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**ABSTRACTS****1. TIMING-PATTERN OF U.S. BANK ENTRY OVERSEAS: A TEST OF THE "FOLLOW-THY-CLIENT" HYPOTHESIS**

Claudia Araiza, Claremont Graduate University, Claremont, California, USA

**ABSTRACT**

*I concentrate on analyzing the determinants and timing-patterns of U.S. bank expansion throughout the world since the 1890s using data sources from the Federal Deposit Insurance Corporation. One objective of this paper is to describe timing-patterns of U.S. bank branching overseas by region. Another major objective is to test whether or not U.S. banks expand overseas due to the "follow-thy-client" hypothesis. I apply a regression model where I analyze how the number of new U.S. bank branches per year is being affected by the annual amount of U.S. direct investment overseas for the period from 1966 to 2004. Using a Poisson regression framework, my research findings suggest that U.S. banks have not been locating overseas due solely to a U.S. business presence in foreign countries. This finding contradicts the "follow-the-client" hypothesis that several other studies in the past have found to be true. Specifically, I find that U.S. direct investment overseas is highly negatively related to the number of new U.S. bank branches overseas.*

**Keywords:** *Multinational Banking, Foreign Banking, Bank Entry, Timing Entry*

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**2. INEQUALITY IN DEVELOPING COUNTRIES: AN EMPIRICAL ASSESSMENT**

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**ABSTRACT**

*Based on data from the World Bank and using a sample of forty-four developing economies, we find that the degree of income/expenditure inequality is linearly dependent upon the extent of inequality in education, the under-five-year-old mortality rate among the poorest quintile of the population, per capita purchasing power parity gross national income, average educational attainment in rural areas, immunization rates of one-year-olds among the richest and the poorest quintiles of the population, the infant mortality rate of the poorest quintile, and the percentage of the population having access to clean water. We observe that the coefficient estimates of some independent variables do not have the anticipated sign due to the severe degree of multicollinearity among them.*

**Keywords:** *Gini Index, Under-five mortality, Infant Mortality, Inequality in Education, Income Inequality, Developing Countries, Immunization*

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**3. A PANEL DATA ANALYSIS OF THE IMPACT OF THE ASIAN FINANCIAL CRISIS ON THE RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT AND TRADE BALANCE**

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**ABSTRACT**

*The economies of several Asian countries have grown very rapidly in the last 20 years because of their liberal trade and investment policies. Adoption of liberal policies attracted huge amounts of foreign direct investment (FDI) in the form of the capital and technology needed for rapid economic growth and paved the way for a massive expansion of their international trade. However, such a rapid growth in trade and*

*investment also made their economies vulnerable to external shocks. The Asian Financial Crisis had a significant impact on the economies of almost all the Asian nations. In this paper, we study the impact of the Asian Financial Crisis on the relationship between FDI inflows and the trade balances of the eight Asian countries, China, India, Malaysia, Singapore, Indonesia, South Korea, Philippines, and Thailand, using the technique of Panel Data Analysis. Our study indicates that one dollar of FDI has contributed about 1.181 dollars to the exports and 1.100 dollars to the imports of a country in the years before and after the Asian Financial Crisis, when the differential fixed-effects of the years (i.e., period effects in the terminology of panel data analysis) are taken into consideration. An interesting conclusion contrary to the expected result is that the contribution of FDI to the growth of exports and imports is approximately the same, and thus had no significant net effect on the trade balances of these countries.*

**Keywords:** Asian Financial Crisis, Foreign Direct Investment, Trade, Panel Data Analysis

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#### **4. OPTIMIZING THE RETURN ON INVESTMENTS FOR PHARMACEUTICAL PROMOTIONAL EXPENDITURES**

Alan Fask, Fairleigh Dickinson University, Madison, New Jersey, USA  
Ronald Heim, Fairleigh Dickinson University, Madison, New Jersey, USA

