ABSTRACTS

1. A SHIFTING ECONOMIC GEOGRAPHIC: A RELATIONSHIP BETWEEN COUNTRY MARKET ACCESS AND WAGES

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ABSTRACT:

This study seeks to address evidence of correlation between manufacturing wages and market access that will be analyzed for a specific duration of time, in this case for a span of 23 years. The study utilized trade gravity equations data from 27 sample industries in the year between 1980 and 2003 to measure market access, otherwise referred as proximity to demand. After the data analysis, 59% (16) of the sampled industries indicate evidence of wage response. To control for variable bias in the data, the study utilized panel data econometrics. Lack of evidence of market access in this study is explained by various variables such as labor regulations, labor relocation, supplier access and availability of human resource.

Keywords: *new economic geography; market access; wages; agglomeration*

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2. ARE BETAS BEST? THE CORRELATION STRUCTURE ON BRAZILIAN EQUITY MARKET

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ABSTRACT

Since Markowitz (1952) seminal work on portfolio selection, academics and practitioners have been trying to find sound predictors for its two main inputs: the estimated covariance matrix and the vector of returns. From these, maybe, the most difficult to obtain is the vector of returns, as it is most unclear which factors govern its behavior. The covariance matrix, however, is said to be more stable over time although it can be estimated by different ways. This works tests different techniques of correlation structure predictors applied to stock price time series. I investigate the Brazilian market in the period between 2003 and 2007. I use close prices on daily basis of stocks publicly traded at Sao Paulo Stock Exchange that composed the Ibovespa market index in 2003. The stocks that ceased negotiation during the period were excluded from the sample. I first compare the historical model, the single index model, Blume and Vasicek adjustments to the single index model, the mean model and a naive model. Then, I test some shrinkage models, combining the historical covariance matrix with estimates from the Fama & French three-factor model. The results indicate that the shrinkage procedure produces better estimates of covariance matrices.

Keywords: *Beta, Correlation Structure, Optimization*

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3. EFFECT OF SIZE ON RETURN OF SOVEREIGN WEALTH FUNDS: U.K. PENSION AND TEMASEK OF SINGAPORE

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ABSTRACT

Using a simple dynamic linear model this paper examines the effect of size on rate of return for sovereign wealth funds and empirically tested by the Pension Funds in U.K. (UKPF) and the Temasek Holdings in Singapore. This model is built upon five variables including total assets, rate of return, diversification ratio, exchange rate to U.S. dollar and a one-step forward rational expectations exchange rate. Empirical application on UKPF suggests that there is a negative but weak correlation between the variations in rate of return and the variations of market value. Empirical results from Temasek are less reliable limited by data.

Keywords: *Sovereign Wealth Funds, Dynamic Model, U.K. Pension Funds, Temasek Holdings*

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4. TANGO ON SAMBA BEAT? A STUDY OF IBOVESPA AND MERVAL

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ABSTRACT

This article analyses the efficiency of Group Method of Data Handling (GMDH) polynomial neural networks when anticipating return, on a monthly basis, on the return of the main Brazilian (Ibovespa) and Argentinean (Merval) market indicators. Initially, in order to determine the exogenous variable, we calculated the logarithmical return on each index. Afterwards, in order to determine the endogenous variables, we have performed t-1, t-2 and t-3 lags on the exogenous variable. We computed up to nine front fed layers. Results suggest some predictability on both markets, denoting some inefficiency. Inefficiency, especially on the Argentinean market, is validated by the additional causality Granger tests that demonstrate the influence of the São Paulo Stock Market over the Buenos Aires Stock Market and no such influence the other way round.

Keywords: *neural networks; market co-integration; Granger causality*

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5. ALTERNATIVES FOR PUBLISHED AND CALCULATED BETA ESTIMATES

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ABSTRACT

Students and practitioners frequently use published betas rather than calculating their own betas. This paper documents that betas from Yahoo!, MSNBC and Value Line are inconsistent across the three sources. This variation is frequently significant and our results indicate the differences are driven by the return interval (monthly vs. weekly) and the market proxy (NYSE Composite vs. S&P500). However, the choice of the return horizon (3-years vs. 5-years) does not seem to be significant source of variation in beta estimates. Additionally, published betas do not adjust for the inefficiency caused by potential serial correlation among the regression residuals. While failure to correct for serially correlated residuals has a minimal effect when using a weekly return interval, the effect when using a monthly return interval can be highly significant.

Keywords: *CAPM, beta estimation, published betas, serially correlated residuals*

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6. DERIVATIVES AND FINANCIAL CRISIS: THE COSTS OF SPECULATION IN BRAZIL (ARACRUZ AND SADIA)

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ABSTRACT

This study aimed to verify the speculation costs incurred by Aracruz and Sadia due to their high degree of leverage with derivative instruments. The main results evidenced agency problems, with disproportionate investments in hedge transactions. Faced with a sudden appreciation of the US dollar, resulting from the exacerbation of the global financial crisis, the firms took heavy financial losses of R$ 4.7 billion reais (equivalent to US$ 1,8 billion dollar) for Aracruz and R$ 2.6 billions reais (equivalent to US$ 1,06 billion dollar) for Sadia. Investors witnessed Sadia and Aracruz shares end 2008 down about 70%, against 28% of the market index.

Keywords: *Financial crisis, Derivatives, Discounted Cash Flows (DCF), Valuation, Aracruz, Sadia*

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7. COMPARING PERFORMANCE OF DATA MINING MODELS FOR CONSUMER CREDIT SCORING

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ABSTRACT

In this research a binary classification set of models that included SVM, C5, Bayesian Network, C&R Tree, CHAID, Logistic Regression, and Neural Net data mining models were used to predict and compare the performance of these methods and to identify the inputs or predictors that differentiate customers with "good credit" from customers with "bad credit" in a German bank database. The results indicated that while all models yielded acceptable results, the SVM model was superior to other models in terms of correctly classifying good credits from the bad ones.

