

A white outline of a world map is centered on the page. The map shows the continents of North America, South America, Europe, Africa, Asia, and Australia. The text is overlaid on the map.

**GLOBAL  
BUSINESS & FINANCE  
REVIEW**

**SPRING 2004**

**VOLUME 9, No 1**

# **OPTIMAL PORTFOLIO ALLOCATIONS IN EMERGING EQUITY MARKETS: A MATHEMATICAL PROGRAMMING APPROACH**

**Lawrence S. Tai**

**Loyola Marymount University**

*This paper develops an optimization model for portfolio allocations in 22 emerging equity markets by incorporating the conflicting objectives of maximizing return and minimizing risk in a single objective function. The resulting model allows users to input their risk aversion value to obtain the optimal portfolio mix. The model is extended to include minimum and maximum allocations per geographical region as well as minimum and maximum number of markets per region, given that the investor desires to minimize portfolio risk with a minimum portfolio return to be achieved.*

## **A DUAL APPROACH TO MEASURING EQUITY MARKET INTERRELATIONSHIPS**

**Peggy E. Swanson**

**University of Texas at Arlington**

*This paper incorporates both mean returns and volatility effects in investigating relationships between and among international equity markets. As proxies for world equity markets, the U.S., Germany, and Japan are selected to represent their respective regions of the world. The more significant findings include: returns causalities are stronger than volatilities causalities, unconditional volatility (measured as rolling standard deviation of returns) affects returns more than conditional volatility (measured by GARCH effects).*

# THE REACTIONS OF LDCs LOAN PRICES TO THE BRADY PLAN

**Ki C. Han**

**Suffolk University**

**Suk Hun Lee**

**Loyola University of Chicago**

**David Y. Suk**

**Rider University**

*This paper examines the reactions of LDCs loan prices to the debt reduction negotiations under the Brady Plan. The ten countries that have completed restructuring their loans under the Brady initiative reacted differently to the Brady Plan announcements. Loan prices of countries that are expected and are able to immediately take advantages of the debt reduction have reacted positively to the initial Brady Plan announcements. Even though the debt reduction agreements did not lead to significant price gains, most of the countries that restructured their loans under the Brady Plan did eventually return to the capital markets. Hence, from a longer-term perspective, the Brady Plan did help LDCs in restoring their creditworthiness.*

# EARNINGS MANAGEMENT AND EARNINGS FORECAST DISPERSION

**BuRyung Brian Lee**

**Indiana University Kokomo & Concordia University**

*Firms that barely beat the market expectation show higher consensus of earnings forecasts than do their counterparts that barely miss it. Differences in stock returns around earnings announcements between firms that beat and miss the market expectation are statistically significant when the consensus of earnings forecasts is high. Thus, managers appear to be more concerned about beating the market expectation when the dispersion of earnings forecasts is low. Otherwise, they might experience a large amount of opportunity costs as a firm's stock prices decline.*

# THE BEFORE-/AFTER-INTEREST CHOICE IN THE MEASURE OF SEGMENT EARNINGS

**Jean Canil**                      **University of Adelaide, South Australia**

**Bruce Rosser**                    **University of Adelaide, South Australia**

*Before harmonization of Accounting Standards, Australian companies were observed to report segment earnings either before or after interest. Firms reporting segment earnings after interest are hypothesized to have had higher debt levels, multiple lenders and less related segments than firms reporting segment earnings on an EBIT basis. Supporting evidence is documented. It is concluded that a uniform measure of segment earnings as prescribed by IAS 14 and corresponding country-specific Standards inhibits firms with high debt levels from signaling their prospects in order to lower borrowing costs.*

# REASONS FOR DOING BUSINESS WITH NORTH KOREA

**Trevor Crick**                    **University of Detroit Mercy**

**Suk Hi Kim**                      **University of Detroit Mercy**

**Eugene Swinnerton**           **University of Detroit Mercy**

*Loss of allies in the early 1990s, consecutive floods in 1995 and 1996, and a severe drought in 1997 shrunk the North Korean economy. While North Korea had gradually reformed its troubled economic system in the 1990s, these measures were limited and different from market-oriented reform. Inter-Korean relations have improved significantly since the historical encounter of two Korean leaders on June 13, 2000. In July 2002, North Korea introduced liberalization measures, the most significant since the start of communist rule in 1948 (French, 2002). The conventional explanation for this sudden reversal of North Korean economic policy is that it is desperate for external economic assistance and investment. Such an open-door policy creates opportunities and challenges for foreign governments, companies, and individuals. This paper discusses reasons to do business with North Korea, entry modes of North Korean markets, differences in management style between Western and Asian corporations, and political risk analysis.*

# THE PARADOX OF THE NORTH KOREAN FINANCIAL POSITION

Jacques G. Boettcher

University of Detroit Mercy

*The Democratic People's Republic of Korea (DPRK) emerges in 2003 in a most unenviable position. The North Korean Constitution steadfastly upholds the Socialist ideology, but as North Korea moves faster and closer to the implementation of this doctrine, it becomes increasingly dependent upon foreign capital investment and technology. This has forced North Korea to increasingly break from the Marxist-Leninist constraint and to develop and modify some thirty-five new laws to calm the wary foreign investor. Now the Foreign Trade Act of February 2001, and the Enforcement Decree of the Foreign Investment Protection Act of December 2001, widens the cracks in the heretofore-concrete socialist Constitutional faith.*