GLOBAL BUSINESS & FINANCE REVIEW

FALL 2005

VOLUME 10, NO 2

TESTS OF THE PECKING ORDER THEORY AND THE TRADEOFF THEORY OF OPTIMAL CAPITAL STRUCTURE

Soku Byoun **Baylor University**

Jong C. Rhim **University of Southern Indiana**

This paper investigates implications of the static tradeoff theory and the pecking order theory. The results suggest that firms adjust their debt levels according to target debt ratios as well as the pecking order. By combining the two theories, the research finds that firms are more likely to increase debt when they face financing needs as well as below-target debt level, while they are more likely to decrease debt level when they have surplus cash flows as well as above-target debt level. The pecking order is found to be a much more binding force for small firms, supporting the hypothesis that small firms are more likely to follow the pecking order because of the difficulty in accessing external financing sources due to asymmetric information. The research also finds that small firms are significantly slower than large firms in adjusting the debt level when the adjustment requires an increase in debt level according to the target adjustment model.

CURRENCY DEVALUATION AND CONTRACTIONARY POLICY IN CURRENCY CRISIS: A SUPPLY-SIDE APPROACH

William T. Smith **The University of Memphis**

Chong Soo Pyun **The University of Memphis**

Youngseob Son **Arkansas State University, Pine Bluff**

In a series of recent currency crises involving Asian and Latin American countries, the IMF mandated its standard contractionary programs to the countries it had bailed out. Focusing on the supply side of an economy, we argue that the deflationary programs may have adverse effects for countries, which relies heavily upon imported intermediate goods and raw materials. A devaluation will raise the domestic price of these imported factors, triggering cost-induced seller's inflation and reducing production. This process will increase unemployment, accelerate inflation, and leave the currency account in deficit. In the end the economy is likely to sustain a more painful correction than is justified.

THE 2002 TRADE PROMOTION AUTHORITY BILL: DETERMINANTS OF U.S. CONGRESSIONAL VOTING BEHAVIOR

M. Faizul Islam **Southeastern University, Washington DC**

This paper investigated empirically the political and economic determinants of voting behavior of the U.S. Congress in the Trade Promotion Authority bill -- by applying a logit model. The empirical findings suggested that environmentalists, labor, business ideologues and contributions from political action committees of business had a significant influence on Congressional votes. The relationships of party affiliation and the unemployment variable on voting behavior were consistent but had an insignificant impact. On the other hand, the relationships of state exports and conservative ideology on voting behavior were inconsistent.

IDENTIFYING LIABILITY OF FOREIGNNESS USING EBAY AUCTION RESULTS

Stephen S. Standifird **School of Business Administration, University of San Diego**

Steven Globerman **College of Business and Economics, Western Washington University**

The purpose of this paper is to identify the importance of a home country bias on the part of consumers as a source of Liability of Foreignness by examining whether the coin grading services of well-known companies are worth more or less to auction participants depending upon the country of residence of the buyer and the home country of the grading company. We find that residents of Canada place a significantly greater premium on the services of the Canadian rating agency relative to U.S. rating agencies. However, U.S. residents also favor the Canadian rating agency. Hence, we find no specific evidence of a home country purchasing bias when purchasing Canadian silver dollars on eBay.

INTERACTIONS BETWEEN EQUITY AND FOREIGN EXCHANGE MARKETS: EVIDENCE FROM THE PRE-AND POST-1997/98 MALAYSIAN DAILY DATA

Matiur Rahman **McNeese State University**

Banamber Mishra **McNeese State University**

The primary objective of this paper is to investigate the causal interactions between the Malaysian stock and foreign currency markets using daily data for 1997-98 pre-and post-crisis periods that run from July 4, 1995 through June 30, 1997 and from November 22, 1999 through April 5, 2002 respectively. The ADF test is performed to examine the time series property of each variable. Following the evidence of data stationarity in each variable, Vector Autoregressive (VAR) models are implemented. The coefficients of the relevant explanatory variables are much more magnified for the pre-crisis period than those in the post-crisis period. But in terms of the associated t-values, $\overline{R}^2$'s and DW-values, the differences between the two periods are not so discernible.

FINANCIAL RISK HEDGING, BORROWING AND CAPITAL EXPENDITURE

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

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

In this paper we provide new evidence on the relation between hedging, debt financing and capital expenditure. Specifically, we analyze the size and timing of debt visits and capital expenditures in relation to a given year's hedging activity. Our results suggest hedging activity is more positively related to new borrowings than leverage, but unrelated to same-period capital expenditure. The first result is consistent with an external financing motivation but the second implies factors other than underinvestment drive hedging policy.

A GENERALIZED DISCOUNTED CASH FLOW MODEL TO COMPUTE STOCK PRICE

Weiping Liu **Eastern Connecticut State University**

The discounted cash flow method is a commonly-used tool to value security prices. For stock valuation, analysts usually assume companies will pay dividends in a certain pattern. Based on these assumptions, three models were developed to compute stock prices, and they are introduced in most textbooks of financial management. These models, particularly the different growth model, have several limitations. Not only are they cumbersome and error-prone, but they also take too many steps to compute th estock price. These models could be very time-consuming, particularly when the first stage is long. To remedy these problems, a simpler and more general model is developeddebt level when the adjustment requires an increase in debt level according to the target adjustment model.