
ABSTRACTS**1. AN INVESTIGATION INTO CAUSALITY RELATIONSHIPS BETWEEN INSIDER OWNERSHIP AND PERFORMANCE**

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ABSTRACT

Most empirical work on the relationship between insider ownership and firm performance has used cross-sectional regression analyses with inconsistent results. We posit an inherently bi-directional relationship and apply VAR techniques to a sample of 50 IPO firms for 42 quarters starting in 1985. The results indicate bi-directional causality between Tobin's q and the percentage of insider ownership in two-thirds of the firms, thus supporting arguments for an endogenous relationship. Our contribution is to point out that the presence of bi-directional causality cannot be properly investigated via cross-sectional regressions that use contemporaneous data.

Keywords: *Insider Ownership; Firm Value; Agency Theory*

2. ANALYSIS OF THE LONG TERM EFFECTS OF THE EURO

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ABSTRACT

This research paper analyzes the effects of the introduction of the euro on European stock market values by analyzing the short and long-term performance of different European index values. The study further investigates the assumption that the introduction of the euro has had positive effects and that these effects were not fully impounded in the stock prices prior to the event. A comparison is also presented of the stock market reactions of those European countries that have adopted the euro with those that did not join the Eurozone. The results of the analysis reveal that the introduction of a single currency has positive effects on participating countries immediately after the event. However, the third and fifth year following the introduction of the euro did not exhibit abnormal performance.

Keywords: *Introduction of the euro, Market Integration, long term event study*

3. THE CURRENCY RISK EXPOSURE OF UK COMPANIES

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ABSTRACT

This study extends previous research on the foreign exchange rate exposure by investigating exchange rate exposure of UK non-financial companies from January 1981 to December 2001. The analyses are conducted over the total period from 1981 to 2001 and over three subperiods, i.e. Pre-ERM (Jan.1981-Sep.1990), In-ERM (Oct.1990- Sep.1992) and Post-ERM (Oct.1992-Dec.2001). The study uses different

exchange rate measures and adopts a new equally weighted exchange rate. The analyses are conducted at the firm level. The findings show that a higher percentage of UK non-financial companies are exposed to exchange rate changes than those reported in previous studies. Generally, the results provide a stronger support for the equally weighted, the ECU/£, the JP¥/£ and the US\$/£ exchange rates than the trade-weighted exchange rates as an economic variable which affects firms' stock returns. The results also show a high proportion of positive exposure coefficients among firms with significant exchange rate exposure, indicating a higher proportion of firms benefiting from an appreciation of the pound. In addition, the sensitivities of UK companies' stock returns to exchange rate fluctuations are most evident in the period before joining the ERM and after departure from the ERM (Post-ERM). The proportion of companies with a significant exchange rate exposure declined when the pound was in the ERM and increased again after the UK left it. Furthermore, the results indicate that the level of foreign sales and foreign assets are significantly related to exchange rate exposure. Contrary to our expectations, the foreign income ratio variable is insignificant in most models. Additionally, a firm's size is an important determinant of a firm's sensitivity to exchange rate exposure. Finally, the results also indicate evidence that hedging variables affect firms' sensitivity to exchange rate exposure. Firms with higher growth opportunities, higher leverage and lower liquidity have more incentive to hedge, and thereby reduce the firm's exchange rate exposure.

Keywords: exchange rate changes, exchange rate exposure, non-financial companies, firm value and the determinants of exchange rate exposure

4. A CHARACTERISTIC EXAMINATION OF BETA, SIZE AND LIQUIDITY FOR THE CANADIAN STOCK MARKET

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ABSTRACT

We propose a characteristics-based asset-pricing model and examine its cross-sectional relations for the Canadian stock market. The characteristic model combines a market risk premium and a characteristic deviation premium. The characteristic component is not related to any risk factor but is determined by the deviation between a given firm characteristic and that of the market portfolio. We examine the empirical procedure of grouping stocks into portfolios by sorting firm characteristics, showing that the exhibited systematic patterns may largely be the artifact of portfolio formations. Based on the implications from the characteristic model, we design a new portfolio approach and perform robustness tests for the cross-sectional relations between beta, liquidity, and returns while strategically altering the size effect. Empirical evidence demonstrates that size premia change in a systematic way depending on how size portfolios are formed. Our tests also find a significant risk-return relationship when conditioning on realized market returns, and a strong liquidity-return relationship. Both the risk effect and the liquidity effect are highly robust across different portfolio formations.