Keywords: *Credit scoring, Data mining, classification models*

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8. IMPACT ANALYSIS OF SUBPRIME CRISIS IN THE RETURN OF COMMON SHARES OF REAL ESTATE SECTOR: STUDY OF THE PERFORMANCE OF BRAZILIAN AND AMERICAN COMPANIES

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ABSTRACT

This paper examined the subprime crisis impact in relation to common shares returns of two Brazilian real estate companies and two American ones. We used the event study method, detailed by Campbell, Lo and MacKinlay (1997), adopting the date as of August 9th, 2007 as the starting point. It was analyzed the performance of the shares prices of the selected companies in the periods immediately before and after the announcement of the subprime crisis. The results evidenced the generation of statistically significant abnormal returns for the American companies, in the event window, allowing the rejecting of the null hypothesis. For the Brazilian companies, it was not observed the generation of statistically significant *abnormal returns in the event window, after the announcement of the subprime crisis in the international media. Therefore, the null hypothesis was accepted, assuming that there were signs of anticipated adjustments in the price of the stocks in the Brazilian market. After comparing the results between the companies of both countries, the conclusion was that the results were more coherent for the Brazilian companies. In part, it could be assumed this assertion, considering that an international economic crisis is the result of both, the occurrence of several adverse systemic events, as the implementation of unsuccessfully measures by the government. Therefore, it is possible to accept that the common share' prices are gradually adjusted as soon as new relevant information is announced by the media. This result corroborates with the basic assumption of the efficient market hypothesis in the semi-strong form, signalizing that the effects of an economic crisis can be partially anticipated by financial analysts through the adjustment of the stock price, as was observed in the Brazilian market.*

***Key words**: Subprime Crisis, Delinquency, Event Study*

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9. MERGER PREMIUMS AND ARBITRATION SPREADS: EVIDENCE FROM U.S. MERGERS FACING REGULATORY CHALLENGES

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ABSTRACT

This paper presents an empirical examination of ninety six U.S. mergers which were investigated for anti-competitive impacts by regulatory agencies from 2001 to 2011. The examination was conducted using a stock market event study that evaluated cumulative abnormal stock market returns. Following previous studies, the wealth effects on the target and bidding firm were determined around the time of the merger announcement. In addition, the study considers the role of risk arbitrage as an explanation for the observed stock price impacts.

***Keywords:** Mergers, Market Concentration, Deal Premium*

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10. PRICE BEHAVIOR IN ARTIFICIAL STOCK MARKET WITH ASYMMETRIC INFORMATION

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INTRODUCTION

The informational efficiency of markets is an important and recurrent research topic in finance. The theme is commonly investigated through empirical analysis using data of asset prices effectively traded in equity markets. However, the use of real market data presents several problems for the development of the theory, because the transacted prices reflect not only the behavior of agents as well as other exogenous variables that are difficult to isolate.

In this context, this work contributes to the study of informational efficiency through an alternative approach, using simulation techniques in artificial capital markets, in which behavior or basic decision processes of agents are modeled and their interactions and impacts on prices are analyzed without the influence of uncontrolled variables.

The use of agent-based models for studies in finance represents a new approach and adds the deductive and inductive approaches to the analysis of research problems. In this paper, studies are concentrated on a capital market based on the Hong and Stein model (1999) in which all agents have the same percentage of the relevant information about future dividends, but they hold access to different portions of the information. Thus, these agents, called agents who observe news or newswatchers, follows the behavior described by Hong and Stein (1999), in one of the main theoretical models of behavioral finance.

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11. THE HURST EXPONENT: A STUDY OF THE MAJOR INTERNATIONAL STOCK MARKETS

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ABSTRACT

The study of capital markets has always been the focus of discussion and consideration under intense scrutiny. Specially, when concerning the financial asset return. Either analyzing its linearity or not, the theories which aim its comprehension differ. Thus, this work aims to analyze the capital markets under the approach of the existence of long-term memory in the main world stock exchange indexes by using the R/S statistics and the Hurst Exponent over time, observing the persistence or anti-persistence pattern concerning the logarithmic returns of such series. The series used correspond to the daily closing price quotations of the international market indexes: The Dow Jones Industrial Average; Standard & Poor's 500; NASDAQ Composite Index; Financial Times Stock Exchange; Nikkei-225 and Ibovespa. The data covers the period from January 1, 2000, to December 31, 2006, summing up 1.731 observations. The results showed that the events observed in the past events for those markets impact and influence future events, i.e. detect the presence of market long-term memory. Values obtained from the Hurst Exponent were statistically significant.

Keywords: *Long-term Memory; Hurst Exponent; Capital Markets*

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12. VALUE PREMIUM: FUNDAMENTAL OR ARBITRAGE RISK?

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ABSTRACT

This paper investigates which risk factor drives value premium, fundamental risk or arbitrage risk? By allowing the fundamental risk measure and the arbitrage risk measure to have simultaneous effect on book-to-market portfolio returns, our GARCH model analyses reveal that value stocks are exposed to greater arbitrage risk than are growth stocks, and it is the arbitrage risk that explains the superior returns of value stocks. This finding is further supported by the existence of a significant negative relationship between the value premium and investor sentiment innovations documented in the paper.

Keywords*: value premium, fundamental risk, arbitrage risk, idiosyncratic volatility, investor sentiment*
