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**ABSTRACTS****1. TRADING IN DEVELOPED ASIAN-PACIFIC STOCK MARKETS: THE ROLE OF VOLUME**

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**ABSTRACT**

*This paper examines the role of volume in two different but related forecasting techniques: (a) technical analysis and (b) time-series models. By applying a trading rule approach to examining the additional predictive information provided by aggregate daily traded volumes, it is possible to identify how volume affects forecast power in periods to buy when stock prices are rising and to sell when stock prices are falling. Employing data from five developed Asian-Pacific stock markets, the evidence suggest that trading volume plays an important role in forecasting upward movements in stock prices, but is less reliable when used to forecast future downward movements. A trading rule that combines both technical analysis and time-series models to exploit past price and trading volume information is proposed and found to be highly profitable when applied in the various developed stock markets.*

**Keywords:** *Technical analysis; AR-GARCH models; Trading Volume; Asia; Australia; Predictability*

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**2. GOVERNMENT ECONOMIC POLICIES AND CORRUPTION**

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**ABSTRACT**

*The purpose of this study is to investigate the relationship between government economic involvement and corruption. While corruption, or graft, has been found to have numerous causes, our study focuses upon the effects of government economic involvement on corruption. Government economic involvement takes many forms, and we wish to determine which forms are most susceptible to corruption. In the first part of our empirical study, we investigate the relationship between corruption and different measures of economic involvement. In the second part, we narrow our focus to a more detailed look at the relationship between corruption and regulation.*

**Keywords:** *Corruption, Regulation*

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**3. ASYMMETRY IN CONDITIONAL CORRELATION**

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**ABSTRACT**

*The correlation between national markets is a very important consideration in international portfolio diversification. If the correlation between two markets increases when both markets are declining, the effectiveness of diversification declines. This study finds that, contrary to the behaviour of markets in the West, the Asia-Pacific markets respond differently to joint negative shocks. The study uses an asymmetric bivariate conditional correlation specification to model this response. The nine markets in this study show that the asymmetry in correlation is only evident in four out of the 36 correlation series. The asymmetric effect of correlation is otherwise insignificant in the rest of the 32*

correlation series. It is also interesting to note that most of the significance is found with the Australian market's correlations.

**Keywords:** *Asymmetry; Conditional correlation; bivariate GARCH; Asia-Pacific markets*

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#### **4. EQUITY REITS: A PORTFOLIO BEAR NECESSITY? AN EXAMINATION OF EQUITY REIT PERFORMANCE IN BEAR AND BULL MARKETS**

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##### **ABSTRACT**

*This study examined the hedging potential of equity REITs in portfolios during bear markets. Using monthly data on Treasury bills, long-term government bonds, corporate bonds, small stocks, and large stocks from the Stocks, Bonds, Bills, and Inflation Ibbotson Associates 2002 Yearbook for the thirty year period from January 1972 – December 2001, risk, return, and correlations of small stocks, large stocks, equity REITs, Treasury bonds, and corporate bonds were calculated. The optimal portfolios then were approximated by the Portfolio Risk and Return Optimization program. Equity REITs showed levels of even higher correlations with stocks as markets went bearish and correspondingly lower levels of correlation with both Treasury and corporate bonds. Thus, results show that equity REITs, despite their unique characteristics, do not adequately serve as a hedge for diversified portfolios during bear markets. Instead of equity REIT performance being more separated from small and large stocks during market downturns, just the opposite proved to be true.*

**Keywords:** *Equity REITs, Diversification Benefits, Bull and Bear Markets*

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#### **5. A CGE MODEL FOR THE UAE**

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##### **ABSTRACT**

*This study applies a two-sector three goods computable general equilibrium model (CGE) to the United Arab Emirates (UAE) data in 1998. The model is designed to analyze the impact of policy induced and external shocks on production, consumption, trade flows, and the real exchange rate. Results from policy simulations support the current commercial policy, which is committed to lower tariffs. The results show the vulnerability of the economy to oil price shocks and the need to broaden the production base. The results suggest that privatization can help to reduce dependence on oil as a major source of savings. This, however, can only take place at the expense of current consumption.*

