ABSTRACTS

1. MEASURING AND MODELLING CORE INFLATION FOR THREE GCC COUNTRIES: KUWAIT, OMAN, AND THE UAE

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ABSTRACT

This is the first study of its kind to measure and to evaluate core inflation in the Gulf Cooperation Council (GCC) region. The data used cover the periods from July 2005 to October 2010 for Kuwait, from January 2001 to December 2009 for Oman, and from January 2008 to December 2010 for the UAE. This study is based on 31 intermediate three-digit aggregation levels of CPI in Kuwait, 29 in Oman, and 37 for the UAE. The price change used is the end-of-quarter. The data analysis shows that the cross-sectional distributions of price changes in the three countries are highly leptokurtic (thin tails) and skewed to the right. Four core inflation measures have been developed: the permanent exclusion of the food sectors, the weighted medians, the trimmed means and the volatility weights (Edgeworthian Index) measures. After evaluating and comparing the different obtained measures, we recommend the 20% asymmetric trimmed means for Kuwait, which excludes 12% and 8% from the lower and upper tails of price changes distribution respectively, the Edgeworthian Index for Oman, and the 5% asymmetric trimmed means for the UAE, which excludes 8% from the lower tail and 2% from the upper tail of price distribution as the best and most efficient measure of core inflations.

Keywords: *Core Inflation, Exclusion-Based, Median Weighted, Trimmed Means Volatile Weights, Kuwait Central Bank, Oman Central Bank, UAE Central Bank, GCC Countries*

JEL Classification Codes: *C43; E31; E52; E58*

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2. THE IMPACT OF GOODWILL IMPAIRMENT ON STOCK VOLATILITY

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ABSTRACT

The change in goodwill accounting rules from APB 17 to SFAS 142 that occurred in 2001 means that goodwill can no longer be amortized leaving only annual impairment testing as a means of removing goodwill from the company books. If goodwill is found to be impaired in a given year, the amount of the impairment is written off against income in the year of the impairment, reducing the goodwill as well as the total assets of the company. This means the year-to-year changes can be large and rather sudden. In this paper we explore the impact of the level of goodwill on the subsequent year stock volatility. We consider companies included in the S&P 100 across a 10 year time period and find there is a significant inverse relationship between the level of goodwill and the subsequent year stock volatility within this group.

Keywords: *Accounting Goodwill, FASB, Stock Volatility, Newey-West Standard Errors*

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3. CHANGES IN EVIDENCES OF RETURNS AND RISKS OF GROWTH AND VALUE STOCKS IN THE BRAZILIAN MARKET FROM JANUARY 2005 TO JUNE 2010, BASED ON THE IBRX 50 INDEX

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ABSTRACT

The evaluation and study of value stock and growth stock portfolios can be a decisive factor in achieving higher financial returns. As examined and researched in international markets, we studied the Brazilian market in order to confirm if value stock portfolios have higher returns than growth stocks portfolios, when maintained in long term, for periods longer than one year. Within this perspective, this study analyzes and compares the performance of both value stock and growth stock portfolios based on the evaluation of stocks included in the São Paulo Stock Exchange's IBrX 50 index, considering the period from 2005 to 2010. By using the methodology proposed by Fama and French (1992), we concluded that investments in value stock portfolios do not result in higher returns when compared to investments in growth stock portfolios. This finding creates a new analytical perspective to previous studies and changes investment opportunities to investors and finance agents in the market.

Keywords: *Value stocks; Growth stocks; Book-to-market*

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4. DO INVESTORS APPLY REAL OPTION THINKING IN VALUATING CORPORATE ASSETS? EVIDENCE FROM NEW PRODUCT DEVELOPMENT PROJECTS

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ABSTRACT

This study is a direct test of the implication of real option theory. Real option theory suggests strategic flexibilities inherited or built into corporate assets enable firms to gain from both market and asset specific fluctuations. We examine this implication on the valuation of corporate innovative activities, namely new product development projects. With a sample of 844 new product introductions made during 1987-2000, we find supporting evidence that investors recognize values brought by these strategic flexibilities and reward products of greater uncertainties with higher valuations. Our results suggest investors apply real option thinking in the evaluation of corporate assets.

