ABSTRACTS

1. THE ROLE OF THE FINANACIAL SYSTEM IN THE ECONOMIC GROWTH: SOME EVIDENCE FROM SAUDI ARABIAN ECONOMY

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ABSTRACT

The relationship between the financial sector and the economic development has been an important subject in the economic literature. Saudi Arabia is one of those countries who are accused of being a single good economy which is oil. There has been suspicion that the financial sector in Saudi Arabia is not efficient. This paper was trying to answer the question of whether the financial sector in Saudi Arabia leads to economic growth or not. Using the standard Granger Causality test, the results of this paper show that there is a part of the financial sector is causing the economic growth in Saudi Arabia which is the banking system; however, it is proven by this paper that the stock market in Saudi Arabia is not significant to the GDP. Moreover, the feedback effects show that economic growth does not lead to the growth in the financial system in Saudi Arabia.

Keywords*: Financial sector, Economic development, Banking system, Granger causality*

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2. BANK MANAGEMENT IN BEAR AND BULL PHASES: A COMPARATIVE COUNTRY STUDY

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ABSTRACT

This paper undertakes an analysis of the performance of the bank sector during – and around - financial crises in five emerging market and newly industrialized nations in Asia and the Middle East. The main finding from this cross-section – time series study is that key financial ratios in the pre-financial crisis or bear period have a bearing on how banks perform in the crisis period. Strong capital and profitability ratios in the period are seen to point to high liquidity creation in the bear phase. Contemporaneous, high risk-adjusted margins in the bear phase also seem to help in maintaining liquidity.

Keywords: *Bank management, Bear and bull phases, Profitability ratios, Financial crises, Emerging markets*

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3. RESPECIFICATION OF THE EQUITY RISK PREMIUM IN NORTH AMERICA

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ABSTRACT

This thesis establishes the impact of inflation on the equity risk premium in North America by empirical modeling of time series data (econometric models). The equity risk premium is a monetary value that people require in order to change their investment behavior, in particular to switch investment funds from risk free (and or lower risk) vehicles to risky equity securities. When the E.R.P. changes, investors in general change their investment behavior. The specific macroeconomic variable of interest is inflation.

The econometric models for M1, M2 and M3 are of importance, if for no other reason than the Federal Reserve is no longer publishing data on M3 levels[1].

Keywords: *equity risk premium, econometric models, investors*

4. THE REPEAL OF SHORT SALE RESTRICTION AND THE UNDERLYING STOCK LIQUIDITY: AN EMERGING MARKET STUDY OF THE TAIWAN 50 ETF

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ABSTRACT

This paper employs the bid-ask spread ticks and the liquidity variables to investigate the impact of the repeal of the short sale restriction on the liquidity of underlying stocks in the Taiwan 50 ETF. The sample period extends from March 17, 2005 to July 8, 2005. This period is divided into two sub-periods, one before and one after the repeal of the short sale restriction. Our results indicate that the liquidity of the underlying stocks is significantly increased, a finding that is consistent with the arbitrage hypothesis. Such findings suggest that the repeal of the short sale restriction not only makes it easier for investors to arbitrage and hedge, but also increases the liquidity of the component stocks and reduces the adverse selection cost. This in turn makes market trading more active and also serves as a reference for the government to set up appropriate laws and regulations in the future.

Keywords: *stock liquidity, investors*

5. THE ALTMAN Z-SCORE REVISITED

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ABSTRACT

This study replicates and extends the research that created the Altman z-score measure of bankruptcy. To eliminate criticisms of the original study, the replication uses a large sample, data from recent years, additional statistical methods, and eliminates the matched pair design of the original study, to rescale the z-score and identify additional models. This rescaling of the z-score greatly improves the predictive power of the measure both in the short term and over a long event window. The research was extended by including additional ratios beyond the original ratios included in the z-score. A further extension tests the ability of discretionary accruals to predict bankruptcy.

Keywords: *bankruptcy, Altman z-score*

6. AN INDUSTRY ANALYSIS OF THE OTHER JANUARY EFFECT

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ABSTRACT

The main goal of this study is to examine if the "Other January Effect" is widely spread across industries or whether the effect is only concentrated in a small group of industries. To attain this goal, we examine the excess monthly returns of thirty different industries indices during the period 1940-2008. The results of our studies indicate that the "Other January Effect" exist not only in broad indices, but also in several industries. The significance of the effect has diminished in the most current period, but the effect still persist in broad indices such as the S&P index, the CRSP value weighted index and in industry indices representing areas of the economy such as food, textiles, chemistry, instruments, manufacturing, utilities and money.

Keywords: *January, anomaly, industry, stock, return*

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7. RELATIONSHIPS AMONG EUROPEAN EQUITY MARKETS: MULTIVARIATE COINTEGRATION AND CAUSALITY EVIDENCE ACROSS DEVELOPED AND EMERGING COUNTRIES

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ABSTRACT

This paper investigates the cointegrating and causal relationships between 15 European equity markets over the period January 1999 to December 2008 using daily data. Unit root tests are used to test for non-stationarity and the causal relationships among these markets are analyzed through cointegration tests, Granger causality, VAR, impulse response functions and variance decomposition procedures. The results support a long- term equilibrium relationship among the stock markets and also numerous causal and short-term linkages.

Keywords: *equity markets, stationarity, cointegration, causality, variance decomposition*.

