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PORTFOLIO DIVERSIFICATION WITH COUNTRY INDEX FUNDS

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In this paper, we use a novel application of the Capital Assets Pricing Model (CAPM) with country betas to determine if U.S. investors would benefit by adding iShares exchange-traded country index funds into their portfolios. Our findings indicate that U.S. investors would benefit by including any of the 21 iShares country index funds studied in the paper in their portfolios. We also use the Markowitz mean-variance portfolio optimization approach to determine which iShares country index funds can make the greatest contribution to global portfolios. We find that U.S. investors could increase the portfolio return per unit of volatility risk by increasing the foreign investment component in their global portfolios.

REVISITING THE (IN) EFFICIENCY OF EMERGING STOCK MARKETS

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Previous evidence on market efficiency in emerging economies could be tainted by the presence of thin trading and price non-linearity. We examine the impact of thin trading by decomposing weekly stock returns into permanent and cyclical components and then subject the permanent component (correct index) to a battery of efficiency diagnostic tests; and account for price non-linearity by modeling stock returns in the context of an EGARCH-in-mean. Our results from weekly returns in twenty emerging markets are unanimous in rejecting efficiency in all markets after adjustments for thin trading and price non-linearity. We also find evidence that regulatory reforms have enhanced market efficiency but only in some of the sampled markets, implying that emerging markets can benefit from further regulatory changes. Until then, though, several emerging markets remain a potential lucrative source of arbitrage opportunities for international investors

THE EFFECT OF THE MEXICAN CRISIS ON CORPORATE CASH HOLDINGS

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We investigate the determinants of cash holdings of Latin American firms before and during the Mexican crisis of 1994-1995. We find that firms decrease their cash holdings during the crisis, controlling for firm size and market value measures. We also find that firms with greater growth opportunities increase their cash holdings during the crisis. These findings are consistent with reduced liquidity associated with the crisis that causes firms to hold a relatively smaller proportion of their assets in cash. The results are also consistent with an increased precautionary motive for holding cash by high growth firms due to potentially fewer sources of alternate financing.

ASYMMETRIES IN THE PERUVIAN LENDING-DEPOSIT RATE SPREAD

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This study examines the asymmetric behavior of the lending-deposit rate spread in the Peruvian banking system over the period of 1991:9 to 2005:9. The threshold autoregressive (TAR) model did not reveal any asymmetry. However, the momentum threshold autoregressive (MTAR) model revealed asymmetric adjustments in the lending-deposit rate spread in the Peruvian banking industry. This result parallels those findings reported by Thompson (2006) for the U.S. The speed of adjustment is slower when the lending-deposit rate spread is widening than it is when the spread is narrowing. Also, the partial F-statistics corresponding to causality from the estimated asymmetric error correction model reveal that both the Peruvian lending rate and deposit rate affect movement in each other's rates. These findings paralleled those reported by Thompson (2006) on the U.S. prime rate and the 1- month CD rate.

HOW BANK LOANS ARE PRICED: A COMPARATIVE STUDY BETWEEN ASIA AND WESTERN EUROPE

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Syndicated loan volume has grown tremendously not only domestically but also internationally. This empirical study compares loan pricing between two important segments of the global financial market, Asia and Europe, using pooled GLS regression analysis on data of 3,425 service loans over the 17-year period from 1990 to 2006. On average, loan spreads in Asia are narrower, although loan fees are larger. All-in-spreads (the sum of loan spread and loan fees) are comparable, so lenders may earn income competitively across continents, but Asian lenders favor more upfront fees over a continuous stream of interest income. Information asymmetry and agency cost are common factors on both continents, although the degree-of-information problem varies. The proportion of secured loans is higher in Asia, a fact which may be a manifestation of borrowers' credit risk. Interestingly, European loans are more heavily used to finance higher levels of moral hazard, i.e., severe events such as leverage buyouts (LBO).

AN ANALYSIS OF PRODUCTIVITY CHANGE AND THE EFFECTS OF ASSET AND OIL PRICE ON GCC BANK EFFICIENCY

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This study, for the first time, takes on the issue of productivity changes of the Gulf Cooperation Council (GCC) banking industry over the period 1998-200[illegible]. It also examines the effects of banks' asset and the oil price changes on the efficiency of the GCC banks. We use the non-parametric approaches of data envelopment analysis (DEA) and Malmquist productivity index (MPI). The results show that the banks in the GCC countries suffer inefficiencies in their operation and that the lack of scale efficiency gain over the years under study could be an alarming issue for the GCC banks. Positive effect of the booming oil prices on the efficiency of the banks is also alarming as the smaller banks would be particularly vulnerable to a possible oil price decrease in the future.

THE PERFORMANCE OF AMERICAN DEPOSITARY RECEIPTS: AN INDUSTRY ANALYSIS

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This paper analyzes the industry performance of ADRs over eleven years (1995-2005) and the results show that ADR returns vary by industry grouping. A comparison of ADR returns to a matched sample of domestic equity portfolios reveals that although both portfolios have similar average monthly returns, the associated risk varies. Reward-to-risk ratios suggest that an investor should hold both domestic equity and ADR-industry portfolios to maximize returns. A shorter time frame (2000-2005) is considered in order to include technology-related industries which become more prominent in the 2000s. The results suggest that an investor should hold a portfolio that includes the following domestic industries. semiconductors, electronics, insurance, media, banking, food, electric, beverages, and oil/gas, and ADRs from the software, telecommunications, Internet, automotive, pharmaceuticals, airlines, and mining industries

THE U.S. TRADE DEFICIT WITH CHINA: CAUSES AND PROPOSED SOLUTIONS

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The U.S.-China trade relationship has undergone tremendous growth since 1979 when the United States and China establish their diplomatic relationship. The trade volumes have increased dramatically after China joined the World Trade Organization in 2001. Recently, the trade relationship between the two countries has experienced some setbacks—specifically in terms of the huge U.S. trade deficits with China, the currency manipulation by the Chinese government, and China's failure in enforcing strict laws to protect intellectual property rights (IPR) of U.S. companies. Effective solutions to address such trade frictions may involve consideration of trade policies, negotiation, and cooperation between the two countries. This article first provides an overview the current trade status and frictions between U.S. and China. Next, the possible root causes of such tensions are explored. Finally, possible solutions are presented to alleviate such tensions and to allow both countries benefit from a mutually harmonious trade relationship.