**Keywords:** *CGE Model; Commercial Policy, UAE*

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## 6. TESTS OF THE RELATIONSHIP BETWEEN ASYMMETRIC INFORMATION, FIRM QUALITY, AND DERIVATIVE ACTIVITIES

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### ABSTRACT

*Many papers deal with questions of why firms manage risks. Typical empirical work assumes that firms engaged in risk management are doing so for purposes of hedging. In a world of costly insurance value maximization may be achieved for some firms by taking the other side of hedgers' bets. In this paper, we distinguish between hedgers and speculators by focusing on the role of quality and asymmetric information as they relate to activities in derivatives markets. We develop a new variable (changes in total value, or CTV) that measures the net ex post change in the value of on and off balance sheet items. If firms are using risk management to hedge, this measure should be small and vice versa for speculators. We then test some existing theories of asymmetric information as they relate to risk management activities. Our results indicate that higher quality firms are more likely to hedge for a given level of asymmetric information, which provides support for (DeMarzo and Duffie (1991)). However, we also provide evidence that the relationship between asymmetric information and CTV is quadratic. Firms facing very high and low levels of asymmetric information tend to use derivatives to augment profits. When combined, these two results also provide some support for Ljungqvist (1994) who argues that asymmetric information and limited liability combine to provide a strong motivation for managers to speculate on behalf of the stockholders.*

**Keywords:** Hedging, Derivatives, Asymmetric Information

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## 7. MEASURING THE IMPACT OF SPATIAL ELASTICITIES ON COMMODITY MARKET STABILITY

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### ABSTRACT

*It has long been suspected that in a spaceless economy higher values of price elasticities could signify instability in the economic activities of a particular region. Given a spatial commodity model in the form of spatial equilibrium (SE), one can calculate point elasticities for each demand and supply region. One can then randomly or systematically vary the values of some or all parameters in a given direction for several computer runs around the optimal solution set. We test the hypothesis that regional outputs or consumptions are more vulnerable to the perturbations for those regions whose price elasticities have increased most significantly. To verify our hypothesis, we empirically test the hypothesis using a SE model previously estimated by Labys and Yang (1980). Without exception, we observed that those regions with the larger price elasticities during the experiment are most vulnerable to the perturbations administered to the model. Consequently, we conclude that there is a close relationship between the values of the price elasticities and the stability of the regional economic activities.*

**Keywords:** Spatial Elasticity, Commodity Market, Market Stability

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**8. UNDERWRITER WARRANTS IN SEASONED EQUITY OFFERINGS: IS IT GROWTH SIGNALING?**

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**ABSTRACT**

*In this article we present an alternative explanation of warrant use for underwriter compensation. We propose to view underwriter warrants as a signaling device to convey an issuing firm's future growth potential and test this signaling role of warrant use by taking a more direct approach in a seasoned equity offering (SEO) environment. We find that the use of warrants mitigates the negative price effects of SEOs. Specifically, the issuance of SEOs with warrant-based compensation has a less negative impact on stockholder wealth than the issuance of SEOs with cash-based compensation. In addition, the cross-sectional regression results show that the post-announcement growth for firms employing warrant-based compensation tends to exceed expectations and is significantly positively related to announcement-period stock return residuals of SEOs with warrant-based compensation after controlling for other confounding factors. A further analysis of logit regressions confirms this linkage. Overall, our results support the signaling effect of warrant-based compensation as an additional role of underwriter warrants in the SEO market.*

