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SAYAN BANERJEE

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FINANCIAL CONDITION INDEX (FCI) WITH MONETARY CONDITION INDEX (MCI) : COMPARING USEFULNESS IN THE CONTEXT OF INDIAN ECONOMY

Abstract:

This article attempts to compare the usefulness of Financial Condition Index (FCI) vis-à-vis Monetary Condition Index (MCI) in Indian economy in terms of their ability to highlight volatility of Indian economy through a co-relation test with inflation rate. FCI is constructed by incorporating a financial variable; broad money supply, along with two pure monetary variables, short term interest and exchange rate. The MCI is constructed by using only the two pure monetary variables. It is found out that for the last 2 decades time period, FCI shows a better co-relationship with inflation rate in comparison to MCI, and therefore, it may be consider more useful as a policy instrument for monitoring the macroeconomic volatility.

Keywords:

Financial Condition Index, Monetary Condition Index, Inflation, Indian Economy.

PRIYA BHALLA

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REVISITING GANDHIAN THOUGHTS: THE ECONOMICS INVOLVED IN HIS IDEOLOGIES AND ITS RELEVANCE IN CONTEMPORARY TIMES

Abstract:

The world, particularly emerging economies have been struggling with innumerable socio-economic problems, inter alia hunger, starvation, malnutrition, poverty, inferior conditions of women, dalits and vulnerable social groups, lack of housing and education as well as basic sanitation and other amenities. All this is happening in spite of India being considered as one of the fastest growing nations with enormous growth in production capacities emanating from rapid economic, technical and financial development.

Moreover, the rise in growth has simultaneously resulted in side effects in the form of over production and wastage, inequality, environmental damage at the society level. At the same time, the world over there has been a growing dissatisfaction with the GDP or economic growth as the measure of economic development. The need to move towards measuring an index of happiness by United Nations Sustainable Development Network also points to the fact that it is now increasingly felt that higher economic growth may not necessarily translate into greater social welfare let alone more happiness.

All these raise question on the future plausibility of commonly practised economic theories relating to growth and distribution. The answer to these problems, therefore, may not lie in developing countries blindly following the Western models and theories. All this is making it imperative to recognize that these are essential to incorporate in our economic framework which has been ignoring inclusive development, climate change and sustainable development. All this makes it relevant to revisit and examine the applicability of Gandhi's ideas and models be it Trusteeship, Small scale and village based production or simple and minimalist living in a fresh perspective in order to stimulate discussion keeping the present day grave problems in mind.

Keywords:

Gandhian Economics, Sustainability, Trusteeship, small scale industry

APARNA BHAT

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THE INFORMATION CONTENT OF IMPLIED VOLATILITY FROM EXCHANGE-TRADED CURRENCY OPTIONS: EVIDENCE FROM INDIA

Abstract:

This study compares the predictive power of volatility implied from prices of dollar-rupee options traded on the National Stock Exchange of India (NSE) with volatility forecasts based on historical time-series data. Previous studies on this subject have mostly used the Black-Scholes at-the-money implied volatility from exchange-traded options. The results of such studies are prone to measurement errors in the input variables as well as errors in the option-pricing model used for computation. This study eschews these problems by employing a non-parametric measure of implied volatility known as the model-free implied volatility. Specifically, the interpolation-extrapolation technique of Jiang and Tian (2005) is applied to extract a model-free implied volatility from traded prices of dollar-rupee options. Two other measures of time-series volatility, viz, historical volatility based on spot exchange rate log returns and a conditional volatility estimated from a GARCH (1,1) model are used as competing forecasts. Both historical and realized volatility are based on intra-day volatility computed according to the Parkinson's (1980) formula. The parameters of the GARCH (1,1) model are estimated from a rolling five-year data set of daily exchange rate log returns. Non-overlapping data samples are used in order to avoid the 'telescoping' problem associated with daily options data. Ordinary Least Squares regression tests are conducted with model-free implied volatility, GARCH-based volatility and historical volatility as independent variables and realized volatility as the dependent variable. Univariate regression tests show that both model-free implied volatility and historical volatility contain significant information about future realized volatility as evidenced from the high values of adjusted R-squared and statistically significant regression coefficients. The forecasting power of GARCH (1,1) volatility is observed to be much lower. Encompassing regression tests using both model-free implied volatility and historical volatility, however, show that implied volatility does not subsume all the information contained in the historical volatility forecast although it appears to incorporate all information contained in the GARCH (1,1)-based volatility forecast. Implied volatility from dollar-rupee options is thus not an informationally efficient forecast of future realized volatility. This study contributes to existing literature by being the first of its kind in the context of the dollar-rupee pair which is an important emerging market currency. It is also one of the few studies to use the model-free implied volatility measure.

