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Ringling the Bell: Does it Matter and Why?

Steven D. Dolvin, Hinh D. Khieu, and Mark K. Pyles

We explore the ongoing debate between market efficiency and behavioral finance by examining the market's reaction to what most investors would consider an information-neutral event: a firm ringing the opening or closing bell on the NYSE. Consistent with behavioral theories, we find that firms who ring the opening bell experience, on average, a positive abnormal return on the event day; however, we find that the reaction is concentrated in a particular group of participants. Specifically, we find the abnormal returns are driven almost entirely by firms who are celebrating the transfer of their stock listing to the NYSE. Given the potential benefits and signals associated with such an event, the favorable reaction is more consistent with market efficiency than any type of behavioral bias (i.e., the event is not information-neutral). In a more general sense, we caution against blanket conclusions of inefficiency that may result from a failure to more closely examine underlying causes for certain market reactions.

"I'd be a bum on the street with a tin cup if the markets were always efficient."

— Warren Buffett

"I have yet to make a nickel on any of these supposed market inefficiencies...a true market inefficiency ought to be an exploitable opportunity."

— Richard Roll

Profits of Trading Strategies Based on Market Sentiments and Technical Analysis

Haigang Zhou

This study investigates whether simple moving average trading rules and trading signals generated from market sentiments in China generate excess returns. The results indicate low correlations among the signals generated from the two sources. Trading strategies following signals from market sentiments alone do not generate excess returns over a buy-and-hold strategy, while certain technical signals do. Furthermore, trading signals jointly generated from market sentiments and technical analysis can yield significantly higher returns than a buy-and-hold strategy and signals generated solely from technical analysis.

Relationship between Perceived Bribery and Economic Growth: An Empirical Analysis

Subarna Samanta and Rajib Sanyal

Examining measures of bribe taking and the real gross domestic product (GDP) of 26 countries over a twelve year period, it appears that higher incidences of bribery do adversely affect the rate of economic growth of nations. However, the rate of growth of real GDP does not have a similarly strong impact on reducing bribery levels. Furthermore, for individual countries, the relationship between these two variables varies considerably, indicating that country-specific factors explain both the prevalence of bribery and the pace of economic growth.

Valuation of NDX Index Call Options with Fractional Black-Scholes Model

Sangwoo Heo, Joon J. Park and Yalçın Sarol

This study compares the accuracy between the fractional Black-Scholes (FBS) option pricing model and the Black-Scholes (B-S) option pricing model using NASDAQ-100 (NDX) index call options data for the period of four years from January 2004 to December 2007. The degree of accuracy is measured by moneyness, variance estimate, and maturity. Although the accuracy of the FBS model is sensitive to Hurst parameter (H), the parameter is not directly observed. We recover the H value from the FBS model which depends on variance estimates. Because the FBS model has two unknown parameters, volatility and the Hurst parameter, we propose model predicting option prices to estimate H values using the implied volatility. We find that the FBS model outperforms the B-S model across the board. In particular, there is a great advantage of using the FBS model with historical volatility.

China's Banking Reform and Hidden Risk

Jennifer Foo and Weishen Wang

Spurred by the Asian crises in the 1990s, China began overhauling its banking system, to a great extent, to replicate the U.S. banking system. Given the recent meltdown of the U.S. banking system and the global contagion, it is noteworthy to evaluate the safety of China's banking system. This paper analyzes the current status of the three main state-owned commercial banks and discusses the hidden threats to China's financial stability. Panel-data logistic analysis is used to evaluate the probability of a potential banking failure. The results indicate that the Chinese banks have benefited through the disposal of the non-performing loans and from fresh capital injections. However, the bad debt problem, growing competition from foreign banks, as well as heavy government involvement, pose potential threats.

Global Diversification: A Longitudinal Analysis of Diversification's Impact on Firm Value

Sean M. Davis

This paper examines the impact of geographic diversification on firm value over twenty-three years from 1984 to 2006. The results indicate that (1) firms have been and continue to globally diversify by every measure tested, (2) agency theory does not appear to account for this diversification trend, (3) the impact on firm value for global diversification changes over time from value destructive to value enhancing, and (4) that the impact of global diversification varies widely by industry segment. This paper shows the varying effects of global diversification on firm value using a sample of firms starting in 1984 and examines those 1984 firms over the twenty-three year period tested.

The Impact of Alternative Forms of Risk on Foreign Direct Investment: The Case of CARICOM Members

Keith L. Whittingham and William L. Seyfried

Foreign Direct Investment (FDI) flows have been the focus of much recent study. Investors consider many factors when determining where to invest capital. In this study, data from a number of CARICOM member nations are analyzed to investigate the relative impact of various components of country risk on flows of FDI, along with relevant economic measures. Most prior studies consider the effect of overall country risk on FDI as opposed to alternative forms of risk. While confirming that FDI inflows are positively impacted by openness to trade, prior FDI stock and GDP growth, as anticipated for export-seeking FDI, our findings also indicate that government stability is the element of country risk that most impacted the investment decisions of FDI sources. Additionally, we confirm the positive relationship between FDI inflows and return on investment that has been reported for other developing economies.
