ABSTRACTS

1. THE DECLINING EXCHANGE RATE: IMPACT ON THE U.S. ECONOMY 2000-2009

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ABSTRACT

Using a simplified Klein/Fair structural model of the U.S. economy, estimated using 1960–2000 data, the paper finds that the 12.9% dollar decline 2000-2009 had a positive effect on exports, but mildly negative effects for domestically produced investment and consumer goods. The estimated overall negative effect on the GDP is modest: 1.7% over the nine years, or about a fifth of a percent per year. It is estimated this decline in the dollar reduced the trade deficit $140.7 billion. This decline is estimated to have increased U.S. net asset position by an $88.6 billion.

***Keywords**: Macroeconomics, International Trade, Imports, Exports, Exchange Rate*

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2. THE DYNAMICS OF VOLATILITY TRANSMISSION FROM THE U.S. AND REGIONAL MARKETS TO THE ADRS

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ABSTRACT

This paper investigates the relative effects of regional versus U.S. stock markets on ADR returns. We form equally weighted portfolios of ADRs from three emerging stock markets from Latin America (Mexico, Brazil and Chile), and three from Asia (Hong Kong, Taiwan and Japan). Further, we use an EGARCH econometric model to test the relative effect of the U.S. versus regional stock markets. We find price and volatility spillovers from the regional and U.S. stock markets to ADR portfolios in all the countries considered. Specifically, we find price spillovers from the respective regional stock markets to ADR portfolios from Brazil, Chile, Mexico, Japan, and Taiwan, and the U.S. stock markets to Brazil, Chile, Mexico, Japan and Hong Kong ADR portfolios. With regards to volatility, spillovers exist from the respective stock markets to the Brazil, Chile, Mexico, Japan, Hong Kong, and Taiwan ADR portfolios and from all the U.S. stock markets to all the country ADRs under examination.

***Keywords:** American Depositary Receipts, EGARCH, U.S. Stock Markets*

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3. FINANCIAL SPONSORS, UNDERPRICING, AND LONG-RUN PERFORMANCE: VENTURE CAPITAL- VERSUS PRIVATE EQUITY-BACKED IPOS

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ABSTRACT

This paper examines the certification role of venture capital and private equity investors in European IPOs. Their target companies are associated with different levels of asymmetric information, but there are doubts that the certification role associated with these financial specialists leads to similar results among all groups of financial sponsors. We argue that underpricing should diverge among sponsors. Controlling for size and different levels of asymmetric information associated with the respective IPO, we find that venture capital-backed IPOs experience larger first-day returns than private-equity backed IPOs.

We consider the long-term performance of venture capital-backed IPOs, and find evidence that it does not differ from private equity-backed IPO returns. However, long-term market performance of venture capital-backed IPOs can only be explained by market- and issue- specific effects. Long-term returns of private equity-financed firms are determined by le- verage, growth opportunities, underwriter reputation and *market environment. Size and industry effects, as well as operational performance, do not significantly impact long-term performance.*

Keywords: Initial Public Offering, Venture Capital, Private Equity, Underpricing, Information Asymmetry, Certification, Long-Term Performance

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4. ANALYSIS OF BETA STABILITY OF BRAZILIAN COMPANIES FROM 1998 TO 2007

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ABSTRACT

The estimation of beta coefficients has always been a dilemma in finance. The correct measurement is extremely important for making decisions and in the case of emerging markets, attention should be redoubled, because of the great difficulty in obtaining a consistent rate of return, due to the volatility of economic scenarios. Traditionally, the beta coefficient is estimated by the method of OLS linear regression. Another way to estimate the beta is benchmarking. The literature about beta stability shows that there is no justifiable preference for either method, showing which one offers a more stable coefficient. Thus, the main objective of this paper is to verify the stability of beta using both methodologies of estimation: linear regression and benchmark in the period from 1998 to 2007. The null hypothesis of equal methodology for estimation of betas was rejected with 99% confidence interval for all years. The conclusion is that there are significant differences between the estimates of betas by the methodologies of benchmark and linear regression, the estimation by benchmark being more stable.