Keywords:

Currency options; model-free implied volatility; GARCH volatility; dollar-rupee options; non-overlapping data

JEL Classification: G13, G14, C53

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EFFECT OF OWNERSHIP STRUCTURE ON DIVIDEND POLICY OF THE FIRM: STUDY ON COMPANIES LISTED ON NATIONAL STOCK EXCHANGE OF INDIA

Abstract:

Dividend decision is an important financial decision as it decides the amount of profits that is to be distributed to the shareholders as compared to the profit that is to be retained in the business for future expansion. Literature suggests that dividend payout ratio is related to variables such as leverage, return on equity, liquidity and ownership structure (Truong and Heaney, 2006, Joswiak 2015, Ben- Nazr, 2015, Mancinelli and Ozkan ,2006, Harada and Nguyen, 2011, Gonzalez et.al, 2017). In some cases the independent variables were significant and positively related to dividend payout ratio. In this paper, a study was conducted to find out the effect of ownership structure on dividend payout ratio. Leverage, liquidity, risk and return on equity were taken as control variables. The firms that are listed on National Stock Exchange were taken as sample and a panel data analysis was done. The period of study was from the period of year 2000 till 2017

Keywords:

Dividend policy, ownership structure, payout

JEL Classification: G32, G30

IREEN CHOGA

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DETERMINANTS OF YOUTH UNEMPLOYMENT IN SOUTH AFRICA

Abstract:

The study empirically investigates the determinants of youth unemployment in South Africa using quarterly time series data from the period of 2008 to 2015. The main objective of this study is to investigate the main determinants of youth unemployment in South Africa. The study used or employed Vector Error Correction Model (VECM). The variables used in this study are Youth unemployment, education, Gross Domestic Product (GDP), inflation and Foreign Direct Investment (FDI), all these variables affect youth unemployment directly and indirectly. The data for this study was obtained from International Monetary Fund (IMF), World Bank and South Africa reserve bank (SARB). The results showed that education has a negative relationship and statistically significant to youth unemployment. Diagnostic and stability tests revealed that the model is good and stable in determining the impact of the determinants of youth unemployment.

Keywords:

youth unemployment, determinants, vector error correction model (VECM), South Africa

JEL Classification: E24

MICHAŁ CHOJNOWSKI

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QUANTIFYING MARKET SENTIMENTS. EXTRACTION AND REAL-TIME OBSERVATION

Abstract:

sentiment quantification on a given market based on Bayesian SVAR model. The presented study extends the idea proposed by Blanchard et al. (see: Blanchard, L'Huillier and Lorenzoni (2013)) with an introduction of a noise in private signals caused by interpretation of publicly known shocks.

Moreover, the discussed research focused on an application of extracted sentiments in econometric modelling and forecasting. Google Trends have been chosen to represent market sentiments because of their availability (see: Choi and Varian (2012), D'Amuri and Marcucci (2012), Chen et al. (2015)). Google Trends seem to be a cheaper and more accessible source of customer preferences than survey-based indices (see: McLaren and Shanbhouge (2011)).

Google Trends are ranked using spike-and-slab regression by the significance in describing market sentiments. Cardinality of the set of most important Google Trends is bounded from above, which represents the information capacity limit of agents (see: Sims (2013)). Elements of the set changes slightly over time. Elements' reshuffle happens only if a new set is significantly better in illustrating market sentiments than the previous one. This introduces the cost of obtaining new information (see: Mankiw, Reis, Wolfers (2003)).

We have shown that market sentiments increase forecast accuracy. In the study case of Polish car industry, LSTAR model with market sentiments are a threshold variable predicts number of sold cars at least 30% more accurate than any benchmark model used in the research. If LSTAR forecasts are supported by Google Trends predictions, then the accuracy is 54% better.

Keywords:

sentiments, Google trends, ARMAX, LSTAR, ANN-ARMA, ANN-LSTAR

JEL Classification: C50, D83, C53

DAVID CHUI

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A STUDY IN HK STOCK MARKET SENTIMENT

Abstract:

The first part of this paper is to study the mean reversion behaviour of Hong Kong stock market volatility and model such behaviour to forecast volatilities. This modelling is easy to implement and achieves reasonable accuracy. In Hong Kong market, when volatility deviates from the long-term level (i.e. the mean reversion level), we estimate that the deviation would be reverted to half in around sixteen trading days, or within three weeks. The accuracy of the mean reversion model in modeling Hong Kong stock market volatility also translates into a superior forecasting model. Such mean reversion information has application in portfolio insurance for long term investors.

The second part of the paper is to investigate how much of the market information conveying a prediction on market sentiment. The market information is to use the implied volatilities of the Hang Seng Index Options and test if it reflects on investor's sentiment on positive (bullish) or negative (bearish) market climate. The reflection is based upon the relative sizes of tails of the implicit Hong Kong market volatility distribution (i.e. investigating skewness and variance of the ex-ante volatility distribution of the Hong Kong market). Interestingly, it is found that investor' expectations did not portend to rising and falling markets, but rather appear to have been random. Over the period of study 2005 – 2015, there was no evidence in the predictability of market crash such as 2008 and neither were they related to trendy forecasts such as bull market. Nevertheless, it was revealed that investors did have some forecasting ability, as the implied volatilities from Hang Seng Index Options were better forecasts of subsequent volatility than forecasts based solely upon historic price movements.

Keywords:

Sentiment, Hong Kong, Implied Volatility, Options

FILIP CHYBALSKI

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DRIVERS OF EFFECTIVE RETIREMENT AGE: AN INTERGENERATIONAL PERSPECTIVE

Abstract:

The paper addresses the issue of effective retirement age which can be perceived as a proxy of the borderline between working-age and elderly generations. The long term prospects for development require appropriate proportions between different generations since all of them are financed through the division of current GDP. Thus, GDP is crucial for welfare of the young, adult and elderly, however the current GDP division between generations determines also the future GDP which will be divided between tomorrow's generations. As a result, the proportion between generations producing GDP and generation consuming it impacts the prospects for development and future welfare significantly. This proportion is determined by effective retirement age. The goal of the paper is to identify the main factors affecting the effective retirement age. Such possible determinants as inter alia pensionable age, education levels, demography, health, generosity of pension systems and some labour markets characteristics are under consideration. The method employed is mainly based on econometric modelling. The paper consists of the following sections. The first includes the literature review where theory and results of some empirical studies are presented. The second section includes a conceptual framework and methodological strategy. In the third section the result of the empirical study are presented. The paper ends with discussion and conclusions.

