ABSTRACTS

1. BETWEEN CLUSTERS AND NETWORKS: CAUSES OF PREMEDITATED COOPERATION BETWEEN ORGANIZATIONS IN GEOGRAPHICAL PROXIMITY

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ABSTRACT

Considerable investment is directed towards the establishment of clustered business enterprises. The main idea behind this clustering is the belief that co-located businesses in proximity of one another will benefit from each other's activities. As a result, a geographic clustering, also known as regional innovation emerges. For this to be achieved, business entities are forced to form working relationships with other entities in the region. Studies have however shown that in most cases, these intended relations do not occur and the business entities end up just being in the same locality but not necessarily benefiting from each other. A few successful clusters include Silicon Valley and the Emilia-Romagna regions. In these success clusters, there exists strategic collaboration between businesses. In this paper, we aim to study why some clusters become a success yet others fail to take advantage of this intended collaboration. We take a look at clusters formed by European biomedical firms. To be more specific, we will study the features of these clusters and assess the influences they have on the probability of successful collaboration.

Keywords: *cluster; regional innovation; biomedical firms; collaborations*

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2. CAPITAL CONTROL AND EQUITY MARKET VOLATILITY

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ABSTRACT

In this study we document stock market volatility before and after the imposition of capital control in a small and open economy. Specifically, we examine the effects of the announcement of a control on capital inflows in Thailand in December 2006 on the volatility of the stock market. Measuring the volatility of the overall stock market and the eight industry groups as the standard deviation of the daily returns on the SET index and the industry indexes during the 30 trading days, we find that, contrary to a theoretical prediction, the volatility of the equity market appears to increase sharply around the capital control announcement made on December 18, 2006. The pattern of the increasing stock return volatility seems to be consistent across industries, though with different degrees of volatility amongst industry groups. We also find that higher levels of stock market volatility seem to last several weeks following the announcement of capital control.

Keywords: *capital control; exchange rate, stock market volatility, Thailand, unremunerated reserve requirement*

JEL Classification: *F3, G1, G14, G15*

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3. PERFORMANCE OF MARKET DISCIPLINE IN FINANCIAL CRISIS: THE CASE OF ISLAMIC AND LOCAL BANKS IN INDONESIA

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ABSTRACT

Local banks in Indonesia have less access to the domestic market than do national banks, and therefore are less capable for performing well in a downturn economy, despite the full support from the respective State Government. Meanwhile, Islamic bank's strong reliance on the performance of its Profit-Loss Sharing (PLS) partners may pose serious liquidity threat in a recession, since the bank also directly bears its partners' failure risk. Those circumstances may discourage public to deposit their fund in local banks and Islamic banks when a crisis hit the economy. Nevertheless, such disadvantages may not be significant to the public if the government either partially or fully guarantees any bank deposit at certain level. In other words, public can be indifferent to risk of local banks, and Islamic banks in the existence of deposit insurance.

This study carries out empirical investigation on whether depositors in Indonesia are insensitive to the risk of Islamic banks and local banks before the US crisis hit the economy (2005.9 – 2008.8) and during the crisis (2008.9 – 2010.12), which is under the explicit deposit insurance regime. The findings show that depositors seem to be indifferent to risk of Islamic and local banks when deposits are guaranteed, regardless the ceiling levels and the economy states, to the extent that risk is calculated using several internal and external factors of a bank.

Keywords: *Bank Risk, Deposit Insurance, Market Discipline, Islamic Bank, Local bank*

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4. BORROWING BEHAVIOR AND ATTITUDES TOWARDS RISK AND TIME: EXPERIMENTAL APPROACH

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ABSTRACT

We investigate experimentally potential links between individual propensity to borrow and attitudes towards risk and time, the latter represented respectively by risk aversion coefficient and individual discount factor. To obtain both above-mentioned measures we employ a joint elicitation procedure using a multiple price list design. We further employ a novel experimental construct akin to a consumption/financial planning setting to examine individual propensity to borrow.

Straightforward cross-analysis of our participants' intrinsic attitudes towards risk and time against their exhibited borrowing behavior allows us to conclude that it is the individual discount factor and not the risk aversion coefficient that could potentially explain and predict individual borrowing. Whilst we find no correlation between diversity in risk attitudes and inclination to borrow, higher individual discount factors correlate significantly with number of loans undertaken. Moreover, this is only the case whenever depreciation rates on the available consumption bundle match individual discount rates – discount factors have no predictive power if the discount rate on the value of consumption is exogenously set.

