ABSTRACTS

1. A CRITICAL INVESTIGATION OF THE FUNCTION OF GOLD RESERVES AT THE LEBANESE CENTRAL BANK (BDL)

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ABSTRACT
The academic and professional press cites various motives for holding gold by central banks, in particular, for reasons of portfolio diversification, economic security, physical security, unexpected needs, confidence, income and insurance, and as a store of value. This study shows that there are strong indications that several of these motives do not hold for the Lebanese case, in particular the investment/return and security/confidence perspectives, due to legal constraints and the characteristics of the Lebanese public debt. Moreover, the paper proposes different investment portfolios as alternative uses of the BDL’s gold holdings, based on scenarios prepared by the IMF Finance Department in 2008. It shows that investing part of the gold holdings in a balanced portfolio of 60% equity and 40% treasury bonds and gifts (US and UK: even exposure) would yield considerable returns that could be used to reduce the public debts over time. Further research is needed to investigate the acceptable levels of the different types of risks and the risk-return trade-off level that must be targeted by the BDL. Moreover, real annual interest rates (instead of average real annual return per decade) on treasury bills, treasury bonds and equities could be used by future studies to assess the performance of the proposed portfolios which could provide a detailed view of the yearly variation. From a different perspective, by using the standard deviation of the average real return performance of treasury bonds and equity, future studies can account for the worst/best scenarios during a particular period of time.

Keywords: Central Banks, Gold Holdings, IMF, Public Debt

2. FINANCIAL DISTRESS RISK AND STOCK RETURNS: EVIDENCE FROM THE MALAYSIAN STOCK MARKET

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ABSTRACT
Using Z-Score bankruptcy prediction model as the proxy of distress risk and the subsequent realised stock returns of the distress-listed companies as a proxy of systematic risk, we found that distress risk and size and book-to-market equity effect are not significant enough to explain the expected stock returns. We also found that the theoretical expectation of the size and book-to-market equity effect on distress risk also does not hold in the case of the Malaysian distress listed-firms. However, similar to the findings of Griffin and Lemmon (2002), we found a significant inverse relationship between distress risk and book-to-market equity which show that Malaysian distress listed-companies with higher probability of distress risk display lower book-to-market value of equity ratio. Thus it is inconclusive to deduce that distress risk is a systematic risk in relation to the Malaysian stock market.

Keywords: Distressed companies, stock return, bankruptcy risk, systematic risk
3. **ASIAN CRISIS AND THE EXPENDITURE: EARNINGS RELATIONSHIP**

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**ABSTRACT**

In this paper the Asian crisis is examined at the firm level. The objective is to provide insight to the recent financial crisis which started near the end of 2008 and has spanned the US economy and most of major economies around the world. Specifically, the capital expenditure – profitability (earnings) relationship is examined in the firms of eleven Southeastern Asian countries before, during, and after the Asian crisis. Earnings lead to an increase in expenditure in Asian countries before, during, and after the crisis. This means that the profits of companies are used for investment purposes, regardless of the legal system of the country, or the level of financial market development. However, the relationship from expenditure to profitability exhibits very different characteristics. Asian countries governed by civil law seem to have firms generating profits following expenditure. On the other hand, there is no evidence which suggests that expenditure leads to positive profits in common law countries. This conclusion is much more pronounced post-Asian crisis. Corporate governance systems in civil law countries have responded faster to the Asian crisis than those in common law countries. This is not entirely surprising given the fact that structural corporate governance changes in common law countries must be implemented at numerous financial policy institutions of the country.

**Keywords:** Asian Crisis, Capital Expenditure, Profitability

4. **ASSESSING THE EFFICIENCY OF MICROFINANCE INSTITUTIONS USING DATA ENVELOPMENT ANALYSIS**

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   Mariam Keita, Islamic Development Bank, Ouagadougou, Burkina Faso

**ABSTRACT**

We apply Data Envelopment Analysis to evaluate the relative efficiency of Microfinance Institutions within the West African Economic and Monetary Union (WAEMU). Our objective is to verify if these institutions which must continuously try to strike a compromise between their social role and financial profitability do operate efficiently. We find that MFI within the WAEMU are actually characterized by increasing returns to scale. Our results also show that the efficiency level is very similar within the same country, but differs from one country to another. Political environment is considered as a possible explanation of the between countries efficiency differences.

