ABSTRACTS

1. DETERMINANTS OF CAPITAL FLIGHT IN MALAYSIA

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ABSTRACT

This study was intended to investigate factors affecting capital flight in Malaysia. The study used time series data from first quarter 1991 through fourth quarter 2008 and the data were tested using the Augmented Dickey-Fuller unit root test, Johansen-Juselius cointegration test, and vector error-correction modeling. Empirical findings indicated a stable long-run relationship between the variables under study. Foreign direct investment and the stock market were found to have a positive impact on capital flight, whereas real gross domestic product (GDP), budget deficit, and interest rate were negatively related to capital flight. In addition, real GDP, interest rate, and budget deficit can Granger cause capital flight in the short-run.

Keywords: Capital flight, Economic growth, VECM

2. THE BEHAVIOUR OF BOOM-PERIOD DIVIDENDS OF NYSE-LISTED BANKS WITHIN AN OPTIMAL CONTROL THEORY FRAMEWORK

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John Pointon, University of Plymouth Business School, Devon, UK
Ahmed El-Masry, University of Plymouth Business School, Devon, UK

ABSTRACT

This study examines the impact of the different control planning horizons in determining boom-period dividend pattern, secondly, the factors that govern the control-theoretic boom-period dividend patterns are established and finally the factors that are associated with out-performers of the control theory framework are identified. The empirical results indicate that the long planning horizon model tends to be a good predictor of observed boom-period dividends, suggesting that the boom-period dividend decision is not constrained by short or medium term predicted liquid asset levels. NYSE banks with control-theoretic boom-period dividend patterns were associated with the smaller banks, which perform financially well and display a strong share price record, as indicated by the high Tobin's Q ratio, strong dividend yield, a greater return on capital invested, higher leverage, and a smaller number of employees. The NYSE banks with observed boom-period dividends that out-perform the control theory are associated with banks that have higher profits, as indicated by the higher return on equity, and an implied expanding customer base, as suggested by the higher revenue growth rate. Out-performing banks also have higher dividend yields, constrained by an implied internally imposed conservative retention policy, as indicated by lower payout ratios and they tend to be smaller in size.

Keywords: optimal control theory, dividend policy, dividend behaviour, payout ratio, NYSE, baking
JEL: G21, G31, G32, G35

3. ANALYSIS OF COUNTRY RISK DETERMINANTS FOR LATIN AMERICAN COUNTRIES IN THE 1995/2008 PERIOD

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ABSTRACT

The goal of this paper is to analyze the sensibility of country risk to some determinants in the 1995/2008 period, using the case of the three most important economies in Latin America: Brazil, Mexico and Argentina. Both the country risk and the determinants series were initially considered from a quantitative point of view, before two models were developed by using econometric and statistical tools. The first model was developed using ordinary multiple linear regression techniques and then regression analysis were implemented, using Chow's Test, Chow's Forecasting Test, the CUSUMSQ Test (Cumulative Sum of Squares Test), and moving regressions, while for the second model we resorted to the Markov Chain Monte Carlo methodology. The results obtained with the multiple linear regression models indicate a sensibility of country risk to the suggested country risk determinants. The model also corroborated the initial hypothesis of an unstable relationship between country risk and its determinants for the Argentinean and Brazilian cases, while for Mexico no indication of such instability could be observed. The findings of the tests suggest a loss of sensibility for what concerns country risk in regard to international determinants during periods of internal crisis, when their behavior shows more responsiveness to local determinants. In a similar way, the results obtained via the moving regressions for Argentina and Brazil during international crisis scenarios showed a higher significance of external determinants during these specific periods. The proposed dynamic model, using Markov Chain Monte Carlo methodology however, did not bring any conclusive finding.

Keywords: Country Risk; Emerging Markets; Stability.