Keywords: *real option; strategic flexibilities; new product; uncertainty*

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5. IRAN'S REGIONAL ECONOMIC ALLIANCE: AN EVALUATION

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ABSTRACT

With the onset of the Iranian revolution of 1979 and deteriorating relations with the U.S., the country has been subject to various U.S. economic sanctions. These sanctions have been motivated by concern about Iran's nuclear program and its alleged support for terrorist organizations. Although the main objective of these sanctions is to force Iran to change its nuclear policy, they have had a slow but crippling impact on the economy. The objective of this paper is to examine the economic potential for Iran *in forming an alliance with the two giant emerging economies of Asia, India and China. With these two countries Iran could potentially engage in a set of mutually advantageous trade and financial relationships, and reduce the negative impact of imposed economic sanctions by U.S. and other Western powers.*

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6. STOCK MARKET EFFICIENCY AND CRICKET RESULTS

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ABSTRACT

The main goal of this study is to examine the effect of cricket results on the National Stock Exchange of India. To attain this goal, we examine the influence of cricket test matches played by the Indian national team from January 1, 1997 to January 6, 2011 on the Indian stock market. The results of the investigation indicate that cricket results have a significantly positive impact on the Indian stock market. In particular, the effect is stronger when the Indian team wins its games.

Keywords*: market efficiency, excess returns, anomaly, cricket*

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7. THE EFFECTS OF US STOCK MARKETS ON THE ISTANBUL STOCK EXCHANGE AND ITS COMPONENTS

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ABSTRACT

With increasing financial integration (globalization), the performance of the emerging financial market has been substantially affected by the performances of major developed financial markets. This study explores how one of the leading Emerging Markets (the Istanbul Stock Exchange; ISE hereafter) and various components of the ISE index are affected by various indices from the US stock markets. The empirical evidence reveals that unexpected shocks in the US stock markets have both contemporaneous and first period effects on the Turkish stock market. The co-movements among the markets are positive and significant. Moreover, importantly, the Turkish stock market closely follows the movements of the US stock exchange which has small-cap companies rather than of the stock exchanges which have similar sectoral weights as in the Istanbul Stock Exchange.

Keywords: *Emerging markets, Financial market integration and SVAR*

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8. SIZE, BOOK-TO-MARKET, AND THE LONG-RUN RETURN OF NEW ISSUES

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ABSTRACT

This study examines the role of size and book-to-market in explaining long-run returns of new issues. Size is generally insignificant and book-to-market is negative and significant in explaining new issue returns. The relationships display signs inconsistent with the general cross-section of stocks and are fully consistent neither with the traditional risk based explanation for the role of size and book-to-market nor *overreaction arguments. The risk of equity issuing firms appears to be different than the general cross-section of stocks and the contrary signs on size and book-to-market may be capturing this result.*

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9. TEST OF MOMENTUM INVESTMENT STRATEGY: EVIDENCE FROM INDIAN STOCK MARKET

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ABSTRACT

The study examines whether momentum investment strategy, based on buying past winner and selling past losers generates superior returns in Indian stock markets or not. Weak form of EMH suggests that no investment strategy based on historical price information should generate abnormal returns on consistent basis. However, evidence both from developed and emerging markets is available to support existence of momentum returns. This study uses monthly return data of stocks, in which F&O trading is permitted on National Stock Exchange (NSE) of India, It encompasses the period of January 2001 to July 2009. The sample used for the study eliminates the problems of small risky and illiquid stocks distorting the results of such studies. The sample of stocks used for the study consists of only large and liquid stocks because only such stocks become and remain eligible for F&O trading on NSE. The study utilizes the methodology employed by De Bondt and Thaler (1985) and Jegadeesh & Titaman (1993, 2001). The results are consistent with Jegadeesh & Titaman (1993, 2001) and significant momentum return is evident for the post formation period ranging between three to twelve months.

***Keywords**: Momentum Strategies, Behavioral Finance, Market Efficiency*

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10. AN EVALUATION OF EUROPEAN CENTRAL BANK'S MONETARY POLICY

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ABSTRACT

This paper employs alternative policy rules to empirically investigate the monetary policy conduct of the European Central Bank since 1999. According to the original Taylor rule with a priori fixed policy response coefficients, the ECB has been too accommodative, particularly during periods of economic expansion in the euro area. However, the actual policy path follows closely the two policy guidelines that are derived from the standard New Keynesian macroeconomic model.

