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## **THE USE OF DEA TO ASSESS THE FINANCIAL EFFICIENCY OF LARGE U.S. BANKS**

**John A. Haslem**                      **University of Maryland**  
**Carl A. Scheraga**                  **Fairfield University**  
**James P. Bedingfield**              **University of Maryland**

*Data envelopment analysis (DEA) was used to analyze the input/output efficiency of large U.S. banks in 1987 and 1992. The former was the year that banks belatedly began to acknowledge financially the increasingly severe problems from their loans to less-developed countries, especially in Latin America. For 1987 it was found that the DEA identified efficient ("best practice") banks were in fact financial "bad practice" banks. DEA efficient banks were less profitable in all dimensions than the identified inefficient banks. Loans to foreign borrowers had become such a pervasive output that they became identified as a positive, necessary component of input/output efficiency. By 1992, DEA identified "best practice" banks were financial "good practice" banks as well. DEA efficient banks were then more profitable in all dimensions than the identified inefficient banks.*

## **HOW MANY INTERNATIONAL FUNDS MAKE A DIVERSIFIED PORTFOLIO?**

**Musa Essayad**                      **University of Alaska Anchorage**  
**Jeff Madura**                         **Florida Atlantic University**  
**Donald M. Marx**                      **University of Alaska Anchorage**

*Previous academic research on international mutual funds (IMFs) has concentrated on measuring performance of individual mutual funds in terms of their asset selection, timing, and diversification. None, however, have addressed the superiority of cross-IMF diversification, and no research has focused on the optimal number of IMFs in a diversified portfolio, or the marginal contributions to risk reduction of an additional IMF. Based on Solnik's (1974) methodology, this short paper has shown that further risk reduction is attainable through cross-IMF investing, and complete effective international diversification is achieved with an average of eight IMFs per portfolio.*

## **STRATEGIC ALLIANCES: ECONOMIC AND CULTURAL INFLUENCES**

**John W. Slocum, Jr.**      **Southern Methodist University**  
**David Lei**                      **Southern Methodist University**  
**Robert A. Pitts**                **Gettysburg College**

*The role of strategic alliances in shaping a firm's competitive advantage is examined. Economic and cultural forces that influence the stability and learning potential of alliances are reviewed. A framework for integrating both economic and cultural forces is suggested.*

## **GERMAN UNIFICATION: IMPLICATIONS FOR EUROPEAN UNION**

**G.D. Hancock**                      **University of Missouri–St. Louis**

*The German experience of unifying two dis-similar economies may provide invaluable insights to Europe as it struggles with monetary union. The purpose of this paper is to examine the impact of German unification on interest rates, inflation and the value of the DM in an effort to assess implications for European economic union.*

*The results of this study suggest that Germany achieved unification with relatively minor interruptions to its international parity relationships and financial stability. In order for the European community to experience a like transition, members would most likely need to provide for a cooperative, consistent monetary policy.*

## **A REVISIT TO RETURN SEASONALITY AND THE TAX SELLING HYPOTHESIS IN THE KOREAN STOCK MARKET**

**Chang-Mo Bae**  
**David J. Kim**

**Dae Yu Securities Co., Ltd.**  
**Indiana State University**

*This study empirically examines the January seasonality and also investigates the validity of the tax selling hypothesis in the Korean Stock Market. Since there is no tax on capital gains for individual investors and no tax benefit for losses on securities in Korea, this study offers a unique opportunity for testing this hypothesis. Our statistical results indicate that there is no January seasonality in the Korean Stock Market. The highest return does not occur in the month of January, but in March. The absence of any capital gains tax on securities in Korea may be one possible explanation for the absence of a January effect on the Korean Stock Market. However, conclusive evidence of this requires a great deal more research.*

## **A CROSS SECTIONAL ANALYSIS OF JOINT VENTURES AND ACQUISITIONS IN DEVELOPED AND DEVELOPING COUNTRIES**

**Janet Todd**  
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**University of Delaware**  
**The Korea Securities Research Institute**

*A logit model is used to determine the significant factors that affect a U.S. MNC's decision to enter a target country by either joint venture or acquisition. In general, low risk and low expense in the target market favor the acquisition mode. For entrance into developing countries, gross national product, percent growth in gross national product, wage cost, political risk of the country, and the U.S. firm's foreign experience are significant components of the entry mode choice. In contrast, only wage cost is significant for entrance decisions into developed countries.*

## COMOVEMENT OF ASIA-PACIFIC AND MAJOR STOCK MARKETS

**T. Chotigeat**                      **Nicholls State University**  
**Pochara Theerathorn**        **The Siam Commercial Bank**  
**David J. Kim**                    **Indiana State University**

*This paper investigates the comovement of Asia-Pacific and major stock markets (a total of seven developed as well as emerging markets) with the cointegration test and error-correction modeling, using daily market index data from January 1988 to April 1992. Similar to previous studies, all markets show the presence of unit roots for non-stationarity (efficient market in the weak sense). Appearing in the system is only one cointegrating vector—one linear combination of the seven market indices constituting a stable interrelationship. However, when the equilibrium relationship is employed, the resultant models exhibit a stronger tendency toward autoregressivity than the error-corrective representation. The results seem to indicate that Asia-Pacific and major stock markets are neither completely integrated nor entirely segmented and thus warrant investors' utilization of an international capital market diversification strategy.*

## EMPIRICAL DISTRIBUTIONS OF FOREIGN EXCHANGE RATES UNDER THE FLOATING EXCHANGE RATE SYSTEM

**Mohammed F. Khayum**    **University of Southern Indiana**  
**Jong C. Rhim**                **University of Southern Indiana**  
**Robert J. Hartl**              **University of Southern Indiana**

*The shape of foreign exchange probability distributions is important in practical applications of theoretical models of international finance. This paper extends previous analyses of the shape of exchange rate distributions by considering a wider range of candidate processes. The results indicate that the logistic distribution provides the best representation of currency returns for four major currencies (the German mark, Japanese yen, Canadian dollar and British pound) against the U. S. dollar between January 1973 and July 1995. These results are significant because they show that in spite of the apparent increase in exchange rate variability during the 1980s and 1990s there has been a stable underlying distribution for major currencies.*