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**ABSTRACTS****1. EARNINGS QUALITY AND BOND RATING: EMPIRICAL EVIDENCE IN INDONESIA**

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**ABSTRACT**

*This study gives empirical evidence that firms with high bond rating can not be responded by investor. Result of the hypothesis test also points out that earnings quality is not correlated with cumulative abnormal return (CAR) which indicates that earnings quality can not be responded by investor. Bond rating is not correlated with CAR which indicates that bond rating can not be responded by investor. Besides that, beta correlated negatively to cumulative abnormal return, this means that a smaller risk of investment will increase CAR. Stock return correlated positively to CAR, which means the increase on stock return will be responded by investor.*

**Keywords:** *bond rating, earnings quality, abnormal cumulative return*

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**2. A RE-EVALUATION OF EVENT-STUDY METHODOLOGY**

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**ABSTRACT**

This paper provides evidence through observations and simulations that Cumulative Abnormal Return (CAR) can result in misleading inferences about market efficiency and post-event behavior. A set of 96 companies known to have multiple events and a simulation of returns with multiple post-event events are used to test three invalidating hypotheses on event-study methodology. We find that the use of artificial portfolios in event studies biases CAR downward, the increased volatility around post-event events and on the event day lowers the significance of abnormal returns, and the time series of CAR of the individual securities is larger in magnitude and higher in significance than that of the cross-sectional CAR of the portfolio.

**Keywords:** *Event Study, Abnormal Return, Cumulative, Post Event, Misspecified*

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**3. U.S. BUDGET DEFICIT AND ASIAN INTERNATIONAL RESERVES**

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**ABSTRACT**

A dynamic linear model is used to examine the effect of rising Asian international reserves on US exchange rate and public debt. Insignificant impact is found because the relative small size of total reserves and gigantic U.S. debt from 1990 to 2007. In addition, increase in US budget deficit tends to increase foreign government holdings of international reserves. Simulations indicate that changes in international reserves accounted for 1.4 percent of variations in exchange rate during the fourth quarter of 2007.

**Keywords:** Asian International reserves, US exchange rate, US public debt, DLM

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#### 4. DOES INVESTOR'S SENTIMENT CAUSE MARKET PRICES? A CASE STUDY OF THE NYMEX PETROLEUM FUTURES MARKETS

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##### ABSTRACT

This paper examines the causal relationship between investor's sentiment and price movements in three major petroleum energy futures markets: crude oil, heating oil, and natural gas. Using Wang (2003)'s methodology this paper constructs the actual position- based sentiment index for speculators and hedgers in the oil and gas futures markets, and then the causal relationship between prices and the constructed sentiment index is tested. As a result, this paper finds that the futures prices cause the investor's sentiment but not vice-versa, specifically revealing that sentiment of speculators (hedgers) becomes more bullish (bearish) as the prices increases. Consequently, the empirical result of this paper confirms that investors in the oil and gas futures markets alter their investing sentiment based on market movements.

**Keywords:** *Granger-Causality; Investor sentiment; Petroleum futures*

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#### 5. POLITICS, FOREIGN RESERVES AND THE EXCHANGE-RATE-BASED- STABILIZATION-POLICY: THE LEBANESE CASE

Kassim M. Dakhllallah, American University in Dubai, United Arab Emirates

##### ABSTRACT

*Lebanon, as well as many underdeveloped countries, uses its foreign reserves as a tool to support its exchange rate based stabilization policy. Looking at the causes behind fluctuations of foreign reserves is of extreme importance, especially after it has been proved that foreign reserves are causes of stability and disturbances to stabilization policies around the globe. Of particular interest is the political variable; it emerged in the literature that politics play a strong role in determining the stability of the foreign reserves, but that did not happen in Lebanon. Politics in Lebanon did not have an impact on the level of foreign reserves, and it did not disturb the stabilization policy. My results, however, confirm that the stabilization policy is a viable policy, and especially after I showed that Lebanon's key macroeconomic variables behave as predicted by the stylized facts of exchange rate based stabilization policy.*

**Keywords:** *Lebanese Economy, Foreign Reserves, Stabilization Policy, Lebanese Currency*

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#### 6. DETERMINANTS OF INEQUALITY IN "GOOD TIMES" Vs. "BAD TIMES"

Daron Djerdjian, Occidental College, California, USA Ismail Geng, American University of Sharjah, UAE

##### ABSTRACT

*This paper investigates the effects of monetary and fiscal policy variables on economic inequality. By explicitly accounting for recession times, the paper finds that at times of recession "bad times" as opposed to "good times," i.e. no recession period, an increase in money supply leads to lower levels of economic inequality. On the other hand, an increase in government spending leads to higher levels of economic inequality. On the empirical methodological front, the paper uses Newey-West HAC Standard Errors and Covariance to obtain more robust results since we have data which may potentially suffer from serial correlation.*