4. COMBINING WAVELET AND KALMAN FILTERS FOR FINANCIAL TIME SERIES FORECASTING

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ABSTRACT

Among the numerous techniques that played the role of forecasting a future value, there are several different previously verified models found in literature and, more recently, the time series separation filters appeared as a complementary alternative to the current forecasting techniques. Therefore, the general purpose of this study is to carry out a comparative analysis of the combined use of wavelet and Kalman filters along with forecasting models for financial time series in order to verify which of them produces the best forecast. After testing the junction of techniques for a high volatility time series, such as IBOVESPA, the results first indicate the use of the Kalman filter and next the use of wavelets with recurring neural networks, with error of 0.72% measured by MAPE. Therefore, this paper is a contribution to the area by creating a way of reducing errors in forecasting and, consequently, developing better risk management in investment positions in the financial market.

Keywords: Wavelets, Kalman, Forecasting, Financial Time Series

5.   LINKING FDI INFLOWS TO COUNTRY INVESTMENT CLIMATE: A COMPARISON BETWEEN HIGH AND LOW PERFORMANCE COUNTRIES

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ABSTRACT:

*The purpose of this study was to determine which investment climate variable(s) best predict a country's potential for success in attracting inward Foreign Direct Investment. Using data from the World Bank and the UNCTAD collected in 141 countries, we found that **labor regulation** was the sole distinctive factor between high performance countries and low performance ones. Further manipulations using country potential as a covariate indicated that **tax administration** separated "front runners" from "below potential" countries, while **labor regulations** and **policy unpredictability** distinguished "above potential" from "under-performers" countries. Benchmarking implications for public policy makers and government agencies charged with the promotion of inward foreign direct investment and other private financial flows are derived.*

Keywords: *Investment climate, FDI performance, benchmarking, discriminant analysis.*

6.   BALANCING THE U.S. TRADE DEFICIT WITH CHINA: HOW MUCH DOES RENMINBI NEED APPRECIATING AGAINST DOLLAR?

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ABSTRACT

The U.S. trade deficit has increased over the years with China and several public officials and commentators speculated that China has been engaging in currency manipulation and that various proposals appeared to take action against China. Although there seems to be some consensus emerging that Chinese currency is undervalued, not only did previous research produce mixed result as to how much the currency is undervalued, but the empirical evidence as to how much appreciation would improve the U. S. trade deficit is scarce and no agreed upon conclusion has been reached. This study examines the trade flows between the U.S. and China to find the effect of changes in the renminbi on the U.S. trade deficit. The conclusions reveal that the U.S. imports from China are more sensitive to changes in the U.S. income than the U.S. exports to China to the changes in the Chinese income level. A one percent increase in the U.S. income increases imports from China by about 6.9 percent while a one percent increase in the Chinese GDP raises the U.S. exports to China by about 2.1 percent. Furthermore, a one percent appreciation of the renminbi leads to an about 0.82 percent decrease in the value of the U.S. imports from China and an about two percent increase in the value of the U.S. exports to China. Finally, the renminbi should appreciate about fifty six percent in order to eliminate the U.S. trade deficit with China based on 2011 trade flows.

Key Words: *The U.S. Trade Deficit; China; Renminbi, Currency Manipulation; and Exchange Rate*

7. **ANALYSIS OF FINANCIAL RESULTS AND BEHAVIOR OF DEMAND FOR PRODUCTS WITH FOCUS ON THE FEMALE SEGMENT. A STUDY OF THE MAIN BRAZILIAN COMPANY WITH THIS PROFILE**

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Katia T. G. Gomes, Pontifical Catholic University of Sao Paulo, Sao Paulo, SP, Brazil
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ABSTRACT

The current study analyzed the financial results of the largest Brazilian company with focus on sales predominantly concentrated in the female segment, named Natura Cosmetics S.A. Using accounting ratios and the return of its common stocks compared to the return of Ibovespa, from June 2004 to September 2010, we analyzed the company's performance, making a relationship with the consumer profile of women in different economic scenarios. For adequate theoretical basis, it was addressed the rationality and consumer behavior with emphasis on the female segment. Considering psychological factors, the increasing participation of women in labor and consumption markets, as well as the power of influence of women in decision-making of households, it was expected that the profit generation of companies with focus on female segment was not significantly affected, even in periods of international recession, such as the subprime crisis. Specifically for Natura, this was confirmed with the maintenance of their favorable accounting ratios and cumulative returns of its common stock greater than the return of market portfolio represented by Bovespa Index.

Keywords: Systemic Risk. Subprime Crisis. Accounting Performance. Common Shares Return.

