
ABSTRACTS**1. CURRENCY DEVALUATION AND TRADE PERFORMANCE: A CASE OF JAMAICA**

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ABSTRACT

This paper examines the impact of Jamaica's exchange rate policy on its trade performance. Beginning in the 1970s, Jamaica has used currency devaluation as a macroeconomic tool to improve the country's trade balance. It was a policy strongly advocated by the International Monetary Fund (IMF). Using time series data on macroeconomic variables that were affected by the exchange rate changes, this study argues that for many small developing economies like Jamaica, there are some inherent economic problems that will make it difficult for currency devaluation to have a positive impact on the trade performance of such country.

Keywords: Exchange rate trade performance; devaluation exports imports; Jamaica currency devaluation

2. ASYMMETRIC VOLATILITY IN ASIAN EQUITY MARKETS

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ABSTRACT

In his Nobel Laureate lecture Engle notes that asymmetric volatility has a significant impact on risk. In this paper volatility is estimated using an asymmetric power-GARCH model with the power transformation term estimated from the data itself, which is optimal compared to constraining the term to take on a certain value. We estimate asymmetric volatility for nine Asian markets for three different subperiods. The only mature market, Japan, exhibits large magnitudes of asymmetric volatility in the earlier subperiods. In general, emerging markets display smaller magnitudes of asymmetry although several markets have begun to exhibit relatively high asymmetry in recent years. An additional result is that asymmetry typically increases when markets are more volatile, as has been suggested in the literature.

Keywords: Asymmetric Volatility; Emerging Markets, Asymmetric Power-GARCH

3. BUILDING BRAZILIAN CREDIT DERIVATIVES MARKET

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ABSTRACT

This paper discusses the Credit Derivatives Market perspectives in Brazil based on an empirical research aimed to evaluate the ability of financial market agents to deal with these instruments. The difficulties found by regulators and banking institutions to promote operations with Credit Derivatives in the domestic market are investigated through the use of a questionnaire with Likert scale to collect data which was analyzed using qualitative-quantitative methodology.

Keywords: Credit Derivatives, Financial Market in Brazil, Credit Risk

4. FREELY FLOATING EXCHANGE RATES DO NOT SYSTEMATICALLY OVERSHOOT

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ABSTRACT

The exchange-rate literature contains two inconsistent strands. There is a large theoretical and empirical literature on overshooting. In that strand, overshooting is usually viewed as an important explanation for exchange-rate volatility. A separate strand says that exchange rates are martingales and that economic models do not consistently beat a random walk. Overshooting cannot be an important explanation for the behavior of exchange rates and, at the same time, exchange rates behave like martingales. I show that the evidence for overshooting is highly suspect while the evidence that flexible exchange rates are approximately martingales is rock solid. Given the strength of the evidence, models that imply that overshooting explains an important part of the behavior of exchange rates probably should be rejected out of hand.

Keywords: *Random Walk, Martingale, Overshooting, Speculation, Spectral Analysis, Exchange Rates*

5. LISTING REQUIREMENTS AND EARNINGS MANAGEMENT

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ABSTRACT

In this paper, we empirically examine the impact of differential listing requirements on earnings management practices of Korean initial public offerings (IPO) firms. In comparison to the Korea Stock Exchange (KSE), the Kosdaq market imposes relatively less stringent listing regulations. Furthermore, if firms satisfy venture criteria, the listing requirements become even more lenient. Accordingly, we anticipate that the differential listing requirements will have different earnings management implications for IPO firms, and therefore, we hypothesize that the Kosdaq venture firms will have stronger incentives to manage earnings as compared to the Kosdaq non-venture firms and the KSE firms when they go for public. We empirically test the differences in earnings management practices among three different groups of IPO firms. We also compare differential earnings management practices over time. The results indicate that differential listing requirements influence earnings management practices differently, although all three groups of firms manage earnings aggressively in the IPO year compared to other years. As anticipated, earnings management is the highest for the Kosdaq venture IPO firms, followed by the Kosdaq non-venture firms, and then, followed by the KSE firms.