##### **ABSTRACT**

*The authors' paper applies modern portfolio theory (MPT) to determine the optimal allocation of resources that maximize the expected return of promotional investment for a given level of risk. Using the results of a meta-analysis performed on 137 promotional studies, this study develops an efficient frontier for promotional portfolio investment for a pharmaceutical company.*

**Keywords:** Portfolio Optimization, Market Mix, Promotion Analysis, Risk vs. Return, Markowitz objective function

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#### **5. UNIQUE CHARACTERISTICS OF CROSS-BORDER EMERGING MARKET PRIVATE EQUITY: IMPLICATIONS FOR INVESTORS AND MANAGERS**

João Neiva de Figueiredo, Saint Joseph's University, Philadelphia, Pennsylvania, USA

##### **ABSTRACT**

*This paper provides a conceptual discussion of the characteristics of private equity investing in emerging markets and their implications. Differences between private equity investing in emerging markets and developed economies are analyzed and a description of the implications of these differences for the investor and the company is provided. Based on these differences, the paper offers suggestions to the manager seeking capital as well as to the investor seeking to provide capital to companies in those economies.*

**Keywords:** Emerging Markets, Private Equity, Venture Capital, International Finance

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## 6. EMPIRICAL DETERMINANTS OF US EQUITY FLOWS TO DEVELOPED COUNTRIES: DOES VALUATION MATTER?

Joseph J. French, University of Northern Colorado, Greeley, Colorado, USA

### ABSTRACT

*This paper explores a large data set based on American cross-border equity flows to 19 industrialized nations combined with measures of market valuation and control variables for the period of 1977-2005. Current literature on the long-term determinants of US cross-border equity flows has not considered relative valuation as an empirical determinant of equity flows. Consistent with relative valuation as an empirical determinant of US equity flow patterns, this research finds that US equity flows decrease sharply with host-country market valuations. This paper also finds that equity flows increase sharply when the US market is relatively undervalued. These results indicate that relative equity market valuations are an important empirical determinant of equity flows. Peripheral findings of this paper confirm the findings of current researchers. Consistent with existing literature, this research confirms the negative influence of interest rates spreads, tax rates and information asymmetries on US cross border equity flows to industrialized nations.*

**Keywords:** *Equity Flows; Cross-border Portfolio Investment; International Markets; OECD*

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## 7. JANUARY EFFECT AND MONETARY POLICY EFFECT IN STYLE INVESTMENTS

TeWhan Hahn, Auburn University Montgomery, Montgomery, Alabama, USA

### ABSTRACT

The finance literature has documented strong January effect and monetary policy effect in small firm and value premiums. This study, using small vs. big and value vs. growth portfolios, examines whether these two strong effects are distinctive, hence can be exploited independently. We find that both effects are strongly present in small firm and value premiums but fail to find significant interaction effect. The results show that while market risk levels of portfolios do not differ between Januarys and non-Januarys, they do between expansive and restrictive monetary policy regimes.

**Key Words:** *Growth, January Effect Monetary Policy Effect*

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## 8. YEAR EFFECTS ON STOCK RETURNS, EARNINGS, AND CAPITAL EXPENSE

A. Caninci, Bryant University, Rhode Island, USA

### ABSTRACT

*In this study business cycle effects are taken into consideration in investigating the relationship between stock returns, earnings and capital expense in different countries. In countries where corporate governance rules and mechanisms are well-established, managers are closely monitored. Therefore, the earnings that the firm generates are used for good investment projects leading to positive stock returns. If the financial markets in these countries are also well-established and efficient, the reaction of stock returns to good investment projects should also be fast, in fact contemporaneous. The increase in stock returns increases the discount rate that investors use in valuation of firms. The high discount rate should lead to negative future stock returns, all else equal in efficient financial markets. Capital expense by the management should produce similar results as those of earnings but to a lesser extent because earnings are the first resort of funding in investment decisions. On the other hand, for countries where corporate governance mechanisms are not well established and where financial markets are not very efficient, earnings or capital expense may not be used for the best interests of shareholders, and stock price reaction*