Keywords:

retirement age, intergenerational justice, intergenerational fairness, labour market, pension, retirement

JOHAN COETZEE

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THE REVOLUTION CALLED FINTECH: WHAT ARE SOUTH AFRICAN BANKS DOING?

Abstract:

Fintech is revolutionising the way banks do their business due to electronically-based facilities (and platforms) driving new client banking offerings. This, however, does not come without undue risk as Fintech companies are forcing banks to revisit not only their cost structures, but also how they interact with clients. How banks do what they do and at what cost, is becoming an increasingly more important strategic driver and is dismissed at their peril. As such, this paper highlights the operational challenges facing banks over the next decade due to competition emanating from non-traditional sources in the electronic and technology realm. In particular, the paper takes a view on how South African banks, in an emerging market context, have positioned, and plan to position themselves operationally to face the challenges posed by the Fintech revolution in the broadest sense. The paper also provides insights into how the regulation of Fintech may play itself out over the next decade.

Keywords:

Fintech; South Africa; banks; Regtech; operational risk

JEL Classification: G20, G21

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THE EQUIVALENCE OF THREE APPROACHES TO PRICING INTEREST-RATE DERIVATIVES

Abstract:

In the pedagogy of fixed income, there exist three alternative pricing approaches to interest-rate derivatives: 1) the approach that "calibrates" forward rates; 2) the approach that "calibrates" risk-neutral probabilities; and 3) the approach that "forms" payoff-replicating portfolio. With the different procedure involved in each method, confusion often arises among students with regard to which is the right pricing tool. In this paper, we show that they, in fact, produce the same pricing result, – whether it involves a standalone option on bond or a bond with embedded option, thus establishing the equivalence of these three methods. More specifically, we show that the "calibrated rates" method and the "risk-neutral probabilities" method are algebraically equivalent, and both are rooted in the "replicating portfolio" method whose fundamental requirements are no-arbitrage and tradability of bonds with varying maturities.

Keywords:

Interest-rate derivatives; Risk-neutral pricing; Bond portfolio replication

JEL Classification: G12

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NEW FISCAL POLICY? LESSON FROM THE CRISIS

Abstract:

The relationship between fiscal policy and economic growth has long fascinated economists. Its effectiveness in combating economic crisis was the subject of continuous dispute between Keynesians and Monetarists. The article concerns the role of fiscal policy after the crisis in years 2008-2009 with the focus on fiscal stimulus implemented by many advanced economies like the US, Japan, the EU countries, including the euro area. The special attention is paid on the effectiveness of fiscal instruments used in depressed economy. The literature review of Keynesian and Neoliberal approach towards fiscal policy and their main recommendations addressed to policymakers in times of severe crisis, supplemented by empirical evidence, may contribute to find the answer to the following questions: What instruments of fiscal policy are desirable in the fight against economic slowdown, especially in the case of deepened depression? How expansionary fiscal policy can be effective in achieving both macroeconomic stabilization and fiscal balance in the long-term? What should be the future shape of fiscal policy? The authors inspired by research conducted by DeLong and Summers (2012) and Fatas and Summers (2016) formulated the hypothesis that there is an urgent need for the re-examining fiscal policy as fiscal consolidation aimed at debt reduction instead of expansionary fiscal policy in a depressed economy with short-term nominal interest rates at the zero bound does not always bring both macroeconomic and fiscal stabilization.

Contrary to the previous literature, fiscal prudence in times of crisis seems to be questionable. There is a consensus among economists representing different schools of thought that idea of austerity may have no solid foundations, and furthermore, many empirical research has confirmed the critics.

The aim of this research is to rethinking the role of fiscal policy in the process of macroeconomic stabilization which over 30 years has been strongly negated by neoliberal doctrine along with identification of the main premises for implementation of expansionary fiscal policy, particularly its size, instruments and time horizons, in the face of strong economic shocks such as the recent crisis. To achieve the research aim, content analysis of the literature devoted to fiscal policy in context of its influence on stabilization of fluctuations in real output was done, among others, on the basis of Eurostat and OECD data referring to the public finance with special focus on countries belonging to Euro area and the US.

LEANA ESTERHUYSE

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INVESTOR RELATIONS - ARE NATURAL RESOURCES COMPANIES BETTER? EVIDENCE FROM SOUTH AFRICA.

Abstract:

This paper examines whether classification as a natural resources company is a significant predictor of the quality of companies' investor relations practices. The companies under investigation are listed on the Johannesburg Stock Exchange (JSE) of South Africa. Output from natural resources companies is a significant contributor of GDP in South Africa, an emerging and developing economy. In order to attract foreign investors, improve stock pricing and trading liquidity, South African companies need to communicate with institutional investors at the level that they are used to from companies in developed economies. Communications with the capital market is proxied by investor relations activities on the companies' websites. I find that being a natural resource company is a weak and insignificant predictor of online investor relations quality, even though these companies are some of the largest listed on the JSE. Control variables indicate that larger companies that were listed more recently, had a Big 4 Auditor and were listed on multiple exchanges had significantly better online investor relations practices. From a policy point of view, investor relations officers at natural resources companies can do more to improve their capital market communication practices to reap the full benefits from increased transparency, especially in the face of political uncertainty and declining or stagnant commodity prices. This study contributes to the understanding of transparency policies and practices of natural resource companies in a sub-Saharan country.