Keywords: *Initial public offerings, earnings management and accruals, Kosdaq venture firms, KSE firms*

6. MIRR VS. IRR: EXPLORING THE LOGIC OF THE INCREMENTAL REINVESTMENT ASSUMPTION

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ABSTRACT

Many finance textbooks currently argue that the NPV correctly assumes the reinvestment of project cash flows at the discount rate while the IRR incorrectly assumes reinvestment at the IRR. Modified Internal Rate of Return (MIRR) was developed, in part, to provide a percentage return measure that corrected the

IRR's reinvestment rate assumption by explicitly reinvesting cash flows at the NPV's discount rate. The reinvestment assumptions appear to be the result of a misinterpretation of early work by Solomon (1956). This paper examines the assumptions and methods from the perspective of cash flowing to capital markets or to future projects and concludes that for independent projects when capital is unconstrained, the reinvestment assumption is irrelevant.

Keywords: *Internal Rate of Return, Modified Internal Rate of Return, Reinvestment Rate, Net Present Value, Capital Budgeting*

7. INTEREST RATE PARITY AND CURRENCY OPTION PRICE

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ABSTRACT

We present a European currency option pricing model when an exchange rate and interest rates deviate from the uncovered interest rate parity (UIP) condition. A closed-form formula of the currency option price is derived by assuming that UIP deviation evolves by a lognormal process. Price performances are compared with the Garman and Kohlhagen [GK] (1983) model. The proposed model is at least as good as the GK model, and it is a superior model for options with long remaining lives.

Keywords: *Uncovered interest rate parity; Currency option; Implied volatility*

8. TECHNICAL TRADING: DONCHIAN CHANNELS AND SOYBEANS II

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ABSTRACT

Whereas the trading community has demonstrated heightened interest in channel breakouts, there has been limited attention accorded to this aspect by researchers. This paper extends prior research that examined Donchian Channels in the context of Soybean futures. Whereas the earlier research study considered 20 day Donchian Channels, this study considers 55 day channels – a more conservative approach. In this study, 2 out of 4 applied models provide acceptable returns, which is comparable to the earlier study.

This reconfirms the primacy of employing conservative money management elements in the overall trading strategy, such as the use of trailing stops and a pyramiding entry system. Thus, in the interest of return optimization, this study highlights the importance of exploiting the fit between commodities, channel lengths, and money management strategies to determine the most appropriate overall strategy for a particular commodity.

Keywords: *Technical Analysis; Trend Trading, Donchian Channels, Turtle Trading*

9. FINANCIAL DIAGNOSIS IN FRANCA: BRAZILIAN FOOTWEAR INDUSTRY

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ABSTRACT

The city of Franca, Brazil, is the main producer worldwide of male leather shoes, manufacturing thirty three million pairs annually, six million are exported, generating around one hundred million dollars in trade. These figures correspond to fifty percent of the amount exported in 1993-1994. What are the factors preventing Franca's recovery? We tried to address this question through a diagnosis research. The structure of this paper follows: Introduction, Theoretical Support, Research Problem and Objectives, Methodology, Data Analysis and Conclusion. Among the main conclusions, we verify that executives in the managerial level need more academic background and still do not dominate the currency hedging mechanisms.

Keywords: *Brazilian Footwear Industry, Brazilian Export, Financial Diagnosis*

10. MODEL FOR CONTROL OF COSTS OF PUBLIC CONSTRUCTION: AN INSTRUMENT FOR BETTER MANAGEMENT OF PUBLIC EXPENDITURES

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ABSTRACT

This article proposes and tests a statistical model for control of public construction costs, in a real job. Said model serves to detect the possible existence of overprice in the job analyzed, and can serve to control costs in any public construction work.

Public expenditures with construction jobs in Brazil are estimated at approximately R\$20 billion per year for the three spheres of power of the Brazilian federation (federal government, states and municipalities), - hence the scope and importance of this study.