**Keywords:** Data Envelopment Analysis; Efficiency Comparisons; Microfinance Institutions

5. **A STUDY OF RUSSIAN EQUITY OFFERINGS: HOW IMPORTANT IS THE UNDERWRITER?**

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**ABSTRACT**

We examine stock issuance for Russia, the re-emerging developed market that has been important during the years 2005-2007. Using Bloomberg data, we do not find support that the Russia equity markets are influenced by the underwriter. We find that returns are positive on the first day of trading for both initial public offerings (IPOs) and seasoned equity offerings (SEOs), and they are positive for SEOs and negative for IPOs during the month after the first day. The SEOs returns in the month after the first
day are influenced by the prestige of the underwriter with lower returns for firms with more prestigious underwriter. There is very little evidence to support that short-term returns follow the traditional models expected for the underwriter. We also find the number of institutional buyers to be positively related to the initial placement price and institutional ownership to be a significant factor for IPO returns.

Keywords: IPO, SEO, Russia

6. DETERMINANTS OF DIVIDEND PAYOUT POLICY: EVIDENCE FROM BAHRAINI FIRMS

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ABSTRACT

The primary objective of this paper is to identify the determinants of dividend payout policy of Bahraini companies listed in Bahrain Stock Exchange, to achieve that goal a sample of 35 Bahraini companies with data of 2006 and 2007 was tested. Descriptive and statistical tests were used to analyze the data of the study, a multiple regression model used to examine the relationship between the four independent variables: profitability; previous year dividends; financial leverage and size of firm on the cash dividend change in Bahraini companies (dependent variable). The results reveal that profitability have the greatest effect on the current year cash dividends change, followed by previous year dividends and size of Bahraini companies listed in Bahrain Stock Exchange, whereas there was no relationship between cash dividend change and financial leverage.

Keywords: Dividend Payout Policy, Dividend Change, Determinants, Bahrain Stock Exchange

7. LIQUIDITY RISK IN THE ROMANIAN CREDIT UNION

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ABSTRACT

Liquidity is necessary to the bank institutions for compensating the awaited or not awaited balance sheets fluctuations and for providing the necessary assets to development. The liquidity represents the capacity of a bank institution to cope efficiently with deposit withdrawals and other payable debts and covering the extra financing necessary, for credits and investment portfolio. A bank disposes of an adequate liquidity potential when it’s able to obtain the necessary funds (by raising the debts, bonding, assets selling) immediately and at a reasonable price. The price of the liquidity depends on the market conditions and on the market perception of the risk level of the debtor institution.

Keywords: Liquidity, Bank deposits, Extreme liquidity
8. DIRECTION OF INTEREST RATE MOVEMENTS AND INTEREST RATE TRENDS OF MEXICAN TREASURY SECURITIES

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ABSTRACT

This empirical study focuses on the short-end of the Mexican yield curve. Consistent with the fixed-income literature we show that three factors (level, steepness, and curvature) explain shocks on the short-end of the Mexican yield curve. Further, using principal component analysis, we provide i) a three-factor model to forecast the direction (up or down) of Treasury bills interest rates movements and ii) a tool to detect, a priori, change of trends on Treasury bills interest rates. The three-factor model succeeds 84% of the times on forecasting the direction of Treasury bills interest rates movements.

Keywords: Mexican Treasury Securities, Principal Component Analysis, Fixed-Income Securities, Interest Rate Forecast, Mexico


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ABSTRACT

This study investigates the determinants of return on assets (ROA) in small U.S. banks. This paper uses the data from 1988 to 2008 to show that the ratio of loan loss reserve to total loans is positively related to ROA and the ratio of nonperforming commercial loans to total commercial loans is negatively associated with ROA in small U.S. banks. The results demonstrate that these 2 loan-quality-related ratios may be good predictors of the overall financial performance measured by ROA in small U.S. banks.

Keywords: Return on Assets, Small Banks, Commercial Lending

10. STATISTIC ANALYSIS OF BANKING RISKS

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ABSTRACT

In the market economy the banking system has to establish its strategy concerning with the last developments in the world financial crisis. That's why, in this paper I try to establish the roots which every credit institution has to follow in this complex process, in order to prevent the bankruptcy.

Keywords: return on equity, credit risk, liquidity, financial resources
11. A DYNAMIC CONDITIONAL CORRELATION ANALYSIS FOR EMERGING MARKET INTEGRATION AND PORTFOLIO CORRELATION

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ABSTRACT

This research empirically investigates the market integration impact on the correlation between the local market portfolio and the regional market portfolio, for seven Asian emerging markets. Using the Dynamic Conditional Correlation (DCC) model, the unconditional correlation in DCC model is allowed to depend on the time-varying levels of the local market integration and the regional market integration. Our results suggest that the correlation between the local emerging market portfolio and the regional market portfolio is time-varying and dynamic, and both the local market integration and the regional market integration have had impacts on the correlation. Further analysis is carried to explain these impacts, using wealth-constraint (WC) theory and portfolio-rebalancing (PR) theory. Our results suggest that impacts from the local market integration and the regional market integration are of WC nature for some countries, and of PR natures for others.

Keywords: market integration, portfolio correlation, DCC, wealth-constrain, portfolio rebalancing