Keywords: Asset Pricing, Risk-Based Model, Characteristics-Based Model, Portfolio Formation, Beta, Size, Liquidity

5. LONG-TERM RETURNS AND OPTIMAL EXECUTIVE COMPENSATION CONTRACTS

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ABSTRACT

Recently there has been a great deal of interest by researchers and practitioners regarding executive compensation levels; however, there is surprisingly little empirical evidence linking optimal CEO compensation contractual structures with subsequent shareholder wealth gains. This study examines the relationship between optimal contracts and long-term firm performance. This study results documents that optimal CEO pay structures strongly predict subsequent superior long-term firm returns, while sub-optimal CEO contracts strongly predict inferior long-term firm returns.

Keywords: Long-term Returns; Executive Compensation; Corporate Control

6. COINTEGRATION AND CAUSALITY BETWEEN THE REAL AND THE FINANCIAL VARIABLES: EVIDENCE FROM THE KOREAN ECONOMY

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ABSTRACT

This paper uses the multivariate cointegration technique proposed by Johansen (1988) and Johansen and Juselius (1990) to examine the linkage between the real and financial variables in Korea. Johansen cointegration test supports the long run equilibrium relationship between the financial sector and the real sector by showing one cointegrating vector. Using this cointegrating vector, some of the lagged industrial productivity, stock return, and exchange rate show statistically significant short-run effects on the industrial productivity. Especially, exchange rate and stock index have significant effect on industrial production in the short run. The reason is that Korea is an export-dominant country so currency depreciation can increase the exports of firms. In addition, the Chow test shows that there is a structural instability in Korea while the Asian financial crisis happened.

Keywords: Cointegration Test, Error-correction Model, Unit Roots Test

7. FOREIGN DIRECT INVESTMENT IN RUSSIA: OPPORTUNITIES AND CHALLENGES

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ABSTRACT

In spite of a relative slowdown in many sectors since the second half of 2004 and more evidence of growing competitive pressures from a stronger ruble, the Russian economy has recently experienced a strong growth, with higher oil prices bringing even greater windfall revenues to the federal budget. Core consumer price inflation remained roughly at the same level as in 2003 and 2004. Previously unheard of are now the intensifying debates about how to manage the mounting surplus state revenues. Analysts generally credit the recent growth in the Russian economy to four key macroeconomic and structural factors: (1) a continuing rapid expansion of domestic incomes and demand, (2) improvements in the expectations of investors, (3) growing competitive pressures from the real appreciation of the ruble, and (4) the inflow of foreign direct investment in that country.

This paper analyzes specifically the flow of foreign direct investment (FDI) to Russia in both private as well as in public sectors. Using the framework of a three-stage political economic model of international investment, it normatively links the continuously evolving and changing policies of the Russian Federation to attract FD to an evolving political ideology. From a predictive standpoint, this shift in political ideology toward FDI, from radical to pragmatic nationalism, and resulting changes in government policies toward foreign capital inflows are then used to discuss and foretell key opportunities and challenges in FDI for foreign firms in Russian Federation.

Keywords: investment, Russia, foreign direct investment

8. INTER-DAY DYNAMICS OF MARKET VARIABLES ON THE LSE

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ABSTRACT

Most studies on the dynamics of market variables focused on the intra-day behaviour, and empirical evidence on the inter-day dynamics of the variables is sparse. Furthermore, results from the sparse inter-day behaviour studies conducted to date employed US data and documented a mixture of market behaviours that supports no theoretical model in particular. Therefore, this paper looks into the dynamics of market variables on the London Stock Exchange. The study finds that the dynamic patterns of the market variables on the LSE are similar to the patterns observed in the dynamic of market variables on the NYSE. However, the LSE does not lose its liquidity on Fridays as the NYSE does on Fridays. The results also suggest that the introduction of an order book in October 1997 has brought in greater efficiency and liquidity to the LSE. Finally, behaviour of the market variables differs across firms of different sizes.