From the methodological perspective, this project offers support to the technique of artificially shrinking a time-frame in a decision task in economic experiments. The consistency between individual discount factors elicited in one stage of the experiment and the decisions made in a *later stage in a consumption/borrowing game based on the earlier elicited coefficients strongly indicates viability of experiments with reduced time-frames. Finally, our results can be put to immediate practical use in the consumer finance industry and have potentially important implications for policy-making. Knowledge of individual time preferences should allow for better loan provision and more effective regulations of the banking and finance industries.*

Keywords*: Consumer Finance, Borrowing, Individual Discount Factors, Optimal Consumption*

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5. CASH HOLDINGS OF BRAZILIAN & U.S. FIRMS: SIZE AND INDUSTRY EFFECTS

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ABSTRACT

This study examines how Brazilian and U.S firms hold on to cash from 1999 through 2008. It finds, first, that whereas Brazilian firms' cash holdings consistently increased from 1999 through 2008, U.S. firms' cash holdings increased from 1999 through 2004 and declined from 2004 through 2008.Second, there are economies of scale to holding cash. Middle-size Brazilian firms held more cash than their large-size counterparts, and small and middle-size U.S. firms held more cash than the large-size ones. Third, high-tech firms held more cash than the non-high tech firms. For the Brazilian high-tech firms their cash holdings were higher for six out of the ten years of this study, and for the U. S. high-tech firms, cash holdings were higher for the entire ten-year period.

Keywords*: cash holdings, firm's size, high-tech and no-high tech firms, precautionary and transaction cash motives*

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6. CREDIT CHAINS AND MORTGAGE CRISES

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ABSTRACT

This paper examines a production economy with a financial sector that contains multiple layers of credit, constituting credit chains with a simple mortgage market. The focus is on the contagion properties of credit chains in an economy where the financial sector plays a real allocative role and agents have a nontrivial choice of whether to default on mortgages or not. Multiple equilibria with different rates of default are observed, due to the presence of strategic complementarities. Default can trigger a financial crisis as well as constrain the purchases of factors of production.

Keywords: *Endogenous default; Mortgage Crises; Payments System*

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7. USING MARKET CONCENTRATION IN THE BANKING SECTOR AS A KEY INDICATOR FOR A FINANCIAL SOUNDNESS INDEX: A CASE STUDY OF GERMANY, FRANCE, POLAND, HUNGARY, ALBANIA, AND SERBIA

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ABSTRACT

The impact and cost of the recent global financial crisis of 2007+ was staggering when compared to previous financial crisis. One of the critical repercussions was loss of public and investor confidence in the soundness and stability of large, too big to fail, global commercial banks. There is confusion surrounding what constitutes a healthy bank in the aftermath of 2007+ financial crisis. The current need to quantify, measure, evaluate, and compare (i.e. bank soundness measures) in order to spot troubled banks and “bad and risky” behavior to prevent future financial crisis has taken on a new urgency as vast amounts of capital flows (over $1 trillion) are being redirected to emerging markets. This study differs from existing methods in the literature as it will entail designing, constructing, and validating a composite index of commercial banking sector soundness specifically for emerging country banks at the country level with regional and systemic differentials taken into account (not just performance based). The goal is to generate an Emerging Market Commercial Banking Soundness Index (EM-CBSI) that would serve as an early warning indicator for the overall health of the financial sector in emerging market countries.

Keywords: Financial Sector Soundness; Banking Sector Soundness; Market Concentration; European Emerging Markets; Financial Crisis; Financial Soundness Measures; Financial Soundness Index

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8. THE INFLUENCE OF GEOGRAPHIC LOCATION ON PERFORMANCE OF US-BASED MULTINATIONALS: AN EMPIRICAL ANALYSIS

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ABSTRACT

This paper studies the impact of geographic scope on the values of US multinational companies (MNCs). Using a sample of US-based MNCs for the year 2006, this study explores the importance of geographic location on MNCs’ foreign investment decisions by utilizing improved measurements of MNC performance. Our results show that the MNCs tend to experience diversification premium when investing in developing and high political risk countries, and tend to have diversification discount investing in advanced and low political risk countries. Our study does not find legal origins of host countries make any difference in MNCs valuations.

Keywords: Multinational companies, geographic location, performance
JEL classification: F23

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9. TRANSMISSION OF SHOCKS FROM THE FINANCIAL SYSTEM TO THE REAL ECONOMY

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ABSTRACT

We examine a production economy with a financial sector that contains a single layer of credit. However, this layer is designed to constitute a credit chain which is inclusive of a simple production sector. The focus is on the nature and contagion properties of crises that originate in the financial sector in an economy where the financial sector plays a real allocative role and agents have a nontrivial choice of whether to default on private debt or not. Default can trigger a financial crisis as well as constrain the purchase of factors of production, thus leading to potentially serious effects on real activity.

