSAL FORM IN NON LIFE INSURANCE

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ABSTRACT

The underwriting process inside an insurance company is very important. Proposal form is used in order to analyse the risk exposure of a person, asset or a company. Its' structure must help insurance companies to realize a better evaluation of the risks. Further more, it is an integrative part of the insurance contract. The purpose of this paper is to analyze its' structure and to notice the importance (both for insurance company and for the potential client) of a true declaration. The conclusions are realistic ones and may be used in practical situations.

Keywords: Insurance, Underwriting, Proposal Form

8. DECISIVE ASSESSMENT METHODS IN SETTING THE EXCHANGE RATIO IN THE CASE OF ABSORPTION MERGERS ON THE FRENCH MARKET

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ABSTRACT

The evolution of management instruments, the enforcement of the international accounting standards which highlight the concept of true and fair value, the internationalization of financial markets, the development of new technologies, combined with the need of information due to the increased concern regarding the entity's governance have led to the modernization of information systems and also of the evaluation techniques mainly oriented towards future assumptions (Cohen and Perez, 1999). This evolution combined with the modification of regulations and recommendations concerning mergers justify our interest in recent assessment practices used by managers in the case of absorption mergers. Therefore, our objective is to analyze the assessment methods used in determining the exchange ratio in the case of absorption mergers which occurred in France between January 2005 and June 2011. This analysis shall allow us to consolidate our knowledge concerning the current manner of determining the exchange ratio in case of mergers and it mainly relies on observing the methods which contribute most to explaining the final exchange ratio.

Keywords: Absorption merger, Assessment methods, Exchange ratio, French market

9. DO CURRENCY DEPRECIATIONS IMPACT THE TRADE BALANCE? THE EXPERIENCE OF SOUTH AFRICA

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ABSTRACT

While South Africa's rate of economic growth has outpaced the average of the developing world since 2000, large and growing trade deficits remain, despite a truly flexible exchange system. This paper examines the relationship between South Africa's trade balance and the real exchange rate. This is a bilateral approach with each of the five major industrialized countries; The US, Britain, France, Germany and Japan. In a static Monetary/Keynesian two-country equilibrium model of international trade, the estimable form of the trade balance is expressed as variable that depends on the bilateral real exchange rate with the targeted industrialized country, domestic income level and the targeted industrialized country's income level. These variables are modeled as integrated processes. After Unit Root Tests establish the non-stationary nature of almost all of these variables, the paper employs the Johansen Cointegration technique, to investigate the existence of a stable long term relationship between bilateral currency depreciations and the bilateral trade balance with the major industrial nations. The results are generally mixed, with cointegration being confirmed in most cases.

Keywords: Nominal Exchange Rate, Real Exchange Rate, Bilateral Trade Balance, Unit Root, Cointegration

10. FOREIGN EXCHANGE MARKET MOVEMENTS: A NEW LOOK

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ABSTRACT

The literature relevant to the efficient market hypothesis in the foreign exchange market has been examined primarily from the premise that the exchange rates incorporate all available information regarding exchange rate expectations and that it should not be possible to predict one exchange rate as a function of another.

Keywords: Foreign Exchange, Exchange Rate Expectations, Predictability

11. ELIMINATION OF THE DISPOSITION EFFECT: CASE OF A MUTUAL FUND'S INVESTMENT DECISIONS

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ABSTRACT

Disposition effect, which refers to the investors' reluctance to realize losses and tendency to realize gains, too soon; has become one of the conspicuous focal points of the researchers of Behavioral Finance. Recent empirical evidence indicates that the disposition effect is an irrational behavior which leads to lower profits.

The aim of this study is to provide evidence that the individual investors can eliminate the disposition effect in their investment decisions by investing in mutual funds. To achieve this purpose, the theoretical and empirical studies are analyzed about the disposition effect in individual/mutual funds' investment decisions, and a sample mutual fund of Turkish Capital Markets is examined in terms of the stock transactions in Istanbul Stock Exchange.

To determine the existence or non-existence of the disposition effect in the sample mutual fund's investment decisions, the widely accepted methodology of Odean (1998) is followed. Totally 3787 stock transactions are examined for four years of investments. The findings of this study indicate that the professional management of the sample fund does not exhibit the disposition effect in its stock investment decisions; hence the individual investors of the sample fund eliminate the disposition effect.

Key Words: *Disposition Effect, Mutual Funds, Behavioral Finance, Behavioral Heuristics and Biases, Prospect Theory*

12. DID SWEDEN BENEFIT FROM THE EURO WITHOUT JOINING THE EURO ZONE?

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ABSTRACT

This study investigates whether Sweden has benefited from the adoption of the euro in the euro zone, while staying outside of Economic and Monetary Union (EMU). Using quarterly data from 1993 to 2011, we find a negative relationship between import and gross domestic product (GDP), and a positive relationship between export and GDP, government expenditure and GDP, and consumer expenditure and GDP in Sweden. In particular, we find that Sweden has become a more export-oriented economy entity since the adoption of the euro by EMU, and the Swedish GDP is positively associated with the introduction of the euro by the euro zone members. The result demonstrates that Sweden, as a euro-outsider and European Union (EU) member has enjoyed the 'free ride' from the improved economic performance in the euro zone, whereas at least been partially insulated from the risks involved in the EMU project. This paper has policy implications to countries or regions that are planning to have a monetary union.

Keywords: *Sweden, Euro, Euro Zone*

13. U.S. FINANCIAL STRESS TRANSMISSION TO CANADIAN INDUSTRIES

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ABSTRACT

This paper tests for threshold effects in the impact of U.S. financial stress upon Canadian economic growth at the industry level of output. We find differences in the impact of U.S. financial stress shocks upon Canadian economic growth depending upon the U.S. stress level existing at the time of a new U.S. financial market shock. For each industry examined, the analysis divides observations into low-stress and high-stress regimes. The identified threshold stress level separating the two regimes varies notably across Canadian industries. For all but one industry, U.S. financial shocks occurring during the "high stress" regime have a larger negative impact upon Canadian industry output than do shocks occurring during the "low stress" regime. The magnitude of the negative impact from U.S. financial shocks varies four-fold across examined Canadian industries. The variation across Canadian industries in when U.S. financial stress is identified as the high-stress regime, and the variation in the impact upon industry growth, provides important insights into the pathways by which U.S. financial stress can spill over into the Canadian economy.

Keywords: *financial stress, threshold effects, Canadian output*