***Keywords:** European Central Bank; Taylor rule; New Keynesian model; monetary policy*

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11. CAN STOCK TRADING VOLUME EXPLAIN RETURN AUTOCORRELATION? EMPIRICAL EVIDENCE FROM THE EGYPTIAN SECURITIES EXCHANGE

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ABSTRACT

This paper investigates the relation between stock returns and trading volume (as measured by turnover) in a small emerging market, i.e., the Egyptian Securities Exchange (ESE). We are interested in examining the power of stock trading volume in predicting future return. To this end, we use a version of GARCH model and Granger causality test to measure the correlation and causality relation between trading *volume and stock return, respectively. The results show that trading volume data plays no role in predicting stock return autocorrelation.*

Keywords: *Trading Volume; Return Autocorrelation; Noise Trading; GARCH*

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12. A COST-BENEFIT ANALYSIS OF FOOD SAFETY PROGRAM: THE CASE OF SACRAMENTO COUNTY, CALIFORNIA

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ABSTRACT

The Environmental Management Department (EMD) of Sacramento County, California launched a food safety rating and disclosure system in 2007 which requires the posting of color-coded placards following each inspection at fixed retail food facilities. Restaurants are charged a program fee which covers the costs of the program. This study assesses the impact of the fee on the restaurants' operating cost, and the benefit of the program in terms of cost avoidance related to foodborne illness and any benefits associated with the advertising mechanism for restaurants. We find that the fee only represents a very small portion of restaurant operating costs and is the smallest fixed cost. The program is expected to reduce the likelihood of foodborne illnesses. A restaurant with a green placard also helps the restaurant to improve sales as residents have public confidence in those restaurants.

Keywords*: Food Safety, Regulatory Cost, Cost-Benefit*

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13. MARKET OPENING: AN EMPIRICAL EXAMPLE

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ABSTRACT

We test the impact of idiosyncratic risk on stock returns for China that experienced financial market opening. Idiosyncratic risk is positively associated with returns prior to financial market opening. However, financial market opening diminishes this effect. Moreover, prior to the opening, impact of idiosyncratic risk is larger when the number of available stocks is smaller. The change in the pricing of idiosyncratic risk indicates the success of the China market opening.

Keywords: financial market opening, idiosyncratic risk

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14. THE IMPACTS IN THE CAPITAL STRUCTURE OF BRAZILIAN COMPANIES DURING PERIODS OF CRISES

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ABSTRACT

The capital structure, the way the company decides to finance its investments, is one of the most discussed topics in corporate finance. In recent decades, the development of the theory of capital structure was significant. There are several studies that seek the determinants of capital structure of companies. Most studies use variables such as size, asset tangibility, profitability, risk, etc. Therefore, this paper proposes to investigate how economic indicators affect the capital structure of Brazilian open-capital companies in times of economic crisis. For this, the descriptive analysis was used. The sample comprised 83 companies which presented quarterly data from 1995 to 2007 of the indicators used in this study. It was concluded that there is significant evidence on the correlation between the capital structure and the economic indicators: exchange rates and interest. However, the correlations between inflation and capital structure were less significant.

Keywords*: Capital Structure. Economic Context. Macroeconomic Indicators. Descriptive Analysis*

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15. DEFAULT RISK OF EXOTIC MORTGAGE PRODUCTS

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ABSTRACT

We develop a framework to quantify credit risks of non-traditional mortgage products. Ex ante probabilities of default are caused by willingness-to-pay and ability-to-pay problems and the high default rates for NMPs confirm that payment shock is a critical default risk indicator. Monte Carlo simulations using three correlated stochastic variables, under normal and stressed economies, confirm that the default risk of 3/27, 2/28, and option ARM contracts have a greater probability of default than other mortgage products in all economic scenarios.

Keywords: *Payment Shock, Credit Risk, Default Option*

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16. BANK STRUCTURE AND REEVALUATING THE CASE FOR RISK: THE ICELANDIC BANKING CRISIS

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ABSTRACT

Using a sample of 3 Icelandic and 153 US banks (8 of which have since failed), we construct a historical VaR framework and discuss the relative thoroughness of market risk management for US and Icelandic firms. The paper seeks to determine the drivers of provisional loan losses (PLL), a fundamental component of liquidity. The results find no homogeneity between Icelandic and US results, but significant explanatory power exists for Icelandic PLL. This paper represents the only paper, to our knowledge, that approaches Icelandic and US Banks from the structural component of risk.

Keywords: *International Finance, Banking, Risk, Financial Crisis*