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RESPONSE OF FINANCIAL MARKETS TO ADJUSTMENTS IN THE BANK OF ENGLAND'S TARGET INTEREST RATE

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Our general objective is to measure the responsiveness of financial market participants to the Bank of England's target interest rate adjustments. Using official Bank of England interest rate data from 1975 to 1996, we find that British money market interest rate movements are positively and significantly related to the Bank of England's target interest rate adjustments. Furthermore, the degree of response is conditional on whether its meeting dates were known in advance. We also find that British money market interest rates move in tandem with the Bank of England's target interest rate adjustment prior to the adjustment., Furthermore, the Bank of England's adjustments are inversely and significantly related to British equity returns, although the degree of sensitivity of equity returns is conditioned on the direction of the adjustment in target interest rates.

A PRELIMINARY INVESTIGATION OF THE EFFECTS OF EXCHANGE RATES ON NATIONAL EQUITY MARKET RELATIONSHIPS

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This paper analyzes the effect of exchange rate changes on relationships existing between equity markets in the U.S., Canada, France, Germany, Japan, and United Kingdom during the period 1990-1995. Close equity market linkages are found between the U.S. and Canada, France, Germany, and United Kingdom. Exchange rate effects on those linkages are important only for the U.S. and the three European countries. Intertemporal analysis finds that exchange rate effects for the relationship between the U.S. and Japan, which were not significant for the entire period, have become significant only after 1994.

INVESTIGATING THE DECISION TO EXPORT TO MEXICO BY MEDIUM-SIZE U.S. INSTRUMENT MANUFACTURERS

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The instrument manufacturing industry is examined via multiple discriminant analysis (MDA) to determine the relative influence of factors impacting on the decision to export from the U.S. to Mexico. Dominant influences are found to be the perceived uniqueness of the firm's products, the degree of utilization of the firm's domestic productive capacity, the opportunity for domestic market growth, and recent trends in the firm's profitability. Interestingly, the three latter influences are linked to the decision in such a way as to suggest that the decision to export to Mexico is made more out of "need" than out of strength. The model is validated on a hold out sample that performs considerably better than chance.

LEVEL OF EXPOSURE TO GLOBAL TRADE FLOWS: WHERE DOES THE U.S. ECONOMY STAND?

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Using the cointegration model and Granger causality, this paper explains how trade flows affected the U.S. economy via consumption expenditures in the 1960-93 subperiod. However, trade flows did not significantly affect the U.S. economy in the 1994-98 subperiod because consumption expenditures weakly caused U.S. gross domestic product. Therefore, currency crises in Latin America and East Asia did not produce any negative effects on the U.S. economy in the late 1990s. Thus, high productivity in the technology sector, low petroleum prices due in part to low demand in Asia, massive influx of foreign capital largely from Asia to the United States, and cheap imported goods from Asia helped the U.S. economy shrug off these currency crises in the late 1990s.

CAPITAL STRUCTURE AND PRODUCT MARKET INTERACTION: AN INTERNATIONAL PERSPECTIVE

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Using financial and stock market data for five years, this study empirically tests the relation between capital structure and product market structure in an international context. The main finding is that firms with monopoly power use more long-term and total debt. This evidence is consistent with the output and limited liability effect theory and the agency theoretic risk shifting theory of capital structure and product market interaction.

THE KOREAN FINANCIAL CRISIS OF 1997: CAUSES AND POLICY RESPONSES

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For three decades, Korea was held up as an economic icon. The country's ~~typical~~ blend of high savings and investment rates, autocratic political systems, export-oriented businesses, restricted domestic markets, government capital allocation, and controlled financial systems were hailed as ideal ingredients for the strong economic growth of developing countries (Shapiro, 1999). However, in July 1997, a currency turmoil erupted in Thailand, spreading to Korea and other countries. This article investigates a number of practical issues about the Korean crisis of 1997--interlinked economies, the causes of the crisis, and policy responses.

STRATEGIC ENTREPRENEURIALISM IN ANALYSIS: GLOBAL PROBLEMS IN RESEARCH

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A decade ago, a series of published articles debated the amount of method variance in organizational measures from all over the world (Bagozzi and Yi, 1990; Spector, 1987; Williams, Cote, and Buckley, 1989). Interestingly, while all three studies analyzed the same data sets, they reached different conclusions concerning the presence of method variance. Spector (1987) reported that method effects were relatively minor, Bagozzi and Yi (1990) found them to be of moderate importance, and Williams et al. (1989) found method effects to be quite pervasive. Up to this time, no one has offered reasonable explanations as to why these results were found. While some of the differences in results may be due to the use of different analytic methods; even the use of the same technique (Confirmatory Factor Analysis - CFA) resulted in different conclusions. The differences found by these researchers (Bagozzi and Yi, 1990; Williams et al., 1989) are likely due to the multiple solutions problem caused by factor indeterminacy which is common with factor analytic techniques which is likely to exist with domestic and international data (Cattell and Gorsuch, 1963; Gorsuch, 1974; 1983; Rozeboom, 1992). A series of simulations were performed which indicate that there are, in fact, many reasonable solutions which can be fit to MTMM data using CFA and that therefore it appears that the multiple solutions problem is also significant for CFA as it is for other factor analytic methods. Some possible remedies for the problem of fitting MTMM models are proposed. We suggest that researchers need to be adaptable in the analytic methods which they employ and the topics that they explore (entrepreneurial researchers) and to carefully examine their data so that the research questions match the capabilities of the techniques utilized.

OVERREACTION AND SHORT-TERM MARKET FACTORS IN THE INTEREST RATE FUTURES MARKETS

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Evidence of stock price overreaction is well documented in most stock markets, but it is quite limited in interest rate futures markets. This paper empirically investigates whether and to what degree, overreaction in interest rate future markets is influenced by recent information (short-term market factors). Using daily data from the interest rates of Eurodollar futures and U.S. T-bond futures, some degree of overreaction was found to be related to short-term market factors. These results have important implications for practitioners, i.e., the opportunity to gain abnormal returns by adopting a "contrarian" investment strategy. For hedgers, transactions are better conducted in days with normal levels of trading activity, as measured in terms of trading volume, intraday volatility, and market movement. On the contrary, professional traders, arbitrageurs, and speculators would find it more attractive to concentrate on days with abnormal levels of trading activity to exploit the larger degree of inefficiency in prices.

INTERTEMPORAL APPROACH TO THE CURRENT ACCOUNT: EVIDENCE FROM SAUDI ARABIA, 1969-1997

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The Saudi Arabian current account (CA) has fluctuated sharply over the last thirty years. The Saudi government has striven to manage its CA balance over time by making necessary adjustments in internal expenditures to achieve intertemporal optimization. This paper tests the effectiveness of such a government policy by way of an intertemporal approach to CA. The estimation results (Granger-causality test, formal test, and equality-of-variances test) indicate that the model captures the statistically important features of the current account behavior for the period of 1969-1997, which demonstrates a high level of effectiveness in the Saudi CA management.