Keywords: Endogenous default; Payments System; Contagion

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10. CORPORATE GOVERNANCE, TRANSPARENCY AND STOCK RETURN CO-MOVEMENT: GROUP ANALYSIS

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ABSTRACT

This paper examines a hypothesis in support of Jin and Myers (2006) and Kim (2006) using cross-country individual stock's R-squared, corporate governance, and corporate transparency measures. Consistent with Jin and Myers (2006) and Kim (2006), R-squared has negative relationship with corporate governance and transparency groups after controlling for macroeconomic variables. The effect of corporate governance group on R-squared disappears when corporate transparency group is included in the regression. The result implies that R-squared is an opaqueness measure, supporting the argument of Jin and Myers (2006).

Keywords**:** *corporate governance, corporate transparency, R-squared*

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11. PERFORMANCE ANALYSIS OF INVESTMENT FUNDS IN BRAZIL

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ABSTRACT

The objective of this article was to analyze, comparatively, the performance of equity funds and fixed-income funds, and evaluate what type of fund had a better risk x return relation. To carry out the analysis the monthly returns of funds in Brazil from January 2005 to January 2009 was used. To compare the returns of the funds, the t-test was used, in order to analyze whether the average returns is statistically different between the types of funds. For analysis of variance, the f-test was used, in order to test whether the variance of both types of funds are statistically different. Two indexes, the Sharpe and M^2 index, were used in the analysis of risk x return. The results showed us that during the period, the fixed-income funds had a better relation risk x return than investment funds of equities.

Keywords*: Equity Funds, Return, Risk, T-Test, F-Test*

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12. INFORMATION SEARCH BEHAVIOR OF INDIVIDUAL INVESTORS FOR EQUITY SHARE PURCHASE DECISION: AN EXPLORATORY INVESTIGATION

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ABSTRACT

This article is an exploratory investigation in the field of financial products and services to understand the information search behavior of individual investors. By applying process tracing techniques and using an electronic information display board, the study attempts to understand how information search behavior varies across age, risk aversion attitude and financial knowledge levels. It also explores how the interactions between the variables affect search behavior. The results revealed that young and old investors show differences in their information search behavior. Investors with risk aversion attitude and financial knowledge level combinations also have shown significant differences in search behavior.

Keywords*: depth of search, financial product, information display board, risk aversion attitude*

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13. AGGREGATE INVESTMENT CYCLES, FIRM-LEVEL RISK AND CAPITAL STRUCTURE: DOES FIRM SIZE MATTER?

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ABSTRACT

Earnings and the stock price volatility of a firm have implications for its capital structure. In addition, the effect of the business cycle on the firms' capital structure decisions is an important empirical question. The focus of this paper is to establish the connection between aggregate investment cycles, idiosyncratic risk, and the firms' capital structure and borrowing rates. To account for possible systematic differences between smaller and larger firms (such as credit constraints, or credit market frictions) we analyze different size firm-groups based on their market capitalization. Through quartile regressions, we find a statistically significant negative relation between firm risk and the debt ratios, and a positive one between firm risk and the cost of external financing across the distribution of firms. An important finding is that the effect of heightened risk on leverage is offset during investment booms. Moreover, this effect is larger in small and medium sized firms, revealing financial accelerator like effects. We distinguish between financial and non-financial firms in order to identify the strength of such propagation mechanisms and hence are able to provide policy recommendations for financial services regulation.

Keywords: *Capital structure, Financing costs, Idiosyncratic risk, Firm-level volatility, Investment cycles*

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14. CALENDAR EFFECTS ON STOCK MARKET RETURNS: EVIDENCE FROM THE STOCK EXCHANGE OF MAURITIUS

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ABSTRACT

Efficient market stated that stock's return is indifferent in each trading day. But, the calendar effects phenomenon made a different return in each single day in a week or month. This is an abnormal return which can affect investor in deciding investment strategy, portfolio selection, and profit management. This study investigates the day of the week effect, more precisely the Monday effect and the January effect on the Stock Exchange of Mauritius (SEM) in order to get the information whether these anomalies exist or not. Linear regression model, GARCH and EGARCH models are used to answer our objective. The result shows that Monday effect is nonexistent in SEM. However, we find a significant positive January effect at market level. This study also concludes that volatility shocks are persistent in both daily and monthly returns and moreover, reports the presence of leverage effect in the daily stock returns.