*to earnings will neither be necessarily positive nor contemporaneous. The results show that in common law countries earnings and capital expense produce positive contemporaneous returns. In civil law countries that is not necessarily the case. The results are more pronounced in developed countries. The analysis uses fixed effects regression models and therefore, takes into account the fact that the world economy has gone through different phases during 1990s and 2000s. Year dummies are introduced to counter the business cycle influence.*

**Keywords:** *Corporate Governance, Earnings, Capital Expense, Business Cycle, Fixed Effects, Efficiency*

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## **9. UNDERSTANDING SMALL- AND MEDIUM-SIZED FIRMS' FINANCIAL SKILL NEEDS**

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Robyn McGuiggan, University of Western Sydney, New South Wales, Australia

### **ABSTRACT**

*Small- and medium-sized businesses make a significant contribution to the economies of Western countries. Government, industry, and educators commonly train business managers to improve their skills and knowledge in order to improve the performance of these firms. Owner-manager financial skill competencies have been identified in the literature as one area needing investigation and improvement. In this exploratory research, initial interviews with industry identified 37 financial skills and 12 channels for delivering these skills. A survey of chamber of commerce members then provided 399 usable responses (16% response rate) that were analyzed through t-tests and correlations. Findings identified 10 financial skills that are important to the respondents (benchmarking business performance, analyzing cash flows, doing business online, selfmanaged superannuation funds, business exit strategies, setting-up contracts, forecasting cash flows, pricing of goods and services, alternative investments, and legal structures in business) and seven preferred channels (accountants or financial advisors, colleagues and associates, industry associations and events, government departments, short courses, internet, and consultants). In addition, demographic criteria (age and size of business) were shown to correlate with specific financial skills and preferred channels. Educators should concentrate on the identified financial skills and adopt the preferred channels to meet the requirements of SME owner-managers. University, TAFE (community college) and distance educators may have to modify their mode of delivery to suit the needs of SMEs or face being seen as irrelevant to the needs of SME ownermanagers.*

**Keywords:** *SME, Training, Small Business, Financial Skills, Owner-Managers*

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## **10. THE IMPACTS OF NEW ECONOMY ON THE U.S. ECONOMY: EVOLUTIONARY OR REVOLUTIONARY**

Tenpao Lee, Niagara University, Niagara University, NY, USA  
William A. Peek, Niagara University, Niagara University, NY, USA  
Ann Rensel, Niagara University, Niagara University, NY, USA

### **ABSTRACT**

*The term, the 'New Economy' has been used to describe the late 1990's to suggest that globalization and information technology innovations have changed the way the world economy works. Initially, people were optimistic about this 'new' economy as these innovations might enhance efficiency and real-time information would create a more stable economy. More recently, we see problems from the 'old' economy reappearing, which leads us to consider, is there really a new economy, is this 'new' economy evolutionary or revolutionary. To evaluate these questions, we conducted a visual analysis of U.S. economic indicators, and then partitioned the data into pre-1995 and post-1995 segments and compared the means and variability between these two eras. The results of our analysis lead us to conclude that*

*there is little evidence of a 'new' economy however we do see a more stable and controlled economy emerging.*

**Keywords:** *New Economy, Economic Performance, Globalization, Corporate Performance*

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## **11. THE IMPACT OF MONETARY POLICY ON DEPOSIT AND LENDING RATES IN INDUSTRIAL AND DEVELOPING COUNTRIES: AN APPLICATION OF ARDL APPROACH**

Mansur Masih, King Fahd University of Petroleum & Minerals, Dhahran, Saudi Arabia  
Bassam Hamdan, King Fahd University of Petroleum & Minerals, Dhahran, Saudi Arabia

