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FOREIGN EQUITY AND MARKET OVERREACTION

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This study examines abnormal returns after extreme share price changes pursuant to American depository receipts (ADRs) and international closed-end mutual funds. The results may be especially relevant for market participants who are presently monitoring abrupt price movements in foreign securities and markets. For ADRs it appears that investors are too optimistic in their assessment of extreme price changes. Specifically, an under-reaction phenomenon is associated with extreme price declines (losers) and an overreaction phenomenon is associated with extreme price increases (winners). This finding is contrary to the overreaction hypothesis that predicts the market reacts too strongly to negative and positive news, and is also contrary to the uncertain information hypothesis that predicts stock prices increase after extreme price changes. For international closed-end mutual funds, the overreaction phenomenon is associated with losers and winners.

Cross-sectional regression analyses are conducted to examine the effects of the initial price change, size (market value), information leakage, change in the year effects, and the Monday effect. There is evidence that the degree of overreaction is positively related to the degree of information leakage and the magnitude of the initial price change.

DOES EXCHANGE RATE VOLATILITY AFFECT TRADE? EVIDENCE FROM SEVERAL EUROPEAN COUNTRIES

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The paper examines whether exchange rate volatility had affected negatively the trade flows bilaterally between Belgium, France, Greece, Italy, Netherlands, Portugal, Spain, the United Kingdom and Germany since the inception of the European Monetary System in 1979. The exchange rate volatility variable is derived from the Exponential Generalized Autoregressive Conditionally Heteroskedastic in-Mean model. This variable is next used as a proxy for exchange rate uncertainty in an error-correction model in order to investigate its impact on a country's import flows from Germany, along with several other variables. The results indicate that short-run volatility did not have any deleterious effects on the volume of bilateral trade, despite the fact that exchange rate volatility had increased noticeably for most of the exchange rates.

AN ANALYSIS OF COUNTRY RISK WHEN INTERNATIONAL CAPITAL MARKETS LEND TO DEVELOPING NATIONS

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In light of the rapid growth in developing countries' borrowing from the international capital market and recent indicators of financial and economic instability, the impact of country risk on the amount of international borrowing (loans and bonds) of sixteen developing countries is estimated. Based on a model of sovereign risk analysis, the results indicate that for the period 1992-94, variables indicating political risk (transfer risk), credit risk, and economic risk are significant. Both bivarite and multiple regression estimates are obtained and test for stability of the model is conducted. The use of country risk ratings as independent variables of the model is an improvement of the earlier methodology based on external debt ratios.

JAPANESE FOREIGN DIRECT INVESTMENT IN CHINA: THE CASE OF DALIAN & SHANGHAI (1984-1997)[1]

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Since the 90's there is a renewal of Japanese foreign direct investment (JFDI) in Asia, due to a reassessment of the advantages provided by the zone (demand, high rate of growth, low labor çost, reliable infrastructures). Since 1992, China seems to be a privileged JFDI host country in Asia. This article focuses on JFDI in two interesting sites, Dalian and Shanghai during the period from 1984 to 1997. The concentration of JFDI in Dalian and Shanghai is led by two different logics. JFDI in Dalian is the result of a long history and is mainly supply-oriented. In Shanghai, JFDI is more recent and closely linked to other foreign competitors strategy in China. Thus, JFDI are more demand-led. Finally, the paper attempt to validate by an empirical test the hypotheses that JFDI in Shanghai springs from a different strategy than those in Dalian.

VALUE COGNITIVE MAPS: TWO EXPERIMENTAL APPLICATIONS IN SOUTHERN ITALY

Maurizio d'Amato **Polytechnic of Bari, Italy** [1]

After a brief profile of mental images and a review of pertinent recent literature, this paper discusses the image of the city as developed by Lynch. The work of Lynch serves as the springboard for developing the role and importance of mental images in establishing Value Cognitive Maps—maps showing city zones having relative homogeneous values as perceived by real estate professionals. The paper then describes two experimental applications conducted in two cities in southern Italy--Bari and Taranto. In Bari the value perceptions were obtained by having real estate broker-members of the Real Estate Stock Exchange delineate the zones they felt were relevant and estimate the square meter value of a standard house in each zone. In Taranto, similar information was obtained by interviewing 16 real estate brokers. Both experiments provide evidence that this type of analysis is meaningful to the participants and that the information obtained can be useful for policy considerations.

PATTERN OF EQUITY RETURNS IN EMERGING MARKETS: THE CASE OF COLOMBIA

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Emerging capital markets provide important diversification opportunities for investors. In particular, portfolio investments increasingly flow to Latin American capital markets with the opening of these markets to foreign investors. This study examines the pattern of Colombian stock returns, one of the most internationally active emerging capital markets, to see if investors can develop trading strategies and earn abnormal returns. Empirical analysis considers five Medellín Stock Exchange price indexes for three time periods centering on the opening of the economy. Statistically significant lower Wednesday returns are observed for the General, Industrial, and Selective indexes during the period corresponding to the opening of the Colombian economy. For the first time, general market and industry-specific indexes are analyzed simultaneously, allowing for the identification of abnormal returns in specific economic sectors.

AN IMPULSE RESPONSE FUNCTIONS AND VARIANCE DECOMPOSITIONS ANALYSIS OF INTERNATIONAL EQUITIES

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We investigate the components of equity returns across three major national stock markets using explanatory variables, dividend-price ratios and dividend growth rates. The analysis employs the structural Vector Autoregressive Approach (SVAR) to a data set for the period of January 1955 to December 1999. In general, we conclude that dynamic stock return behavior is accounted for primarily by innovations in dividend-price ratios. In all markets stock returns are characterized by the same temporary mean reverting components. These findings, however, cannot be viewed as evidence against market efficiency. We consider the "information" hypothesis of dividends to justify the temporary mean reverting components of stock returns.

UNDERSTANDING THE DIFFERENCES BETWEEN INTERNATIONAL ACCOUNTING STANDARDS AND U.S. GAAP

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With the continuous globalization of capital markets and the growing popularity of International Accounting Standards (IAS), understanding IAS is becoming increasingly more important. This study compares IAS with U.S. Generally Accepted Accounting Principles (U.S. GAAP). Differences between IAS and U.S. GAAP are found in twenty-six of the forty core areas in financial reporting identified in the International Organization of Securities Commissions' list. Notwithstanding the differences identified in this study, IAS and U.S. GAAP are broadly comparable in most areas and progress has been made in reducing differences between them.