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8. VALUING EMPLOYEE STOCK OPTIONS USING THE BLACK-SCHOLES MODEL: HOW TO CORRECTLY COMPUTE THE INPUTS

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ABSTRACT

Employee Stock Options (ESOs) are a form of compensation frequently given to a company's employees in lieu of additional salary and companies are now required to expense the value of these options against corporate income for tax purposes. The value of these ESOs both for accounting purposes and in litigation is usually estimated using the Black-Scholes option pricing model. The value of the ESOs is particularly sensitive to the choice of input parameters for the volatility, the dividend yield, and the risk-free rate. This paper examines means to estimate these parameters that are easily implemented with data that is generally available at little to no cost. Additionally, this paper examines the pitfalls of other methodologies including the inappropriate use of estimates for the volatility factor found in company financial statements and failure to properly account for dividends paid by the company.

Keywords: *Black-Scholes model, employee stock options, dividend yield, volatility parameter, risk-free rate*

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9. WHAT KIND OF LOCATION-SPECIFIC ADVANTAGES HAVE US FIRMS BEEN LOOKING FOR FROM FOREIGN DIRECT INVESTMENT IN SOUTH KOREA?

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ABSTRACT

The shift of the U.S. direct investment target market from the traditional European countries to the developing countries in Asia beginning 1990s can be explained by the location-specific determinants of the foreign direct investment. While the most previous studies work on the relationship between the foreign direct investment and the country- level location-specific determinants, this study tries to show the effect of the U.S. direct investment to Korea with the industry-level variables. Seven hypotheses on the impact of seven location-specific determinants have been suggested in this study, with the positive relationship of profitability, economies of scale, labor productivity, and market openness to the direct investment, and the negative relationship of wage rate, corporate tax rate, and the exchange rate. The panel data empirical results confirm all the signs of relationships proposed by the hypotheses, whereas economies of scale and labor productivity are significantly good in explaining the dependent variable.

***Keywords**: Location-Specific Determinants, Industry Effects, Panel Data Analysis, U.S. Direct Investment to Korea, Foreign Direct Investment*

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10. THE ROLE OF CREDIT DEFALUT SWAPS IN THE DEMISE OF WALL STREET

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ABSTRACT

The destruction of Lehman Brothers and the Federal takeover of 80% of AIG were essentially caused by a derivative called a credit default swap. These insurance like contracts valued the mortgage backed securities based on high ratings delivered from the rating agencies Fitch, Standard and Poors, and Moody's. Some believe these derivatives, priced through the ABX index, are up to 60% mispriced. That caused firms who sold them like AIG and Lehmann Brothers, to pay out billions of dollars as collateral for losses that may never materialize. Over 80% of the CDS market is owned by investors which do not even own the underlying asset or security. Rumors in the panicked market skewed valuation widely, and the lack of a visible clearing house masked the ownership of participants trading.

***Keywords:** credit default swap; mark to market accounting; financial regulation*

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11. CROSS-ATLANTIC FLOW OF INFORMATION DURING THE CONCURRENT TRADING HOURS: THE CASE OF THE U.S., U.K., AND CANADIAN STOCK MARKETS

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ABSTRACT

We examine the pattern of information flow amongst three major international stock markets - the U.S., the U.K., and Canada - during their brief concurrent trading hours (9:30-11:30 a.m. New York time). Using the GARCH (Generalized Autoregressive Conditional Heteroscedasticity) methodology with five-

minute returns data, we find a bidirectional causality in the transmission pattern of volatilities, implying the exchange of information amongst the three cross-border markets, consistent with the behavior of investors, individual or institutional. Specifically, there appears to be information feedback - a flow of information from the U.K. to North America. We also observe a causal phenomenon where the volatility surprise in one market tends to cause increased volatility in another.

Keywords: *Flow of Information, GARCH Methodology, Five-Minutes Returns Data, Causal Phenomenon, Concurrent Trading Hours*

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12. AN EMPIRICAL INVESTIGATION OF SEASONAL EFFECTS IN ANNUAL STOCK MARKET RETURNS

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ABSTRACT

We find U.S. stock returns are significantly higher for the years ending with number five than those of years ending with all other numbers. This anomaly remained remarkably robust over numerous sub-periods when we utilized two representative U.S. stock market indices, namely, the Dow Jones Industrial Average and the Standard and Poor's 500 stock indices. We therefore conclude that this interesting stock returns anomaly can be beneficial to investors while making financial decisions.

Keywords**:** *stock market efficiency, stock market anomalies, year ending with number five*

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13. DETERMINANTS OF SOVEREIGN-DEBT DEFAULT IN DEVELOPING COUNTRIES

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ABSTRACT

During the last three decades, many countries have defaulted on their sovereign debt, which has had the effect of worsening the international financial situation. This study examines developing countries' inability to service their external debt and the factors that are the main influence on developing countries' default. A continuous measure of sovereign debt is used instead of a discrete binary default variable, in a panel data estimation of a sample of 135 countries spanning the period from 1970 to 2003. This study finds the following: first, the continuous measure better represents the default risk than the discrete measures that have been used in previous studies. Second, a subsample of the highly indebted, least developed countries (HIPCs) shows that several explanatory variables have a significant effect on the sovereign default. Third, political instability has significant effects on default risk for HIPCs and low income countries.

Keywords: *Sovereign Debt, Developing Countries, HIPCs, Low Income Countries, Economic Development, International Economics*