**Keywords:** *Income inequality, monetary policy, fiscal policy, money supply, government spending, recession*

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## 7. THE BENEFITS OF INTERNATIONAL PORTFOLIO DIVERSIFICATION

José Luiz Barros Fernandes, Universidade Católica de Brasília and Banco Central do Brasil  
José Renato Haas Ornelas, Banco Central do Brasil

### ABSTRACT

*Diversification is one of the main pillars of finance theory. However, its benefits for a conservative investor have been put in check recently with the financial crisis whether it really adds value to the investment profile. The objective of this study is to evaluate if the inclusion of new asset classes add value to a traditional conservative portfolio of USD and EUR bonds. To reach this goal we take into account several asset classes from equities to commodities and generate what would be the efficient frontier under both the Markowitz and the resampling approaches. We also evaluate the effect of the chosen numeraire in the analysis. Our results indicate that the benefits of diversification are higher for less risk averse investors and the choice of the numeraire has a dramatic effect in the portfolio optimization problem and so this is one of the main decisions the investor should care about.*

**Keywords:** *Diversification, Numeraire, Resampling, Risk Aversion*

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## 8. MOMENTUM AND MARKET STATES: INTERNATIONAL EVIDENCE

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Chengru Hu, State University of New York at Canton, Canton, New York, USA  
Biqing Huang, Angelo State University, San Angelo, Texas, USA  
Maggie Foley, Jacksonville University, Jacksonville, Florida, USA

### ABSTRACT

*This paper shows that momentum effect exists in both up-market and down-market states with comparable magnitudes using a sample of about 20,000 stocks from 10 developed countries during 1973-2001. The evidence contradicts the predictions of Cooper et al. (2004) that the strength of momentum effect depends on aggregate market conditions, thus demonstrating the need to search for new explanations of momentum effect in a behavioral theory context.*

**Keywords:** *Momentum Strategies; Market States; Market Efficiency; Behavioral Finance*

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## 9. THE INFLUENCE OF SIFs ON THE BUCHAREST STOCK EXCHANGE INDICES

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Ioan-Cristian Chifu, Babes-Bolyai University, Cluj-Napoca, Romania  
Marius Gavriltea, Babes-Bolyai University, Cluj-Napoca, Romania  
Partenie Dumbrava, Babes-Bolyai University, Cluj-Napoca, Romania

### ABSTRACT

*The present paper continues a series of research presented in two previous papers concerning the influence of the five Financial Investment Companies (called SIFs from the abbreviation of their Romanian name: Societati de Investitii Financiare). For the present paper the analysis was extended to almost all the indices reported for Bucharest Stock Exchange in order to establish the influence of SIFs – through their dedicated index, BET-Fi, and individual – over the mentioned indices. The conclusion is consistent with those formulated in the two previous studies: SIFs have an important influence on Bucharest Stock Exchange indices.*

**Keywords:** *SIF, Stock Exchange, Romania*

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## 10. DURATIONS OF EMERGING MARKET SOVEREIGN DEBT DURING FINANCIAL CRISIS

Jon Kocker, Washington State University, Vancouver, USA  
David Layne, Washington State University, Vancouver, USA  
Nicole Storm, Washington State University, Vancouver, USA  
Sheen Liu, Washington State University, Vancouver, USA

### ABSTRACT

*This paper studies the duration of emerging market debt during the financial crisis. During the financial crisis, We analyzed the duration during the financial crisis using the data of emerging sovereign debt indices for 36 individual countries. We find that the durations of emerging sovereign debt can be much longer or shorter than the normal duration during the crisis. The default risk becomes the major concern of the financial market, and changes the typical behaviors of duration..Besides the global economic and financial factors that dominated during the financial crisis, the geopolitical and country risk still played a role in the default risk of the emerging sovereign debts in Eastern Europe.*

**Keywords:** Duration, sovereign debt, emerging market, financial crisis

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## 11. DOES INFLATION TARGETING MATTER FOR MONETARY POLICY? FURTHER EVIDENCE

Jim Lee, Texas A&M University-Corpus Christi, Texas, USA

### ABSTRACT

*This paper evaluates whether formal inflation targets matter for monetary policy using counterfactual analysis on the Taylor-type policy rules of major inflation targeting countries. The policy reaction functions of the Federal Reserve and the European Central Bank, which have yet to formally announce any inflation target, serve as benchmarks for the counterfactual exercises. When the effects of interest rate smoothing behavior are factored out, the majority of inflation targeters are found to have pursued a tighter monetary policy stance in manipulating their "target" interest rates than what if they had adopted either of the two non-targeters' reaction function.*

**Keywords:** Inflation targeting; Taylor rule; counterfactual analysis; interest rate smoothing

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## 12. VOLATILITY SPILLOVER ACROSS MEXICO'S EQUITY AND FOREIGN EXCHANGE MARKETS: A POST-NAFTA ANALYSIS

Matiur Rahman, McNeese State University, Lake Charles, Louisiana, USA  
Muhammad Mustafa, South Carolina State , USA Orangeburg, South Carolina, USA