**Key words:** Underwriter warrants; Seasoned equity offerings; Growth signaling; Certification

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**9. AGGREGATE LIQUIDITY AND COMMONALITY IN LIQUIDITY ON THE LSE**

Khine Kyaw, University of Plymouth Business School, Plymouth, UK

**ABSTRACT**

*This paper examines the existence of liquidity commonality and the effect of aggregate liquidity on a stock's liquidity on the LSE. The results show that the liquidity commonality is a phenomenon of large stocks than of small stocks. An improvement (deterioration) a stock's liquidity is highly associated with an improvement (deterioration) in market-wide liquidity. Results also suggest that liquidity of large stocks is an important market variable because it affects the liquidity of other large stocks and has significant effect on the liquidity of small stocks. The introduction of the order book does not appear to have changed the nature and extent of commonality in liquidity on the LSE.*

**Keywords:** Liquidity Commonality, Liquidity Determinants, Market Microstructure

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**10. THE EFFECTS OF THE BRAZILIAN ADRS PROGRAM ON DOMESTIC MARKET EFFICIENCY**

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**ABSTRACT**

*This paper examines the impact on Brazilian stocks following American Depositary Receipts (ADRs) listing in the U.S. stock markets. Evidence suggests that a systematic change has taken place in the post-listing period as the multivariate variance ratio statistics have significantly decreased if compared to the pre-listing period, which indicates a move toward a more efficient domestic stock market. This empirical evidence is robust to the use of dollar and local currency-denominated returns. These results add to the literature that finds evidence on changes in domestic volatility and abnormal returns around listing dates.*

**Keywords:** random walk, variance-ratio test, emerging markets, weak-form efficiency, American Depositary Receipts

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## 11. INTRADAY AND DAY-OF-THE-WEEK PATTERNS IN RELATIVE PUT AND CALL PRICES AND BID- ASK SPREADS

John B. Broughton, Chapman University, Orange, California, USA

### ABSTRACT

*We present evidence of intraday and day-of-the-week patterns in relative put and call equity option prices using a methodology based on the American put-call parity relation. Relative put prices rise through the week, with relative call prices increasing late in the day on Monday through Thursday. We interpret this latter result as reflecting the market's expectation of positive stock returns, on average, early in the day on Tuesday through Friday. The results also indicate that, consistent with other studies but with a larger sample, percentage spreads on both puts and calls narrow throughout the trading day, with substantial decreases observed after the first hour of trading and again at the end of the day. We offer an explanation for this that is based on the likelihood of information based trades. This study also finds that equity option spreads are significantly higher on Monday than other days of the week, suggesting that market makers perceive a greater likelihood of information trading on Monday. There are two major implications of the study for the liquidity trader. The first is that trading costs associated with the bid-ask spread can be reduced by trading late in the day and avoiding Monday trades. Secondly, it is advantageous to purchase calls on Friday and puts late in the trading day on Monday through Thursday.*

**Keywords:** *Seasonality, Relative Option Pricing, Option Bid-Ask Spreads, Put-Call Parity*

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## 12. THE EFFECTS OF FIRM AND COUNTRY LEVEL GOVERNANCE MECHANISMS ON DIVIDEND POLICY, CASH HOLDINGS, AND FIRM VALUE: A CROSS-COUNTRY STUDY

Rongrong Zhang, Georgia Southern University, Statesboro, Georgia, USA

### ABSTRACT

*This study examines how firm and country level governance mechanisms affect corporate dividend and cash holding policies and the implications of these policies. Using a sample of over 3,000 firms from 21 countries, I find that (1) shareholder entrenchment and weak investor protection have negative effect on dividend payments but positive effect on cash holdings; (2) firm value is positively related to dividend payments (a bonding effect) and cash holdings (a liquidity effect); (3) the bonding effects of dividends are greater whereas the liquidity benefits of cash are smaller for firms with governance mechanisms that are conducive to agency problems. I also test and find endogenous relationships among dividends, cash holdings, and firm value. Overall, this paper highlights the importance of considering the interrelationships among various governance mechanisms and corporate policies in addressing agency issues.*

**Keywords:** *Corporate governance, dividend policy, cash holdings, expropriation, investor protection*

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