8. **THE BEHAVIOUR OF BOOM-PERIOD DIVIDENDS OF NYSE-LISTED BANKS WITHIN AN OPTIMAL CONTROL THEORY FRAMEWORK**

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John Pointon, University of Plymouth Business School, Devon, UK
Ahmed El-Masry, University of Plymouth Business School, Devon, UK

ABSTRACT

This study examines the impact of the different control planning horizons in determining boom-period dividend pattern, secondly, the factors that govern the control-theoretic boom-period dividend patterns are established and finally the factors that are associated with out-performers of the control theory framework are identified. The empirical results indicate that the long planning horizon model tends to be a good predictor of observed boom-period dividends, suggesting that the boom-period dividend decision is not constrained by short or medium term predicted liquid asset levels. NYSE banks with control-theoretic boom-period dividend patterns were associated with the smaller banks, which perform financially well and display a strong share price record, as indicated by the high Tobin's Q ratio, strong dividend yield, a greater return on capital invested, higher leverage, and a smaller number of employees. The NYSE banks with observed boom-period dividends that out-perform the control theory are associated with banks that have higher profits, as indicated by the higher return on equity, and an implied expanding customer base, as suggested by the higher revenue growth rate. Out-performing banks also have higher dividend yields, constrained by an implied internally imposed conservative retention policy, as indicated by lower payout ratios and they tend to be smaller in size.

Keywords: optimal control theory, dividend policy, dividend behaviour, payout ratio, NYSE, baking
JEL: G21, G31, G32, G35

9. **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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Emerson B. Pedreira, Mackenzie Presbyterian University, Sao Paulo, SP, Brazil
Theresangela G. Flores, Pontifical Catholic University of Sao Paulo, Sao Paulo, SP, Brazil
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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

10. ANALYSIS OF FORECAST ERRORS IN PUBLIC COMPANIES FOR THE MARKETS OF ARGENTINA, BRAZIL, CHILE AND MEXICO BETWEEN THE YEARS 2003 TO 2011

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ABSTRACT

One of the important activities of capital market analysts is predicting profits and corporate results. Based on this prognosis, analysts appraise an important variable for pricing and assessment of models of stocks, which is the relation of profit per share. Accurate or precise forecasts of this result are important elements for better assessment of a share's fair price and also to assess the market value of companies. Considering the available information in the I/B/E/S (Institutional Brokers' Estimate System), the purpose of this paper is to establish the forecast error made by market analysts for the assessment of profit per share of the major securities traded on the Stock Exchanges of Argentina, Brazil, Chile and Mexico, during the period from 2003 to 2011, for forecasts with lags of one, two and three years. The methodology adopted and the results of the analysis shows that, not only the Brazilian market, but also in major Latin American markets like Argentina, Chile and Mexico, market analysts are excessively optimistic in assessing their predictions, showing poor performance of accuracy and precision in their analyses.

Key word: *Forecast Error; Earnings Projections; Market Analysts*

11. THE EFFECT OF MANAGERIAL OWNERSHIP ON EARNINGS QUALITY

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ABSTRACT

There is a growing stream of research that empirically investigates the effects of equity incentive on earnings quality and efforts to tighten the relation between managerial compensation, such as stock-based compensation and shareholder wealth. However, the research in this field is limited in Thailand. Therefore, the objective of this study is to investigate the effect of managerial ownership on earnings quality. Data are collected from Thai-listed firms that employ stock-based compensation as a mechanism to align the interest of owners and managers. The results reveal that managerial ownership has positive effects on earnings quality. The findings are consistent with demand or alignment effect hypothesis which hold that earnings quality of public equity firms are of high because of stronger demand by shareholders and creditors for quality reporting. In addition, managers are more likely to mitigate potential lawsuits and to reduce the cost of their equity capital, result in provide high earnings quality. Finally, contribution, suggestions for future research and conclusions are presented.