### ABSTRACT

*This paper analyzes the volatility spillover across Mexico's equity and foreign exchange markets using weekly data. The sample period runs from January 3, 1992 through October 30, 2008. Implementing an ARCH (1) process the paper concludes that these two markets in Mexico are independent of each other. The implications of this major finding include no significant room for profitable arbitrage between the two markets, one market cannot be used to predict the other market, unanticipated turmoil in one market is unlikely to spill over to another market, and the government of Mexico should be able to pursue macroeconomic stabilization policies geared to one market alone at a time.*

**Keywords:** Exchange Rate, Equity Return, Volatility Spillover, ARCH Effect

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**13. FOREIGN DIRECT INVESTMENT IN THE FINANCIAL SECTOR:  
WHAT CAN EXPLAIN ITS INERTIA?**

Eric C. Tsai, State University of New York, Oswego, New York, USA

**ABSTRACT**

*Globalization has been one of the most noticeable corporate trends in recent decades. It seems perplexing, therefore, why it occurs in a relatively sluggish fashion in the financial sector. This paper attempts to provide some plausible explanations. Based on the conventional FDI framework, the lack of ownership advantages from an operational perspective is a primary reason for the relative lag of cross-border investments in the financial sector. Moreover, from a financial perspective, foreign direct investments by financial firms are less sensitive to currency rate changes or financial and business risks than manufacturing firms, reflective of their superior risk management skills. Agency cost is also less important for financial firms. However, cost of capital and free cash flow are important for both manufacturing and financial firms. Overall, the operational and financial perspective of FDI may very well explain the relative lag of globalization in the financing sector.*

**Keywords:** FDI; M&A; Cross-Border Banking

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**14. STOCK MARKET INTERDEPENDENCE IN LATIN AMERICA AND SPAIN:  
IMPLICATIONS FOR FINANCIAL DECISION MAKING**

Dimitrios Tsoukalas, Purdue University-Calumet, Indiana, USA

**ABSTRACT**

*We examine the dynamic interdependence of major stock markets in Latin America from January 1998 to February 2009. Non-stationarity in the index level series leads us to employ cointegration analysis and the error correction vector model (VEC). The results of this study indicate that there is a cointegrating vector which appears to explain the dependencies in stock prices. Sensitivity analysis does not influence the results. We conclude that the potential for diversification by investing in the different Latin American markets may be limited.*

**Keywords:** Stock Market, America, Spain

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**15. LONG TERM PERFORMANCE OF VALUE VS. GROWTH STOCKS:  
EVIDENCE FROM INTERNATIONAL MARKETS**

Zugang Liu, Pennsylvania State University Hazleton, USA  
Jia Wang, Rowan University, Glassboro, NJ, USA

**ABSTRACT**

*This paper studies the long-term risk and return characteristics of value stocks versus growth stocks for three international markets: Asia, Scandinavia, and Europe. We focus on the downside of returns and use Value at Risk as our risk measure. We find that value stocks outperform growth stocks in terms of both risks and returns across all time horizons for all three markets. We further conduct cross country analysis. Interestingly, we find that there is some risk and return trade off in short term investment horizon across the three countries. When investment horizon lengthens, Scandinavian market has the best performance in both risks and returns for both value and growth indexes.*

**Keywords:** Value, Growth, Risk, Time Horizon

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## 16. INTERACTIONS OF U.S. INTEREST RATE, BANK LOANS AND FOREIGN EXCHANGE RATE BETWEEN U.S. AND JAPAN

Lei Wen, Buena Vista University, Storm Lake, Iowa, USA  
Litao Zhong, St. Charles Community College, Cottleville, Missouri, USA

### ABSTRACT

*This study investigates the interactions of U.S. interest rate, the different types of bank loans at all U.S. commercial banks, production activities and the foreign exchange rate between U.S. and Japan. This paper uses the monthly data from 1988 to 2009 to show that the some U.S. bank-loan-related macro-economic indicators are related to exchange rate between U.S. and Japan. The results demonstrate that U.S. short-term federal funds rate, U.S. manufacturing capacity utilization, and three types of banks loans at all U.S. commercial banks could be good predictors and determinants of the overall exchange rate between these two important international currencies.*

**Keywords:** Interest Rate, Bank Loans, Foreign Exchange Rate

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## 17. ASYMMETRY AND BUBBLES

Zhiyong Yao, Fudon University, Shanghai, China

### ABSTRACT

*Harrison and Kreps (1978) and Allen and Gale (2000) explain bubbles by introducing such asymmetry as heterogeneous belief or asymmetric information while keeping the rationality assumption. I have constructed two numerical examples to illustrate the ideas in those two papers with some modifications. Based on Harrison and Kreps (1978), I have highlighted the comparative advantages between investors in the stock market, and introduced bad news event into the model to describe how the bubble burst and then being brought about again. Based on Allen and Gale (2000), I have simplified their model and then illustrated it with the numerical example.*

**Keywords:** Asymmetric Information, Asset Pricing Bubbles, Heterogeneous Belief

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