Keywords:

Natural resources, South Africa, investor relations, transparency

JEL Classification: D82, O16, Q32

SALVADOR ARTURO GALICIA ANAYA
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THE INSTITUTIONAL STOCK EXCHANGE (ISE): A NEW OPTION FOR CAPITAL MARKETS FOR MEXICAN COMPANIES THAT WISH TO ENTER THE STOCK MARKETS AS A GROWTH STRATEGY.

Abstract:

The objective will be to analyze the preponderant role of the new Institutional Stock Exchange (ISE) as a new option in capital markets, not only for companies that have participated in the Mexican Stock Exchange (MSE), but also for those who have wanted to venture into stock markets and had not been able to do so because there was no segment focused on smaller companies.

The research will be documentary, consulting portals such as: Google, Google Academic, Central Corrections (Cencor), Information Center of the MSE, Forbes, and databases: ABI Information, ProQuest, Scielo, Ebsco, Emerald.

The importance of the study is focused on validating that the new stock exchange will generate competitive advantages for the development of the country, creating healthy competition for the MSE, with benefits such as: new stock exchange alternative, better and efficient operating processes with Nasdaq technologies. Now there will be an alternative for small and medium companies to venture into capital markets.

The results reveal that the stock companies have been centralized only in large companies, preventing small and medium companies from entering these markets; However, in developed countries, there are platforms to support them to venture into stock markets, due to the economic impact they represent for the economy of each country.

Findings from December 2016 reflect that there were 151 active companies in the MSE. With the creation of ISE it is intended to capture an average of 50 companies in the first year, representing a real increase of 33% of the companies in the country.

Keywords:

Institutional Securities Exchange (BIVA), Mexican Stock Exchange (BMV), Stock Exchange Companies.

JEL Classification: G00, G10, G15

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THE APPLICATION OF VALUE AT RISK AND EXPECTED SHORTFALL AS CONTROLLING MECHANISM OF SYSTEMATIC RISK OF PAKISTANI STOCK MARKET

Abstract:

Fama and French (1992) three factor and Fama and French (2014) five-factor Model estimated relevant idiosyncratic factors and CAPM beta as the systematic risk factor for stock returns' variations. Application of Value at Risk (VaR) and Expected Shortfall (ES) modified the risk management criteria. This study applies traditional one factor, three factor and five factor model on Pakistan's manufacturing companies. Compares and modifies the stated models while using VaR and ES as systematic risk factor and check the robustness of the significant extent of worst expected loss provided by VaR and ES by measuring 95% and 99% confidence levels and their impact on the stock returns. In comparison with traditional market risk factor, our findings are in favor of VaR and ES factor as it significantly affects the cross-sectional of excess stock returns and fulfills the criteria of risk aversion.

Keywords:

Value at Risk, Expected Shortfall, Fama and French Three Factor Model, Five Factor Model, Systematic Risk, Idiosyncratic Risk

JEL Classification: G10, G11, G14

VERONIKA HEDIJA
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WAGE DISCRIMINATION AGAINST WOMEN IN BALTIC COUNTRIES

Abstract:

According to Eurostat data, wage differential between men and women in Estonia is one of the highest in the European Union. On the other hand, the gender pay gap in the other two Baltic states, Lithuania and Latvia are incomparably lower and are around the EU average. However, the reported wage differences are unadjusted. The part of gender pay gap (or in extreme case all wage differences) can be explained by different average characteristics of men and women in the labor market. Only the part, that could not be explained by these factors is attributed to wage discrimination against women.

Estimates of potential wage discrimination are more accurate, the more characteristics of men and women are known and reflected in the models. The traditionally included characteristics are age, tenure, education, marital status, occupation, industry, region and firm. Intra household specialization is the factor, that is often neglected and that could play an important role in explaining the wage differences between man and women.

The paper aims to estimate the unexplained gender pay gap cleaned at least partially by effect of intra household specialization on wage in Baltic countries. To estimate the unexplained gender pay gap, we use European Union Statistics on Income and Living Conditions (EU-SILC) data and apply the Oaxaca-Blinder decomposition. Taking assumption that the child- and family-care take the partner who earns less, we estimate the unexplained gender pay gap using subsample of employees earning more than their partners.

Keywords:

gender pay gap, wage differences, wage discrimination, Oaxaca-Blinder decomposition, Baltic countries

JEL Classification: J31, J71, M50

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OWNERSHIP STRUCTURE OF FAMILY BUSINESS GROUPS OF PAKISTAN

Abstract:

This study analysis the family business groups ownership structure in the framework of corporate legal system, regulatory institutions and codes of corporate governance of Pakistan. The study uses unique handpicked data comprising a sample of 326 non-financial firms listed on Pakistan Stock Exchange for a period of 2009-13. The results reveal that Pakistani corporations have high degree of concentration of ownership. The controlling shareholders own about 87 % of firms with 10 % or more shareholding and 60 % of firms with 20 % or more shareholding. Most of the businesses are controlled by families. In 63 % of business group firms, families own 20 % or more top shareholdings. The novel contribution of the study is to develop the ownership structure of family businesses and measure the cash flow leverage, cash flow and voting rights of ultimate owners in family business groups. The study finds the considerable difference in voting and cash flow rights in family business group firms. This has strong implications for regulators, minority shareholders and dispersed investors.