Keywords: liquidity, volatility, activity, market behaviour, firm size, quality of public information

9. THE VALUE RELEVANCE OF REPEAT RESTRUCTURING CHARGES

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ABSTRACT

This study examines the effect of prior and multiple restructuring charges on a firm's market value. The results show that for profit firms without prior charges, restructuring charges are positively associated with market values. However, the positive effect is significantly reduced in the presence of prior restructuring charges. Furthermore, I find that the value relevance of current-period charges is impaired for profit firms having past restructuring events. In contrast, for firms with losses, I find that the positive association between restructuring charges and market values is largely driven by firms with multiple restructurings, while first-time restructuring charges appear not significantly related to market values, i.e. not incrementally value relevant.

Keywords: Value relevance, restructuring charges, price-level models

10. RISK AND RETURNS IN MERGERS AND ACQUISITIONS: EFFICIENT OR AGENT MOTIVATIONS

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ABSTRACT

Why did so many managers acquire companies despite controversy over whether value is created? Efficiency theory predicts that the managerial motivation for mergers is value creation, while agency theory predicts value destruction. In exploring the managerial motivation for mergers, we test the predictions of efficiency theory and agency theory by comparing the pre- and post-merger risk and returns of 217 firms who acquired companies in Canada. As little is known about manager-agency incentives, we examine whether if mergers and acquisitions benefit managers with gains in corporate wealth and company-employment security.

Our results show that acquirers experience decreases in operating, market and efficiency performance and increases in risk. Neither agency incentives of gains in corporate wealth nor security are found. Overall, our findings consistently contradict the efficiency theory explanation that managers are motivated to create value through mergers while affirming agency theory predictions that acquiring firms diminish shareholder value through negative performance, increased risk and agency costs.

Keywords: Mergers, Acquisitions, Efficiency Theory, Agency Theory, Agency Incentives, Risk and Return, Operating Performance

11. INTRA-INDUSTRY EFFECTS OF INDEX COMPOSITION CHANGES: THE CASE OF THE ASX 100 INDEX

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ABSTRACT

We analyze the intra-industry effects of changes in the composition of the Australian Stock Exchange (ASX) 100 Index to determine whether index changes generate significant abnormal returns for rival firms around the time of the change. We argue that the inclusion and exclusion of firms from an index can create an incentive for investors to buy or sell not only the shares of firms added to or excluded from the index, but also the shares of existing firms in the index that are not directly affected by the changes because fund managers may have to rebalance their portfolios to reflect the weights of the stocks in the index they are tracking. Consistent with this argument, we find that our rival firms sample experienced a decrease in price around the time of the inclusion of their industry counterparts and an increase in price around the date of the exclusion of their industry counterparts from the index. Our results support the price pressure hypothesis. The implication of the results is that arbitrageurs and other investors can profit from a trading strategy that involves buying (selling) the shares of firm (rivals of the firm) that is to be included in an index and vice versa.

Keywords: index composition, rival firms, abnormal returns

12. OWNERSHIP STRUCTURE, KEIRETSU GROUP AFFILIATION, AND OPERATING EFFICIENCY

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ABSTRACT

This paper examines the effect of concentrated ownership on Japanese firms' operating performance. The empirical analyses reveal that (1) the largest owner's ownership has a positive alignment effect whereas his excess control has a negative entrenchment effect on operating performance; (2) blockholder monitoring enhances operating efficiency and reduces operating costs; (3) agency costs are higher among keiretsu group firms; Group joint ownership has no alignment effect on its member firms' operating performance. Independent blockholders provide effective monitoring which reduces agency costs; (4) the joint ownership of debt and equity by financial institutions exacerbates agency problems. Taken together, these findings echo the growing criticisms of the traditional bank and group governance systems.

Keywords: *concentrated ownership; alignment; entrenchment; keiretsu*

13. WHAT DRIVES CANADIAN CORPORATE DIVIDEND POLICY: AGENCY COST OR INFORMATION ASYMMETRY?

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ABSTRACT

We investigate the reaction of the Canadian market to dividend announcements in order to test the signaling theory against the agency cost theory. We also introduce the impact of the ownership structure of the companies on the information content of dividends. Our results show that dividend announcements are followed by significant abnormal stock returns: positive in case of dividend increases and negative in case of dividend decreases. A more detailed analysis of these abnormal returns shows that they are more important when the company is of small size and with the existence of blockholders. These results do not support the agency cost theory in explaining why do firms pay dividends and rather support the signaling theory.

Keywords: *Dividend policy; Agency Cost, Information Asymmetry, Ownership Structure*
