



**GLOBAL  
BUSINESS & FINANCE  
REVIEW**

**SPRING 2007**

**VOLUME 12, No 1**

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## **CAPITAL STRUCTURE CONVERGENCE AND A DOMINANT-COUNTRY EFFECT: A CASE STUDY OF THE EUROPEAN UNION**

**Dev Prasad**                      **University of Massachusetts Lowell**  
**Yash R. Puri**                    **University of Massachusetts Lowell**  
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**H. Kent Baker**                **American University**

*This exploratory study examines the impact of the formation of the European Union (EU) at the microeconomic level. Specifically, the study investigates the impact on a firm's capital structure by investigating whether capital structures are becoming more homogeneous across 10 EU countries over time, and whether a dominant-country effect exists. The results suggest movement toward convergence in capital structures across EU economies during the period examined. This evidence, which is particularly true for industrial firms, indicates an increase in homogeneity for companies in this economic community. The evidence also indicates the presence of a dominant-country effect. Specifically, the capital structures in the smaller EU economies tend to converge on the French capital structure. These changes in capital structure have implications for investors due to changes in the value of the firm as well as policy makers due to the changed needs of the market microstructure.*

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## **A COMPARATIVE ANALYSIS OF MARKET ENTRY MODE OF SOUTH KOREAN FIRMS IN CHINA AND VIETNAM**

**Hoon Park**                      **University of Central Florida**  
**Gil-Sung Kim**                **Yosu National University**

*This study examines the market entry mode of South Korean firms (henceforth Korean firms) in China and Vietnam. We are proposing a model that incorporates how firm-specific factors and host country factors affect Korean firms' decisions on which entry mode each chooses. We tested six (6) hypotheses using two different sets of data; one comprised of 294 projects in China, the other comprised of 218 projects in Vietnam. Empirical results indicate that firm size, strategic purpose, host country's experience in inducing FDI, and level of locational advantage are the important determinants of Korean firms' choices of entry mode in China and Vietnam.*

# THE RELATIONSHIP BETWEEN THE ASSETS LIQUIDITY AND THE TRADING LIQUIDITY: AN EMPIRICAL INVESTIGATION

**Xu-Shen Zhou**

**SUNY - Institute of Technology**

**Yong H. Kim**

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*In this paper, we examine the relationship between the liquidity of a firm's assets and trading liquidity of its stocks. The results show that the higher the firm's assets liquidity, the lower its stock's trading liquidity. This relationship does not hold for banks. Bank stocks have lower trading liquidity than other firms' stocks do. The results are consistent with market microstructure theory and support the paradox of assets liquidity suggested by recent theory. The results may suggest that firms with severe assets substitution and entrenching investment problems may have a different trading behavior of their stocks than those of others.*

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## DOES EXCHANGE-RATE VOLATILITY AFFECT INTERNATIONAL TRADE FLOWS?

**Matthew O. McPherson**

**Gonzaga University**

*The theoretical model of Viaene and de Vries (1992) is presented and an empirical confirmation of its implications concerning the effects of exchange-rate volatility is performed. Positive exchange-rate effects in the presence of a well-developed forward market are documented. When exporters [importers] benefit from changes in exchange-rate volatility, then importers [exporters] necessarily lose. Therefore, the sign of the effect of exchange-rate volatility on trade can, and in some situations should, be positive. In addition, evidence that trade balance (as a proxy for net currency position) is essential in determining the effect of exchange-rate volatility on trade flows is provided. Failing to take trade balance into account may help explain why the effect of exchange-rate uncertainty on trade has often been small in magnitude and/or statistically insignificant in numerous prior studies.*

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## **AN ANALYSIS OF THE FACTORS AFFECTING THE ANALYSTS' SUPERIORITY IN EARNINGS FORECAST FOR THE KOREAN STOCK MARKET**

**Chang Rae Park**                      **Kangnung National University, South Korea**

**Il-Woon Kim**                         **University of Akron**

*This study compared analysts' forecasts with those of the random walk model in terms of forecast accuracy and examined the factors affecting the superiority of forecasts, using the earnings data of Korean firms after the 1997 financial crisis. It has been found that analysts' forecasts are superior to those of the model and that the superiority is increasing as the time of earnings announcement is approaching. Analysts' forecasts tend to have a positive bias, but the bias is gradually decreasing as the date of earnings announcement nears. Four variables affecting the superiority of the analysts have been identified: firm size, timing of forecast, ownership structure, and market factor. The degree of the impact of each variable on the superiority is examined, and its implications are also discussed.*

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## **BOARD STRUCTURE AND AGENCY COSTS**

**Bingsheng Yi**                         **California State University – Dominguez Hills**

**Chia-Wei Chen**                       **University of South Florida**

**T. Chotigeat**                         **Nicholls State University**

*Several features are used to measure board structure: board size, leadership, inside director ownership, outside director ownership, and proportion of outside directors. Among these features, only inside director ownership significantly affects agency costs, and its effect is non-linear. In addition, the paper shows that small firms tend to have lower agency costs than large firms when the CEO also acts as chairperson of the board. Direct evidence on the relationship between board structure and agency costs is provided; the findings have important implications to shareholders and policy makers.*

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# TOEHOLDS AND BID DEFERRAL

**Jean Canil**

**University of Adelaide, South Australia**

**Bruce Rosser**

**University of Adelaide, South Australia**

*This paper introduces a new rationale for toeholds: to benefit from a lower bid premium through waiting to bid, contingent on rivals not emerging. An intending bidder has an incentive to acquire a toehold without bidding when the likelihood of a rival bid is low. If the toehold does not attract a rival bid, the toeholder subsequently bids first at a lower premium than by bidding coincident with the toehold purchase. But if a rival bid is triggered, the toeholder can sellout to the rival or bid second. As the likelihood of a bidding contest increases the option of bid deferral is less valuable. We employ a standard risk neutral valuation procedure to determine whether a bid should optimally be coincident with a toehold purchase or deferred. We document (i) negative deferred bidder abnormal returns at bid when the higher than expected bid premium is revealed, and (ii) significantly higher bidder abnormal returns at toehold and lower bid premiums for optimally deferring bidders relative to non-optimally deferring bidders.*