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## **CORPORATE GOVERNANCE IN JAPAN: AFFILIATION, FIRM SIZE, AND THE STRUCTURE OF CORPORATE OWNERSHIP**

**Michael J. Sullivan**      **University of Nevada**  
**Richard L. Constand**    **University of Hawaii at Manoa**

*This study examines the influence of corporate affiliation and firm size on ownership structure and lending constituents in Japan. Our findings support the notion that financial institutions concentrate their ownership positions in large companies, while the dominant ownership group of smaller companies appears to be associated larger companies. This large-small firm difference appears to be present whether the firms are affiliated formally through keiretsu membership. Our findings are consistent with the notion that corporate governance in Japan radiates from main banks to large "parent" corporations and then from these large corporations to smaller "child" corporations.*

## **SECURITY RETURN DRIFT, ANALYSTS' EARNINGS FORECAST REVISIONS, AND QUANTITY OF INFORMATION**

**Sean M. Hennessey**      **University of Prince Edward Island**

*This paper considers the impact quantity of information has on the post-revision announcement drift in security prices following revisions of analysts' earnings forecasts for Canadian companies. The proxies used for quantity of information are analyst following, firm size, and share price. Since the information environment for widely followed, large, and high share price firms is "richer" than for neglected, small, or low price firms, drift is expected to be centred on low information securities. The results for the 8,095 revisions in the sample suggest that information deficiency only partially accounts for the drift following revisions. For positive revisions, small securities display a pronounced drift, peaking with an annualized post-revision CAR of almost 20% for revisions of at least 10%. The response to revisions does not appear to be associated with various levels of analyst following and share price. Trading costs do not appear to account for the drift. For negative revisions there is some indication that the well-documented analyst overestimation bias is associated with low share price securities.*

# THE CONCEPT OF SUSTAINABLE GROWTH REVISITED

**Hussein H. Elsaid**  
**Vijay Bhasin**  
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**Southern Illinois University**  
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*One of the major responsibilities of top management is to articulate a set of financial goals to be achieved over a given planning period. A primary goal in such a set is the specification of a growth target. e.g., sales growth and/or earning per share growth. The growth target has to be both realistic and attainable. The authors look at the concept of sustainable growth and develop a model for its estimation by relaxing some of the assumptions made by earlier researchers. Application of the sales growth models is illustrated based on publicly available information.*

# COINTEGRATION AND INTERMARKET PRICE CHANGE RELATIONS IN THE EXCHANGE MARKET

**Hong K. Rim**

**Shippensburg University**

*Using transactions data on the British Pound, Deutsche Mark, and Japanese Yen in 1994, this study examines the lead/lag relations among the currency spot, option, futures, and futures option markets. This study is important due to the scope of market linkages examined and the number of currencies considered. Empirical results show that futures option trading leads futures trading and (spot) option trading, futures trading leads spot trading and (spot) option trading, and spot trading leads (spot) option trading. Thus new information seems to flow into futures option market first, followed by futures market, spot market, and (spot) option market. Arbitrage profits may be possible, but transaction costs and other market imperfections may inhibit any such profiteering.*

# AN EXAMINATION OF CAPITAL MARKET INTEGRATION: IMPLICATIONS FOR GLOBAL DIVERSIFICATION

**Theodor Kohers**  
**Vivek Pandey**  
**Ninon Kohers**

**Mississippi State University**  
**Mississippi University for Women**  
**Florida State University**

*Over the years, the potential benefits of international diversification have been well-documented in the finance literature. However, with the recently accelerated trend towards global integration of financial markets, the positive effects of such international diversification efforts may have diminished. To address this issue, this study provides updated evidence on the benefits of international diversification and the consistency of correlations between the U.S. and other countries. While there is evidence of movements towards greater integration of some financial markets, a sufficient degree of diversity is still inherent in foreign stock markets, creating opportunities for significant benefits from international portfolio diversification.*

## SMALL FIRM AND STOCK RETURN SEASONALITY: (NEW) EVIDENCE FROM THE LISBON STOCK EXCHANGE

**Jose Adelino**  
**Sangphill Kim**

**University of Nova**  
**University of Massachusetts–Lowell**

*This study examines, month by month, the empirical relation between market value and abnormal returns for the Lisbon Exchange listed stocks. Evidence is provided that supports a “size effect”, where the market value is positively related to abnormal returns and selling pressure surrogates have a significant role in explaining excess returns for size ranked portfolios. The results show that size is positively related with abnormal returns for the January to September returns and that the effect is partially reversed for the last three months of the year. This evidence is unaffected when thin trading is taken into account by using alternative beta estimation methods; however, it is partly explained by the market trading patterns.*

# COUNTRY RISK ASSESSMENT USING DISCRIMINANT ANALYSIS

Mohammed Ashraful Haque

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*The purpose of this study is to identify the economic and financial variables which affect a country's credit worthiness. Once the variables are identified, a model is developed using discriminant analysis to separate the forty developing countries used in this study into three specific risk categories: (1) low risk, (2) medium risk, and (3) high risk. Several financial and economic variables are tested, but only six were considered significant enough to be used in the model. These six variables are gross national product per capita, debt service ratio, export, import, debt outstanding and disbursed as a percentage of GNP and, finally, international reserve to debt outstanding.*

# MONEY, INFLATION, AND STOCK RETURNS IN THE PACIFIC BASIN MARKETS

S. R. Lee

SE Asia Group

K. Matthew Wong

St. John's University

*This study examines the relationship between stock returns and inflation in Japan, South Korea, and Taiwan. Stock returns in these Pacific Basin markets are found to be related negatively to inflation. A Vector Autoregressive (VAR) modelling technique is employed to delineate the various channels of influence in a system with inflation, stock returns, money supply, production, and government deficits. The findings support the argument that the negative relationship between stock returns and inflation in all three market is spurious, caused by the counter cyclical monetary policy. In addition, only Japan appears to monetize its deficits that further reinforces the effects of the counter cyclical policy.*

# THE GENERAL ANNUITY CASE OF TIME VALUE OF MONEY: A PEDAGOGICAL APPROACH

<b>Omar M. Benkato</b>	<b>Ball State University</b>
<b>Mahmoud M. Haddad</b>	<b>University of Tennessee at Martin</b>
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*Most finance and related textbooks implicitly assume -in the case of annuity- that the frequency of compounding and the number of payments per year are equal. In this paper, we provide more accurate general equations that permit the equality and the inequality of the number of compounding periods and the number of payments per year. The correct formulation is beneficial to practitioners, regulators and software developers working with annuities because the correct formulas are important in applications related to capital budgeting, pension funds, bond valuation, and bond portfolio immunization.*