Keywords:

ownership structure, business group, corporate governance, cash-flow rights, minority shareholders, voting rights, family business

JEL Classification: G32, G34, G38

JACEK JAWORSKI

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IMPACT OF CAPITAL STRUCTURE ON ENTERPRISE'S PROFITABILITY: EVIDENCE FROM WARSAW STOCK EXCHANGE

Abstract:

The aim of the paper is to diagnose the impact of the capital structure of companies listed on the Warsaw Stock Exchange on their profitability. The ratios used in the profitability measurement are Return on Sales (ROS), Return on Assets (ROA) and Return on Equity (ROE). The capital structure is characterised by the total debt ratio (DR) and long-term debt ratio (LDR). The method of the empirical study is panel analysis of data from financial statements of 372 companies listed in Warsaw in the years 1998 - 2016. As control variables, the size of the company and the rate of its growth were assumed.

The results of the study indicate that the impact of the total debt share in the capital structure on profitability is negative. On the other hand, the dependence between profitability and long-term debt is positive. In addition, it has been found out that a greater size of a company results in higher profitability. A similar relationship is observed for the company growth rate.

The limitations of the research are: a time-limited and number-limited research sample and lack of consideration in the study of external conditions (e.g. the general economic situation, the industry, internationalisation etc.).

Keywords:

profitability, return on sales, return on assets, return on equity, leverage, sources of finance, capital structure

JEL Classification: G32, C23

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IT'S ALL ABOUT THE EGGS, NOT THE HEN

Abstract:

The VC industry provides an excellent example for an industry that is based on the ability to bring together ideas and high-risk capital in a process that generates value. Of particular interest is the case where the entrepreneurs reside in one country and the investors reside in another country. There are two types of benefits; the benefits to the entrepreneurs and the investors, and the benefits to the country where the investment takes place. The first type of benefits depends on the success of the young innovative technology firms. The second type of benefits depends on the total flow of high-risk capital from the country of the investors to the country where the investment takes place. While the benefits to the entrepreneurs and the shareholders are vastly discussed, the benefit to the hosting country is less explored. We show that the benefits are both direct, in the form of taxes and indirect as higher wages for the local skilled workforce. We use hand-picked database to estimate the total benefit to a small country that was successful in attracting international VC funding. Our main result is that the Income tax collected from VC backed employees is about 1200% higher than the Capital tax gained from exits. This result can be translated into optimal governmental taxation scheme that is set to keep cost-benefit efficient success rate.

Keywords:

Venture Capital Investment, Start-Ups, Economic Growth, Tax

JEL Classification: F39

NATTAWOOT KOOWATTANATIANCHAI
Kasetsart University, Thailand

THE EXTENT TO WHICH EARNINGS ARE MANIPULATED IN THE CONSTRUCTION SECTOR OF THE STOCK EXCHANGE OF THAILAND AND ITS EXOGENOUS MACROECONOMIC FACTORS

Abstract:

This study aims to investigate the earnings manipulation phenomena in the construction sector of the Stock Exchange of Thailand. Our examination is divided into two stages. In the first stage, we use the M-score model developed by Beneish (1999) to calculate the extent to which earnings are manipulated by Thai construction companies listed in the SET during the past ten years. This will allow us to ascertain the level of earnings management engaged by these firms during several critical periods, e.g., the period before the US subprime mortgage crisis arose, during the crisis period, and the post-crisis period, and in addition, the period before the political crisis leading to an establishment of the military government and the period after. The second stage of our examination deals with potential macroeconomic factors that affect the probability of earnings manipulation revealed by construction companies. These variables include cement materials price index, steel material price index, fixed capital formation, gross domestic product. Our control variables include total accruals to total assets ratio, debt to equity ratio, market capitalization, and return on assets.

Our preliminary results reveal that reveals that the level of earnings management in the financial sector of the SET exceeds the benchmark M-score value of -2.22 in the second quarter of 2009 (during the subprime crisis). This phenomenon is encouraging especially for the Securities and Exchange Commission (SEC) of Thailand. It implies that the SEC's strict reporting regulations have resulted in the level of earnings manipulation in the construction sector of Thailand being low recently. Nevertheless, Thai construction firms have shown an incentive to conduct earnings manipulation activities during the global financial crisis period. Further analysis shows that debt to equity ratio, market capitalization, and steel materials price index are negatively related to the manipulation index at the 95% confidence level. Only the total accruals to total assets ratio is positively related to the manipulation index at the 95% confidence level. On the other hand, return on assets, cement materials price index, gross domestic product, and gross domestic fixed capital formation are found to exert no significant influence over the manipulation index.

Keywords:

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SAVING IN VOLUNTARY PENSION PLANS AND HOME OWNERSHIP: SOME CROSS-COUNTRY EVIDENCE

Abstract:

The paper presents a cross-country study that analyses linkages between the role of voluntary pensions and prevailing housing model. As discussed in the previous literature the possible relationships between household savings and home ownership, as well as between pensions and home ownership are multidimensional. This arises from the nature of housing equity that can be considered as an equivalence of retirement savings. However, the existing empirical evidence is limited mainly to the micro level studies, and moreover, their results are mixed. This study aims at presenting in a quantitative framework some macro evidence on the relationships between saving in voluntary pension plans and home ownership. The data employed covers 24 European countries. The results suggest that extensive home ownership crowds out voluntary pensions. These findings have some policy implications, which are also indicated in the paper.