Keywords: *beta, capital markets, stability*

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5. THRESHOLD COINTEGRATION ANALYSIS OF CRUDE OIL AND UNLEADED GASOLINE FUTURES PRICES

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ABSTRACT

This study investigated the asymmetric cointegration relationships between crude oil and unleaded gasoline futures prices for various maturities. The study finds that unleaded gasoline and crude oil futures price series of one-month to three month maturities are threshold cointegrated. Furthermore, the study shows that crude oil and unleaded gasoline futures prices adjust "Asymmetrically" to clear deviations from equilibrium relationship. Finally, this study finds that there is a bi-directional Granger Causality between crude oil and unleaded gasoline futures prices of one-month and three months contract.

Keywords: *Asymmetric Cointegration, Petroleum Futures, Error Correction model*

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6. THE EFFECTS OF MONETARY SHOCKS ON REAL EXCHANGE RATES: EVIDENCE FROM ASIAN COUNTRIES

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ABSTRACT

This paper studies the effects of the real and nominal shocks on the real exchange rates by employing the long-run structural VAR approach. Based on the impulse response functions, the real and nominal shocks are not persistent for all three countries. In case of Korea, the monetary shock and the productivity shock account for approximately the same percentage of the variance of the real exchange rate over *intermediate to long horizons. Variance decompositions show that the monetary shocks are more important than the real shocks in Malaysia and Thailand.*

Keywords*: *Monetary Shock, Real Exchange Rate, VAR

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7. RELATIONSHIP BETWEEN FUTURE CURRENCY SPOT RATE AND CURRENT CURRENCY FUTURES PRICES

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ABSTRACT

This paper is an attempt to explore the relationship between the future currency spot rate and the currency futures rates for Indian rupees and US dollar. Cost-of-carry model has been used to derive the implied spot rate from the currency futures rate and examined whether this rate can be an indicator of the current currency spot rate. Further, the implied spot rate is used to predict the short-term spot rates. The results indicate that the current currency futures prices convey very little information about the future spot exchange rate which has not been indicated by the spot market rates. Also the cost-of- carry model doesn't appear to hold strongly for the INR-USD case. Further, the implied spot rates derived from the currency futures rate are good predictor of short-term of future spot rates. In this case, the implied spot rates derived from the futures rate slightly overprice the US dollar.

Keywords: *Currency Futures, Cost of Carry, Covered Interest Rate Arbitrage*

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8. CORPORATE DERIVATIVES USE AND THE USE OF EXTERNAL FINANCE

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ABSTRACT

We examine the relationship between a firm's financial risk management activities and its use of external sources of funds for a broad sample of large, publicly traded firms. Using the comprehensive measures of net external finance developed in Bradshaw, Richardson and Sloan (2006), we find that derivatives users employ smaller amounts of external finance than do their non derivatives-using counterparts. Further, we find that differences in the use of external sources of funds are driven by differences in the use of equity (rather than debt) financing. These findings have implications for managers since more sophisticated managers may be able to reduce the use of external financing through a well-developed risk management program.

Keywords: *Hedging, Derivatives, Risk Management, External Finance*

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9. FORECASTING INTEREST RATES: AN APPLICATION FOR BRAZIL

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Benjamin M. Tabak, Banco Central do Brasil and Universidade Catolica de Brasilia

ABSTRACT

Understanding the links between long and short-term interest rates is crucial for monetary policy makers, since Central Banks decide and set short-term interest rates in order to affect indirectly long-term interest rates, which affects aggregate spending. This paper studies whether VAR/VEC models are useful in predicting long-term interest rates for Brazil. The empirical results suggest that these models are useful in building qualitative scenarios for the Term structure of interest rates, but do not provide good forecasts in terms of accuracy. Furthermore, models that assume that the future path of short-term interest rates (target *interest rates) is known by forecasters do not perform better in terms of both directional and forecasting accuracy.*

Keywords: *monetary policy; short and long-term interest rates; expectations theory of interest rates; transmission mechanism*

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10. PERFORMANCE PERSITENCE OF ASIAN HEDGE FUNDS: DOES STYLE MATTER?