### **ABSTRACT**

*This paper is an attempt at testing the hypothesis that in the context of a relatively developed banking system and effective monetary policy framework the speed of adjustment of the deposit rates would be faster than that of the lending rates in response to a change in monetary policy instrument such as the discount rates. This knowledge of the speed of adjustment is crucial for an effective transmission and implementation of a change in monetary policy instrument. We apply an error-correction model derived from a recently developed time series technique called 'Auto-Regressive Distributed Lag' (ARDL) [Pesaran, Shin, and Smith, Journal of Applied Econometrics, 2001] which has taken care of a major limitation of the conventional cointegrating tests in that they suffer from the pre-test biases. We test the hypothesis on a set of industrial and developing countries. Based on the above rigorous methodology, our evidence tends to suggest that the deposit rates adjust faster than the lending rates in most of the industrial countries as well as in those developing countries in which the banking system appears to be relatively more developed. The findings are plausible and have strong policy implications for both the industrial and developing countries.*

**Keywords:** *Bank discount rate, Deposit rate, Lending rate, Bounds test, ARDL*

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## **12. HEDGE FUND PERFORMANCE PERSISTENCE: A MULTINOMIAL APPROACH- APPLICATION TO ASIAN HEDGE FUNDS**

Lan T. P. Nguyen, Multimedia University, Malaysia Cheng Ming Yu, Multimedia University, Malaysia  
Malick O. Sy, RMIT University, Melbourne-Australia Sayed Hossain, Multimedia University, Malaysia

### **ABSTRACT**

*In this paper, we study the performance persistence of 206 Asian long/short Equity funds listed in EurekaHedge database over 18 month period, from January 2004 to June 2006. We employ two main methods used by Goetzmann and Ibbotson (1994) and Brown and Goetzmann (1995) for testing performance persistence, (1) contingency table (nonparametric) and (2) cross sectional regression method (parametric). We also extend the two independent binomials known as 2x2-contingency table, to a multinomial contingency table with 3 and 4 periods. Results obtained from the multinomial contingency table show greater level of predictability in performance of Asian long/short hedge funds. All tests are carried out on quarterly raw returns, their alphas and appraisal ratios. Our results show that there is substantial persistence in performance of Asian long/short funds in both tests. Results obtained from multinomial framework bring further insight the pattern of persistence in performance.*

**Keywords:** *Asian Hedge Funds, Performance Evaluation, Performance Persistence, Parametric and Non-Parametric Methods, Hedge Fund Risks and Returns*

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### 13. REQUISITE CONDITIONS FOR PROFITABLE ULTRA SHORT-TERM MOMENTUM TRADING STRATEGIES

Stephen Zera, California State University San Marcos, California, USA Wenyuh Tsay, California State University San Marcos, California, USA

#### ABSTRACT

The frequency with which day traders can generate positive net profits after transaction costs has been a controversial topic among practitioners and academics. The continued significant presence of day traders in the stock markets seems to contradict the anecdotal evidence in the media that most day traders lost money in their endeavor. Even the empirical studies in the finance literature have not reached a consistent conclusion about the profitability of day traders. While empirical results do not support a rosy picture of the day traders' endeavors, they seem to confirm the possibility of the existence of some successful day trading strategies. A potentially successful day-trading strategy might attempt to exploit information that is present in the streams of bid prices, bid sizes, ask prices and ask sizes. In essence, this paper focuses on the ultra shortterm momentum in stock prices and discusses how day traders can possibly exploit the price quote momentum to establish profitable trading positions.

**Keywords:** *trading profits, profitable trading strategies, short-term momentum, day trader*

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### 14. THE IMPACT OF ECONOMIC AND FINANCIAL FACTORS ON THE PERFORMANCE OF PROPERTY INVESTMENT IN CANADA

Richard N Watuwa, Cape Breton University, Sydney, Nova Scotia, Canada

#### ABSTRACT

*This paper investigates the impact of Economic and Financial factors on the performance of investments in the real estate sector in Canada. We use a Vector Autoregressive (VAR) model to examine the relationships among property returns, changes in industrial production, short term interest rates, unexpected inflation, dividend yields and the spread between long term and short term interest rates. Using an equity-based measure of returns from the Toronto Stock exchange in a sample of monthly data from September 1987 to March 2005, we find that past property returns and short term interest rates have an impact on property returns while the remaining factors have no significant explanatory power.*

**Keywords:** *Vector Autoregressive Model; Real Estate Return Predictability; Unit Roots*

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