Keywords: *Managerial Ownership, Equity Incentive, Stock-based Compensation, Earnings Quality, Earnings Management*

12. THE DETERMINANTS OF INFLATION IN CFA FRANC ZONE AFRICAN COUNTRIES OPERATING ON FIXED EXCHANGE RATE REGIME

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ABSTRACT

The choice of an appropriate exchange rate regime is one of the critical issues confronting Sub-Saharan African countries as they face an ever growing level of interdependence among the world's economies through international trade and capital mobility. Their economic growth potential may be hindered by various sources of inflation, including external sources of transmission such as exchange rate regime. This paper analyzed empirically the internal and internal sources of inflation in selected CFA franc zone countries operating on fixed exchange rate regimes. Results indicated that inflation is not a monetary phenomenon which reflects the effects on their price levels of institutional constraints regulating their common monetary policies. Their main sources of inflation include the expected rate of inflation, the foreign price level and the real exchange rate.

Keywords: *CFA franc zone economies, inflation, fixed exchange rate, cointegration analysis*

13. CEO COMPENSATION AT US BANKS: PAY FOR PERFORMANCE?

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ABSTRACT

This research examines CEO compensation at U.S. financial institutions from 1993 to 2009. The sensitivity of CEO compensation to company performance is analyzed. Results show that CEOs are rewarded for adding value to shareholders. Changes in CEO bonuses and total compensation are strongly and positively related to stock returns. Evidence also shows that CEOs are rewarded for taking on risk through lending, but high levels of charge-offs are penalized through smaller bonuses.

Keywords: *Executive compensation; Bonus contracts; Pay sensitivity; Firm performance*

14. FOREIGN EXCHANGE MARKET MOVEMENTS: A NEW LOOK

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ABSTRACT

The literature relevant to the efficient market hypothesis in the foreign exchange market has been examined primarily from the premise that the exchange rates incorporate all available information regarding exchange rate expectations and that it should not be possible to predict one exchange rate as a function of another.

Keywords: Foreign Exchange, Exchange Rate Expectations, Predictability

15. INTELLIGENT LEARNING, INTERNAL AUDIT REPORT AND INTERNAL AUDIT PERFORMANCE: EMPIRICAL EVIDENCE FROM THAI-LISTED FIRMS

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ABSTRACT

The objective of this study is to examine the relationships among three dimensions of intelligent learning, internal audit report and internal audit performance of listed firms in Thailand. It also proves three dimensions of intelligent learning as experiential learning, technology learning and continual professional learning. The model is tested using data collected from mail survey questionnaires of 135 internal audits of listed firms. The results indicate that some dimensions of intelligent learning are positively related to internal audit. Internal audit report response has a significant relationship with internal audit performance. However, organization support and professional expectation have no effects on the intelligent learning-internal audit report relationships and the internal audit report-internal audit performance relationships. Potential discussion with the research result is effectively implemented in the study. Theoretical and managerial contributions are explicitly provided. Conclusion, suggestions and directions of the future research are also highlighted.

Keywords: intelligent learning, internal audit report, internal audit performance, organization support, internal audit support and professional expectation

16. INTERNAL CONTROL SYSTEM EFFECTIVENESS AND ONGOING FIRM SUSTAINABILITY: EVIDENCE FROM FINANCIAL BUSINESSES IN THAILAND

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ABSTRACT

This research aims at investigating the effects of internal control system effectiveness on ongoing firm sustainability through mediating influences of financial information reliability, organizational risk reduction, internal audit quality, goal achievement, and stakeholder credibility performance. Internal control system effectiveness consists of best accounting practice, compliance with laws and regulations, operation system efficiency, employee participation awareness, and business process transparency. Data were collected by survey questionnaires administrated to the internal audit managers or directors of financial businesses in Thailand which 50 completed questionnaires are used in the analysis. The results of OLS regression analysis show that employee participation awareness and business process transparency have a significant positive effect on internal audit quality, and internal audit quality has a significant positive association with goal achievement. In addition, goal achievement and stakeholder credibility performance have a significant positive association with ongoing firm sustainability. Likewise, corporate governance policy and employee learning competency are the antecedent of internal control system effectiveness. Moreover, the results show that decision making capability, corporate-stakeholder communication focus, and organizational adaptation orientation are not moderating variables. The implication, suggestions for further research, and limitations are discussed.