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ABSTRACT

In this paper, we attempt to investigate the performance persistence of Asian hedge funds in their returns across strategies on monthly basis. Using EurekaHedge database which contains monthly returns of 661 Asian hedge funds by December 2005, we carry out two testing methods for parametric (contingency table) and non-parametric (regression – based model) tests for each strategy. We attempt to make a significant contribution to the existing literatures of Asian hedge funds on the performance persistence of Asian hedge funds across strategies.

Keywords: *Asian hedge funds, Performance evaluation, Performance persistence, Parametric and non-parametric methods, Hedge fund risks and returns.*

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11. THE HOLIDAY EFFECT AND DAILY STOCK RETURNS IN THE INDIAN STOCK MARKET

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ABSTRACT

We examined the holiday effect in the Indian stock market for the recent decade of January 2000 to December 2009. Our results indicate pre-holiday returns were substantially higher than that of other trading days in the overall period as well as in sub- groups. More specifically, the pre-holiday returns were higher than daily returns in months generating highest daily returns (November and December) and also in months generating lowest daily returns (March to May) in the Indian stock market. We therefore conclude the presence of the holiday effect in the Indian stock market.

Keywords: *Indian stock market, holiday effect, stock market efficiency, stock market anomalies.*

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12. MANAGERIAL INCENTIVE AND CORPORATE HEDGING

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ABSTRACT

This paper studies the decisional factors of corporate hedging activities using a sample from U.S. oil and gas producers. I find that managerial incentive and executive compensation scheme are important determinants of corporate hedging policies. Firms with managers possessing greater equity ownership and less option holdings tend to hedge more extensively. Meanwhile, financial leverage, firm size, and geographic diversification have significant influence on corporate hedging decisions.

Keywords: *Hedging, Risk Management, Executive Compensation.*

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13. UNDERINVESTMENT AND CORPORATE HEDGING: AN EMPIRICAL STUDY

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ABSTRACT

The goal of this paper is to examine whether underinvestment problem is an important determinant of corporate hedging decisions. We find that oil and gas producers with more growth opportunities tend to hedge more, and the need to avoid underinvestment does influence hedging decisions. Meanwhile, firm size and managerial compensation scheme significantly affect corporate hedging policies. Small firms and companies who award more executive stock options hedge less.

Keywords: *Underinvestment, Hedging, Risk Management, Executive Compensation.*

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14. PORTFOLIO SELECTION WITH SKEWNESS: AN APPROXIMATION FOR MULTIPLE OBJECTIVES UNDER MARKET SEMI-VARIANCE

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ABSTRACT

In the presence of skewness, portfolio selection involves competitive and conflicting objectives such as maximizing both expected returns and skewness, besides minimizing risk (semi-variance). In this case portfolio selection depends on investor preferences between these objectives. We show that investor's preferences can be incorporated in a multi-objective programming problem and an optimal solution under the presence of skewness is found. We present a solution for the portfolio allocation in a Mean-Semi-variance-Skewness framework, which generalizes previous portfolio models.

Keywords: *Portfolio, Market Semi-Variance*

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15. THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN CHINA

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ABSTRACT

Over the last two decades, globalisation has led to the rapidly increasing growth of foreign direct investment (FDI) all over the world. China, one of the largest net importers of FDI in the world, represents a country with a substantial share of foreign ownership whose FDI experience has been largely overlooked in terms of a comprehensive economic analysis. Although China's FDI stock was worth US$ 21034.42 billion in 2008, the second largest in the world, empirical work on FDI and its determinants is limited. After adopting the open door policy, China experienced a boom of inward foreign direct investment (FDI) by multinational corporations since 1980s. From an almost isolated economy, China turned to be the largest recipient of FDI in the developing world. This research provides a comprehensive analysis of the determinants of FDI inflow to China, specifically explains how FDI is influenced by the growth in GDP, exchange rates, international trade (import and export) and average income. The paper employs twenty-nine-years of annual data from 1980 to 2009 made available by the International Monetary Fund.

Key Words: *Foreign Direct Investment Determinants, China*