Keywords:

voluntary pension plans, private pensions, home ownership, retirement savings, asset-based welfare

JEL Classification: J32, H31, R31

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SCOPE ECONOMIES IN CAMEROON'S TELECOMMUNICATIONS SECTOR.

Abstract:

This study examines whether the simultaneous provision of multiple services leads to a reduction in the operating costs for concession holding firms in Cameroon's telecommunications industry. With the use of financial accounting information and output statistics from 2005 to 2012, I estimate a Seemingly Unrelated Regression Equation (SURE) model for 4 linear cost functions. The use of SURE permits us to account for cross-equation contemporaneous correlation which may arise due to correlated shocks to technological changes in the industry or from spillovers from industry wide or economy wide shocks. The results establish that simultaneous provision of domestic and international calls, and of telephone and internet lines are all cost increasing, while enhancing the use of existing network capacity is cost reducing. Hence, I recommend that when firms choose to enhance the capacity utilisation of their existing infrastructure by adding to their service mix, authorities should always check the cost implications in order to avoid predatory behaviour. Instituting separate accounting procedures for defined categories of services could greatly aid this effort.

Keywords:

Scope Economies, Concession Holding Firm, Sub-Additivity, Seemingly Unrelated Regression.

JEL Classification: D22, D43, L25

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PEER EFFECTS AND SOCIAL LEARNING IN JORDANIAN BANKS' INVESTMENTS IN INFORMATION TECHNOLOGY

Abstract:

Using panel data on IT investment choices and outcomes, we perform the first empirical test of the existence of peer effects and social learning in Jordanian banks' IT investment decisions. We fit a linear in means model of social interaction and find evidence of peer effects in banks' choice of IT investment, consistent with the presence of contextual or endogenous effects. Further, a bank's IT investment increases significantly with other banks' lagged IT investments, consistent with the presence of social learning. However, a bank's IT investment does not respond to other banks' lagged profitability, consistent with the presence of the IT productivity paradox.

Keywords:

Information technology, banks, Jordan, social learning, peer effects, IT productivity paradox

JEL Classification: G21, O14, G20

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THE EFFECTS OF SPILLOVERS FROM GLOBAL SHOCKS TO A DEVELOPING ECONOMY

Abstract:

My preliminary analysis on Nigeria's economy shows that Nigeria is a principal oil exporter where the oil sector accounts for 85 percent of total revenue. As a small open economy, Nigeria's economy has also been highly affected by global developments, either directly or indirectly through the impact these developments produce in the country's main trading partners. The results of similar studies on countries where these studies have been conducted have been mixed, with economic, financial and trade linkages being significant for some but not for others. Also, Nigeria is highly exposed to spillovers from specific shocks that originate in its main trading partners. Despite its relevance, empirical work on the global and regional spillovers to the Nigerian economy is limited and mostly focused on describing stylized facts, IMF (2012).

The paper uses the structural vector auto-regression (SVAR) which helps capture interconnectedness and endogeneity. The starting point is the baseline SVAR that will allow the estimation of the impact of global shocks on Nigeria's oil sector GDP growth. Following Chowla, Quaglietti and Rachel (2014) and Ayvazyan and Daban (2015), the baseline SVAR includes three types of shocks-world demand shocks, which are represented by changes in the growth rate of an indicator of world GDP; world supply shocks, which are given by changes in an indicator of international commodity prices; and world financial shocks, which will be represented by changes in international financial conditions. The baseline SVAR imposes structure on the data which helps trace the shocks' impacts on Nigeria's GDP growth.

Keywords:

Global shocks, Spillovers, Economic Development

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IMPLEMENTING THE GLOBAL HEALTH FINANCING POLICY: THE CASE OF LATVIA

Abstract:

Growing cost pressures and need for universal health coverage creates demand for sustainability of health financing systems and also concerns about the system's ability to fund itself in the face of growing cost pressures. Typically, policy-makers have sought to find a balanced combination of different strategies to tackle both the supply and demand sides of health services. In September, 2015, 193 countries agreed to the ambitious Sustainable Development Goals (SDG). There are still considerable differences the definition of universal health coverage (UHC) and what it would look like when applied in health care system. Nonetheless, this trajectory towards universal health coverage almost always has three common features. The first is political activism driven by a range of social forces to generalise access to health care. The second feature is a growth in revenues and rise in health spending. The third feature is an increase in the share of health spending that is pooled rather than paid out-of-pocket (OOP) by individuals and families.

Latvian health system as European health systems faces challenges and financial pressures that threaten their long-term sustainability and the values of equity, universalism and solidarity. During recent financial and economic crisis, GDP and public expenditures declined more in Latvia than in any other EU member state. Based on fiscal constraints significant spending cuts were made in the health care sector and public spending on health as a share of GDP dropped from 4.3% of GDP in 2007 to approx. 3% in 2016.

The Latvian parliament passed the Healthcare Financing Law in December 2017 and it change the principles of the national healthcare financing system. The aim of the new law is to convert the current system from a general tax revenues funded National Health Service (NHS) system into a Compulsory Health Insurance (CHI) system by linking entitlement to health services to the payment of income-related mandatory social insurance contributions. However narrowly defined package of basic healthcare services would continue to be available to the entire population in order to ensure conformity with the constitution. The Law does not propose significant institutional changes to the health system, i.e. the pooling of resources by a single institution and the purchasing of care from independent providers would be retained. Further discussion of healthcare finance and system reform should be considered alongside more general budgetary issues and challenges including expected SDG targets and demographic, technological and epidemiological changes of health care.

