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Can Foreign-Born Populations Reduce Informal Trade Barriers? An Examination of US State Level Exports to Latin America

Matthew Q. McPherson, William N. Trumbull and Daniel L. Friesner

The importance of ethnic populations in reducing informal trade barriers has received increased attention in the recent literature. This analysis extends the literature by estimating the effect of Latin American ethnic populations on U.S. state-level exports to Latin America. Overall, the results document a statistically significant foreign-born effect. Thus, the results support the notion that foreign-born populations can reduce informal trade barriers and help exhaust trade potential where significant cultural or political barriers exist. Furthermore, disaggregating by country suggests that the overall effect of foreign-born populations on trade is not uniform across countries. This suggests a need for caution when using aggregate data, even among a relatively homogenous sample of countries.

Relative Risk of IPO versus Non-IPO Firms

Yong H. Kim and Jinho Byun

Recent theoretical studies (Benninga, Hermantel, and Sarig, 2005; Zhang, 2005) argue that IPO firms have less risk than non-IPO firms and thus have lower long-run returns. If this is true, IPO firms must outperform more risky firms with some frequency, particularly in the worst states of the world (Lakonishok, Shleifer, and Vishny, 1994). This study finds that IPOs perform worse than their matching non-IPO firms in the worst times using a non-parametric approach to avoid the bad-model problem of risk measure. The findings support the traditional theory that IPO firms on average have more risk than non-IPO firms.

Economic Effects of Conflict: Political Science Data in Empirical Growth Models

Daria Sevastianova and Solomon W. Polachek

Empirical macroeconomic literature is ambiguous on the effect of intra- and interstate conflict on the economy. This paper investigates the impact of international and civil wars as well as low-intensity conflict on the income level, using the World Development Indicators (2008) data published by the World Bank, as well as the Correlates of War data on civil and international wars and militarized interstate disputes (MIDs). The sample consists of 90 countries for the period of 1970 to 2005. This study also checks the sensitivity of results to the use of least squares vs. fixed effects estimation. The findings are further examined for country groups based on the criteria of wealth, polity, and region. Civil wars are found to be most detrimental to poor nations' economies. War casualties provide a stronger measure of the negative effects of conflict on GDP per capita than conflict incidence. The effect of full-fledged war is to decrease income per capita by as much as 2 percent, while low-intensity conflict may raise the income level by .26 percent.

The Impact of Inflation Targeting on the Relationship between Stock Returns and Inflation: International Evidence

Unro Lee

Twenty six industrialized and emerging countries have adopted inflation targeting monetary policy since 1990 to combat persistently high inflation rate. This policy accords either the government and/or the central bank the authority to assign an explicit numerical target for inflation rate and implement an appropriate monetary policy to achieve its goal. This study investigates whether the adoption of inflation targeting strategy has affected the relationship between stock returns and inflation rate. Specifically, this study tests a hypothesis that, in an economy where inflation targeting has been adopted as a new monetary policy strategy, real stock returns should be sensitive to the change in inflation rate relative to its target. Both monthly and quarterly data for Australia, Canada, Chile, Israel, New Zealand, Sweden and United Kingdom are utilized in this study. The results are found to be somewhat mixed. A change in inflation rate relative to its target rate has a negative and statistically significant impact on real monthly stock returns for Chile, Israel, and Sweden and on real quarterly stock returns for only Chile and Israel.

Explaining the Saving-Investment Relationship with Threshold Effects

Ryan W. Herzog

There have been many attempts to explain the unreasonably high correlation between domestic saving and investment rates. The threshold testing procedure developed by Hansen (1999) provides a framework for testing the effects of key variables relating to capital mobility in conjunction with the saving-investment relationship. Ho (2003) first applied this method to the saving-investment puzzle controlling for thresholds in country size. Extending this model, this paper reports a number of significant threshold effects for country- size, trade and financial openness measures, age dependency ratios and trade balances. After controlling for threshold effects the relationship between savings and investment is found to be statistically insignificant. Additionally, controlling for the thresholds effects in a dynamic model of the current account allows for direct comparison between the savings-investment coefficient and adjustments to a country's external balance.

Foreign Currency Derivative and Firm Value: An Australian Study

Hui Hu and Felix Lim Kay Wee

In Australian context, only a single study done by Nguyen and Faff (2007) has addressed the question of whether the use of derivatives directly affects firm value. They found that the use of derivatives in general, and the use of interest rate derivatives in particular, are negatively related to firm value. However, using a sample of firms from 1999 and 2000, Nguyen and Faff (2007) may pick up noise from an event in March 1999, which saw the disclosure of derivative information become compulsory for the first time in Australia. Owing to the confounding nature of their results, this paper examines the use of foreign currency derivatives in a sample of 106 Australian nonfinancial firms between 2003 and 2008 and its potential impact on firm value. An insignificant relation between firm value (represented by Tobin's Q) and using foreign currency derivatives is found. The findings of this study contradict the study done by Nguyen and Faff (2007).

Explaining Growth in an Emerging Market

Ali F. Darrat, Khaled Elkhail, Faisal B. Al-Khateeb

We explore whether, and to what extent, financial deepening, human capital and information technology could explain the rapid economic growth that the United Arab Emirates (UAE) has experienced in recent years. We find compelling evidence that these factors, particularly human capital and information technology, are indispensable ingredients for promoting economic growth but only over the long-run. Consistent with the underlying theory, our results fail to support significant short-run growth gains from any of the growth factors. Together, these results imply that programs to invigorate the education system and the technological infrastructure in the UAE represent an effective growth strategy for the country, although such efforts must persist even in the absence of any quick growth benefits.