Keywords: *Control of expenditures; public works; civil construction; order statistics; accountability; corruption fight; transparency in the public sector; imputation of accountability*

11. PRICE DIFFERENCES BETWEEN DUAL-CLASS STOCKS: EVIDENCE FROM MEXICO

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ABSTRACT

Recent literature suggests that there may exist a discount on superior voting shares of Mexican firms, which is inconsistent with the private benefits of control. We evaluate the price differences of dual-class stocks with different voting rights for a sample of firms trading in the Mexican stock exchange. We find an average voting premium of 2.25% for the period between September 1991 and July 2004. We examine the change in the average voting premium over time. A structural break analysis shows a negative voting premium in the period between August 1997 and November 2000. This can be explained by liquidity differences, as we find that on average inferior voting shares are less liquid compared to their superior

voting counterparts. Our results indicate that liquidity is an important determinant of relative prices between dual-class stocks in the Mexican market.

Keywords: Dual-class Shares, Voting Rights, Structural Breaks, Stock Market Liquidity

12. AN APPLICATION OF THE MEAN-SEMIVARIANCE APPROACH TO THE PORTFOLIO ALLOCATION PROBLEM: THE CASE OF BRAZIL

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ABSTRACT

This paper applies the Mean-Semi-variance approach to asset allocation and compares solutions obtained by this model to those derived from the traditional mean-variance model. The results indicate that the risk adjusted return solutions given by the Mean- Semi-variance over perform those from portfolios in the traditional mean-variance model.

Keywords: portfolio management, Markowitz, downside risk

13. FDI IN CENTRAL EUROPE: DETERMINANTS AND POLICY IMPLICATIONS

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ABSTRACT

Utilizing panel data from 1989 to 2006, a Generalized Least Squares regression technique was used to ascertain the determinants of Foreign Direct Investment in Hungary, Poland, the Czech and Slovak Republics since economic transition to a full market economy began. Building on the established literature and the traditional determinants, this research adds a privatization variable and an employer social contributions variable.

The results of this paper reinforce market size as a critical factor in FDI inflows for transition economies, confirming that a dynamic economy and appropriate economic growth policies are crucial. Additionally, the positive impact of trade openness on FDI should encourage other nations to continue in the path of trade liberalization. The results also suggest that growing employer social contributions are positively related to FDI inflows, reflecting increased employment, social welfare, and the growth of the private sector, but increasing wages rates negatively impact FDI. While the accessions to the European Union and tax rates were not found to be significant variables, an important finding of this study for other countries is the significance of privatization announcements and implementation in attracting FDI inflows.

Keywords: Foreign Direct Investment Determinants, Central Europe, Transition Economies, Policy Implications

14. CORRELATED TRADING IN CONCENTRATED MARKET

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ABSTRACT

Correlated trading commonly known as herding occurs when investors trade in the same direction. We examine the complete Finnish stock market from 1995 to 2004, and find a higher degree of herding than in previous studies of less concentrated markets. We find the level of correlated trading differs between investor classes with different incentives: individual investors herd more than domestic institutions and foreign institutions herd the least. Herding is stronger on the sell-side of the trades and in smaller stocks. Herding is positively associated to stock returns indicating that herding may in fact contribute to price discovery. The investor class that herds the least is most involved in positive feedback trading indicating that herding is not a result of momentum trading.

Keywords: *Herding, Institutional Investors, Concentrated Market*

15. DO ACCOUNTING REGULATION, TRANSPARENCY AND THE PROPENSITY TO BRIBE AFFECT THE PERCEPTION OF CORRUPTION IN DEVELOPED COUNTRIES?

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ABSTRACT

This paper examines whether accounting regulation, transparency, and the propensity to bribe affect the perception of corruption in developed countries. While accounting regulation is indispensable for the smooth running of capital markets, it is crucial in reducing information asymmetry, and reporting uncertainty. Additionally, accounting regulation could be viewed as a tool that enhances transparency in financial reporting and reduces the perception of corruption. Although any form of bribery is considered illegal in most jurisdictions, it is very tempting for individuals and corporations to offer bribes to win contracts or obtain advantageous results unfairly. While the propensity to bribe is dependent on individual characteristics as well as unique circumstances, its deleterious effect increases the perception of corruption. Corruption does not discriminate between developed and developing countries. Indeed, corruption knows no borders and the detrimental effects that it exerts on its perpetrators in particular, and on the economy in general, are well documented. This study finds that accounting regulation and accounting transparency are statistically significant in the perception of corruption in developed countries.

Keywords: *Accounting regulation and enforcement, transparency, government intervention*