Keywords:

Health systems; health policies; healthcare financing; Health care reforms; taxation; Sustainable Development Goals; universal health coverage.

JEL Classification: H75, I18, I13

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INTERNATIONAL TOTAL FACTOR PRODUCTIVITY SPILLOVERS VIA EXPORT:

Abstract:

This paper explores export as channel of international total factor productivity (TFP) spillovers. FDI and trade are potentially an important sources of productivity growth; however, empirical literature is inconclusive as to the nature and extent of trade spillovers. Empirical studies show, even though diversified in terms of methods and results, there are positive technological spillovers via import and FDI channels, examined separately. Less attention has been paid to export, and the results in this case are equivocal. Our main goal is to examine the transmission of TFP spillover effects via export channel in 41 countries (members of the EU and OECD) during the period 1995-2014. We use two different estimation strategies to study relationships between TFP spillover effects and total factor productivity growth: dynamic panel estimation strategies and dynamic SAR. The main findings is: the export channel is a significant source of TFP change.

Keywords:

technical progress; export; TFP, economic growth, productivity

JEL Classification: O11, O33, C23

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REALIZED VOLATILITY IN AGRICULTURAL COMMODITIES FUTURES

Abstract:

The objectives of this paper are to construct the efficient frontier and optimum portfolio of agricultural commodity futures, and to evaluate financial risk by Value at Risk. We evaluated alternative volatility forecasting and computed daily Value at Risk (VaR) based on Realized Volatility approach and ARFIMA – FIGARCH model. The intraday trade data of three agricultural commodity futures prices, namely corn, wheat and soybean traded in the Chicago Board of Trade (CBOT) with three different frequencies namely 1 minute, 5 minutes and 15 minutes, were collected from Bloomberg database. The complete data set covered the period from November 2015 to December 2016. The empirical results showed that the calculated realized volatility from Realized Covariance Measure (Andersen et al. 2003) of corn, wheat and soybean futures returns have the long memory feature for every frequency based on R/S test and GPH test. The simulated returns from ARFIMA – FIGARCH are applied to construct the efficient frontier and optimum portfolio. The optimum portfolio suggested investing more than half in corn followed by soybean and wheat, respectively.

Keywords:

Realized Volatility, Agriculture futures, Long-memory, Portfolio Optimization

JEL Classification: C58, G11, G32

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A JUXTAPOSITION OF TAX EXPENDITURES AND DIRECT EXPENDITURES: CASE STUDY OF THE MANUFACTURING SECTOR OF PAKISTAN

Abstract:

Augmentation of investment is a primary goal for any government. To attain that objective it can resort to either tax or direct expenditures. In order to analyze which is a more efficient method in the case of Pakistan, the current study uses data from the country's Manufacturing Sector. The time series data set since 1972 to 2013 is used. Bounds testing approach to cointegration used in the structure of Autoregressive Distributed Lag is employed for understanding the behavior of the different variables, applying Neo-Classical Investment theory. The results show the importance of tax expenditure policy, in the short run, through the cost of capital, as a determinant to boost private investment in the economy, under circumstances of low inflation. On the other hand, in high inflation periods, the direct expenditure is found to be more potent. The empirical evidence shows a strong role of direct expenditure in influencing both the short-run and the long-run behavior of investment in the economy.

Keywords:

Investment, cost of capital, tax expenditure, ARDL, manufacturing sector, Pakistan.

JEL Classification: H25, H54, E22

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INVENTORY POLICY OF ITEMS HAVING UNCERTAIN DEMAND UNDER PERMISSIBLE DELAY IN PAYMENTS

Abstract:

Nothing is sure in this world except death, then how can surely; a supplier/retailer can determine the demand for his items. In the classical EOQ models, it has been considered that demand is deterministic, but in actual practice it is not possible to have a fixed demand, this study discusses the more realistic overview of demand, as in realistic situations, we can't have dependent demand; it is possible only if you're supplying sub-assembly parts on a contract basis. Therefore, in this study stochastic demand has been considered. This study also considers the effect of trade credit with stochastic demand, which has not been used earlier, as both these are pragmatic concepts without considering these two factors, we can't think of any practically applicable inventory model.

Keywords:

Probabilistic Demand, Permissible Delay, Inflation, Backorder

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FUTURE OF THE QUANTITATIVE HEDGE FUNDS

Abstract:

This paper explores opportunities that arise with advanced software technologies, with particular emphasis on quantitative hedge funds. Quants compose complex algorithmic models to analyze large datasets simultaneously and detect investment opportunities. Hedge funds focused on artificial intelligence and machine learning are seen as the future of the industry by scientists and practitioners. Data will unquestionably play a significant role in the future of investment. Although researchers seem to be concerned with new risks quants may bring to the markets. There are many challenges to overcome before they become the first choice for professional investors. Could quant strategies and silicon traders become center of new paradigm?

