GLOBAL BUSINESS & FINANCE REVIEW

SPRING 1999

VOLUME 4, NO 1

INVESTING IN EMERGING MARKETS: AN ANALYSIS AT COUNTRY, INDUSTRY AND COMPANY LEVELS

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Over the last decade a number of studies have examined the costs and benefits of investing in equities traded in emerging markets. Many of these studies have focused on aggregate index data supplied by the IFC. By contrast, the present investigation employs disaggregated weekly returns data for the top 20 shares, by market value, from 17 emerging markets between 1991 and 1996. It examines the possible gains from international diversification into these markets and determines whether knowledge of the country in which a selected company is located is more important than knowledge of the industry in which it operates.

EUROPEAN EMERGING MARKETS AND THE WORLD MARKET VOLATILITY

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This paper examines the volatility persistence in three European emerging markets, Greece, Portugal, and Spain. Monthly value weighted index returns are computed and analyzed. A moving average TARCH model which accounts for asymmetry is estimated. Our findings show that the asymmetric influence of the positive and negative news in the previous month is statistically significant in all markets but Spain. In all markets the previous month's volatility has a significant effect on the volatility in the current month. All markets show high volatility persistence relative to the world market. Among the equity markets analyzed, Lisbon stock index shows the highest volatility persistence and the Spain index the lowest. Returns and systematic risk in markets of Greece and Spain are directly related to the world market. However, Granger tests of causality suggests that there is a bi-causal relationship between the world market returns and market returns in Spain. The findings may have significant implications for portfolio diversification strategies when investing in European emerging markets.

THE EFFECT OF OFF-BALANCE SHEET ACTIVITIES ON GLOBAL BANK RISK: EMPIRICAL STUDY WITH CAPITAL MARKET MODEL

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Since off-balance sheet activities (OBSAs) have been reported in the notes of financial statements, the lack of information thereof has been the main concern for regulators, accountants, financial analysts, and investors. This study, using the quarterly data of the 300 largest US global banks, examines the impact of OBSAs on bank risk (both asset risk and systematic risk). This study finds a strong positive relationship between OBSAs and systematic risk, supporting the Leverage hypothesis and Tax Regulatory hypothesis. However, the negative relation between OBSAs and asset risk supports the Diversification hypothesis. These findings could be incorporated into designing a new framework (i.e., fair and full disclosure) to account for new financial instruments related to OBSAs.

EXCHANGE RATE EXPOSURE AND STOCK BETAS

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In this paper, I examine the impact of foreign exposure of a company on the systematic and total risk of a company. The systematic risk of a company is measured as the sensitivity of the companyís stock with respect to the home-country market (in this paper, the U.S. market) and total risk is measured as the standard deviation of the return on the stock. If the beta of a company's foreign operations with respect to the foreign market is high and/or the foreign market has high correlation with the U.S. market and/or the foreign market has high volatility relative to the U.S. market, the systematic and total risk of a company with foreign market operations may, theoretically at least, be higher than an identical company with no foreign operations. The existence and extent of risk reduction due to the presence of foreign operations is, therefore, an empirical question. In this study, I examine these issues empirically. My results indicate that foreign market exposure did not lead to significant decreases in beta over the period 1973-97.

CAUSALITY RELATIONS AMONG STOCK RETURNS, INTEREST RATES, REAL ACTIVITY, AND INFLATION: SOME INTERNATIONAL EVIDENCE

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FORECASTING PERFORMANCE OF EXCHANGE RATE MODELS: A COMPARISON OF ERROR SIZE AND DIRECTIONAL CORRECTNESS

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This paper investigates the forecasting performance of three exchange rate models over the period 1973:Q4 -1997:Q4. The 1973:Q4 - 1987:Q4 sub-period was used to estimate the models for the Canadian Dollar, British Pound, German Mark and Japanese Yen and the parameter estimates were then used to generate out-of-sample forecasts for the 1988:Q4 - 1997:Q4 period. Based on the differences between actual and predicted results and whether predicted results were directionally accurate the findings indicate that an econometric model based on economic fundamentals tended to outperform market-based spot and forward rate models. However, composite forecasts representing weighted averages of the three individual model forecasts outperformed even the econometric model particularly in the out-of-sample forecasts.

INBOUND U.S. DIRECT INVESTMENT FROM DEVELOPING COUNTRIES: EMPIRICAL ANALYSIS OF ATTRIBUTES OF TOP PERFORMERS

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Successful manufacturing operations in the U.S. will enable multinational enterprises from developing economies (MEDECs) to gain proximity and improved responsiveness to their biggest single target market as well as facilitate their evolution into global corporations. However, international expansion often leads to failure. This study examines the attributes that distinguishes successful MEDECs engaged in U.S. manufacturing from less successful ones. A discriminant analysis classification model reveals that larger firms and those producing patented products have higher levels of performance. Further, minority foreign-owned firms tended to outperform firms that were majority foreign-owned.