Keywords: Internal Control System Effectiveness; Best Accounting Practice; Compliance with Laws and Regulations; Operational System Efficiency; Employee Participation Awareness; Business Process transparency; Financial Information reliability; Organizational Risk Reduction; Internal Audit Quality; Goal Achievement; Stakeholder Credibility Performance; Ongoing Firm Sustainability; Executive Proactive Vision; Corporate Governance Policy; Employee Learning Competency; Competitive Diversified Environment; Decision Making Capability; Corporate-Stakeholder Communication Focus; Organizational Adaptation Orientation

17. ROLES OF AUDIT COMMITTEE EFFECTIVENESS IN FINANCIAL INFORMATION USEFULNESS OF THAI-LISTED FIRMS

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ABSTRACT

The objective of this study is to investigate the effectiveness of firms' audit committee. It specifically examines the relationship between audit committee effectiveness and financial information usefulness, good corporate practice, financial report qualities, risk management and internal auditing effectiveness of Thai-listed firms. The study focuses on the audit committee effectiveness comprising of six dimensions, including independence, size, expertise, knowledge, time, and reputation. The samples groups are Thai-listed firms and data is collected the questionnaire through mailing survey in which 84 out of 505 firms are considered purposively and the effective responses are returned at 17.62 percent. Regression analysis is used for statistical method. The result shows that there is the positive relationship between audit committee and financial information usefulness. Potential discussion is efficiently implemented in the study. Theoretical and professional contributions are explicitly provided. Conclusion and suggestions and directions for future research are also highlighted.

Keywords: *Audit Committee, Audit Committee Effectiveness, Expertise, Reputation, Independence, Size, Knowledge, Time*

18. MANAGEMENT TURNOVER AND FAILURE: AN ANALYSIS OF FINANCIAL CRISES

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ABSTRACT

The aim of the study is to investigate the causes and consequences of managerial turnover during financial distress and economic instability. The management turnover of failed and survived banks in Turkish banking sector are examined. 2000-2001 and 1994 financial crises periods are analyzed. The findings indicate that the failed and survived banks show difference in managerial change decisions; the failed banks have significantly higher proportions of manager changes than the survivor banks. The results also show that the failure of the banks may be predicted by managerial turnover, thus the manager changes of the failed banks did not improve the performance. The findings of this study might be interpreted as during unstable economic conditions and financial distress, management turnover may be a sign of external or internal organizational crises, and changing managers as scapegoats even deepens these crises.

Key Words: *Corporate Governance, Management Turnover, Turkey, Banks, Financial Crisis*

19. RESIDUAL CASH, FIRM VALUE AND FINANCIAL DISTRESS

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ABSTRACT

This paper examines how a company's market value can be affected by residual cash, and whether corporate liquidity and negative residual cash can predict bankruptcy. The empirical evidence shows that deviation from the target or optimal cash is value destructive, which provides support for the tradeoff theory. However, the impact of residual cash on market value of equity is not symmetric: positive residual cash tends to reduce firm value less than negative residual cash. In general, firms with negative residual cash are more likely to experience financial distress since they are smaller, less profitable, generate lower

cash flows, and have higher leverage but weaker payoff ability. Furthermore, logistic regression results suggest that negative residual cash serves as an important predictor variable for bankruptcy. The probability of filing bankruptcy is higher for firms with negative residual cash. Finally, negative residual cash contributes to different default probabilities (Altman's Z-score, Vassalou and Xing's default likelihood indicator and Chava and Jarrow's default probability) estimated in previous literature.

Keywords: *Residual cash, Negative residual cash, Financial distress, Bankruptcy, Default probability*

20. DOES CHINESE STOCK MARKET OVER- OR UNDER-REACT?

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ABSTRACT

In this study, we examine the stock price behavior after a one-day extreme movement using Shanghai Composite Index over the sample period of January 4th, 2000 to December 30, 2011. We find strong evidence of price continuation after an extreme one-day good performance and weak evidence of price reversal after an extreme one-day bad performance, suggesting investors in Chinese stock market tend to under-react to good news but over-react to bad news. These results are consistent with the uncertain information hypothesis which states that investors tend to err on the side of caution when they are uncertain about the information they received.

Key words: *Efficient market hypothesis, Overreaction, Under-reaction, Uncertain information hypothesis*