Keywords:

Alternative investment, quantitative Hedge Funds, high frequency trading, algorithmic trading

JEL Classification: G00, G10, G11

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THE PSYCHOLOGY OF INEQUALITY IN ALLOCATION DECISIONS: THE EFFECT OF THE NUMBER OF RECIPIENTS (N)

Abstract:

The present series of studies examines individuals' preferences for equality in the distribution of resources in the organization. In particular, we identify a ubiquitous factor in the organization that affects concerns about inequality—namely, the number of allocation recipients. More specifically, we tested the hypothesis that third-party decision makers who allocate resources become less concerned about inequality in the allocation as the number of recipients increases. We expected decision makers faced with a tradeoff between equality and other considerations, such as efficiency (in the sense of maximizing the overall value of the allocation) or equity (in the sense of rewarding recipients differently based on their inputs), to show a stronger preference for equality in allocations to a smaller number of recipients than in allocations to a larger number of recipients. Studies 1a and 1b provide experimental evidence for the basic effect in a simple equality-efficiency tradeoff among participants in behavioral choice paradigms, while Study 2 provides further support for the effect in questionnaire responses concerning tradeoffs between equality and either efficiency or equity, and Study 3 further substantiates our findings using a large, representative cross-national sample of employed and unemployed individuals. Studies 4a and 4b, respectively, examine possible mechanisms underlying the effect, showing, first, that social comparison—but not fairness considerations—appear to mediate the effect; and, second, that the effect holds even allocators know that recipients will not have information regarding others' allocations. Finally, Studies 5a and 5b offer some manifestations of the effect in naturally-occurring data, in both faculty salary distributions at a large public university and in attitudes towards inequality in an extant, large-scale national survey.

Keywords:

Equality, efficiency, equity, social comparison, decision making

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ADAPTATION OF A BALANCED SCORECARD FOR AN ACADEMIC UNIT IN A HIGH EDUCATION INSTITUTION IN CHILE

Abstract:

The higher education system in Chile is in a complicated and uncertain situation today due to political university changes,economic conditions, social demands and technological advances.

In order to achieve long-term viability within a competitive and uncertain environment, the universities in Chile have had to update their methods of strategic direction and integrated management control systems.

One of the initiatives was to reach university management by basing it on strategic units (SU). Each academic unit or Department had to focus its limited resources on its mission, strategic goals and alignment of their operational activities (teaching, research, extension, culture, etc.), which were held accountable for their decision-making by the same institution and Chilean society.

The main purpose of this research was to propose an adaptation to the Balanced Scorecard (BSC) and apply it in an academic unit of a University in Chile. The proposal is based on the research of four Chilean universities and several domestic and foreign offices of these universities.

It consists in the creation of a performance measurement system and accountability, generating a record of reliable information of the goals reached together with getting feedback on the performance achieved. As well as the incorporation of an active directory management tool to promote its self-organization, self-assessment, management self-regulation , strategic thinking and continuous improvement.

Keywords:

Balanced scorecard, worldwide universities, strategies, performance measurement system.

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IMPACT OF INTEREST RATE ON STOCK MARKET, GDP AND INFLATION ON A DEVELOPED AND DEVELOPING ECONOMY

Abstract:

Interest rate regulation by a central bank plays an important role in the economy. The major objective of this research paper is to investigate the impact of interest rates of the central bank on the stock market returns, gross domestic product and inflation and a relative comparison of the effect of interest rates on these factors in both a developed and developing economy. This is achieved by running statistical tests on the data of the past 10 years of the economies by taking closing stock market indices, GDP data and inflation data. The tests use tools of regression and Pearson correlation to get an insight on the same. This paper will provide a broader outlook from the perspective of both a developed and developing economy.

Keywords:

Interest rate, GDP, Stock market returns, Inflation, Pearson correlation

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BUDGET CONSTRAINTS, EXCHANGE RATE SHOCKS AND EMPLOYMENT ADJUSTMENTS IN CHINA

Abstract:

We investigate the employment change differences between state-owned and private firms driven by the nature of the budget constraint that firms face under exchange rate shocks. Data on Chinese manufacturing firms allow comparison of firm behaviour under soft and hard budget constraints as distinguished by firm ownerships. We find that private firms are more responsive to exchange rate shocks than state-owned firms, and industries with higher export orientation are more likely to have within-industry labour relocation between state-owned firms and private firms: when private firms shrink, state-owned firms expand employment and vice versa. Our results demonstrate the role of the soft budget constraint in labour adjustment of Chinese enterprises.

Keywords:

Soft budget constraint, employment, exchange rate shock, Chinese firms

JEL Classification: F31, J21, G30

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MODELLING THE EVOLUTION OF MONETARY POLICY IN THE UNITED KINGDOM

Abstract:

We attempt to model changes in monetary policy of the Bank of England and describe how they affect inflation and economic activity in the United Kingdom (UK). Specifically, we explicitly incorporate the zero lower bound of the nominal interest rate and extend the standard time-varying parameter vector autoregressive with stochastic volatility (TVP-VAR) model to allow the central bank to use different policy instruments where necessary. Our data sample runs from 1993 through 2017 on a monthly basis with the first 40 observations as training samples. For estimation, we opt to follow the Uhlig (2005) findings that 'successful identification needs to deliver results matching the conventional wisdom' and impose priori restrictions to our extended TVP-VAR model. An efficient Markov chain Monte Carlo procedure is developed in the context of Bayesian inference. Overall, our empirical results show a dynamic relationship between monetary policy and the macroeconomic performance in the UK. For the post-2009 period when the short-term rate of interest hits the effective zero lower bound, we show that this relationship can be well detected through changes in money supply rather than shifts in the nominal interest rate. Regarding the impact of monetary policy, it takes roughly two years for the interest rate adjustment to have its largest effect on inflation and one year to have its peak effect on real activity. Consistent with our previous studies, we find changes in the inflation target of the Bank of England. This suggests that in order to accommodate changes in its preference over inflation stabilisation, the Bank does not only adjust its response to economic shocks but also gradually and implicitly changes its short-term objective of the inflation rate.