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Abstracts

COMMENTARY:

The Future of Finance and Financial Economics

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The last eighteen months have witnessed extraordinary financial market disruptions, a contagion of bank failures or near failures, an unprecedented loss of confidence in the global financial system, and wide-ranging strategies by governments of major economies to unlock credit markets and restore confidence in their respective banking systems. Relative unpreparedness for the disruptions triggered by the subprime mort-gage crisis originating in the Unites States in 2007 has prompted serious questioning of the focus and usefulness of academic finance and the lack of transparency in some components of the global financial system. This article provides an overview of major questions that have surfaced and the issues that are likely to be areas of focus for years to come.

Bilateral Vertical Intra-Industry Trade in Manufactured Goods among the EU15 Countries in the Period from 1990 to 1998

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A common feature in the empirical literature of intra-industry trade is analysis of trade between a given reference country and a set of partners. This design does not permit generalization of empirical results to other reference countries and sets of partners, since the results may depend on characteristics of the studied reference country and set of partners. Accordingly, this article examines the bilateral trade among all trading partners within a set of partners. Such an analysis has not yet been conducted in the international literature. We conduct an econometric analysis of EU15 intra-industry trade with vertically differentiated products to investigate the effect of differences in factor endowments. This question has drawn great attention in recent international literature. Moreover, this paper examines the effect of economic size, income distribution overlap and geographical proximity.

Size Effect and Corporate Governance in Cross-Border M&As

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We examine a sample of 638 cross-border acquisitions by U.S. public firms from 1996 to 2002. Small acquiring firms earn a statistically significant three-day cumulative abnormal announcement return of 2.33%, while large acquirers earn statistically not significant negative return of 0.27%. The observed acquiring firm size effect is robust regardless of the deal and acquirer characteristics, and sample periods. However, unlike domestic acquisitions, we do not observe a size effect for cross-border acquisitions of public target firms. Using the corporate governance index (G-index) developed by Gompers, Ishii, and Metrick (2003), we find that the observed size effect disappears when the buyers have a good corporate governance system in place. Our results suggest that managerial self-interest or hubris drives the observed size effect.

Increased Efficiency in Electronic Markets: Liquidity vs. Informed Trading

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This study examines market efficiency differences between open outcry and electronic exchanges under varying liquidity conditions for the FTSE-100 Index Futures Contract. In line with previous literature, this study finds that liquidity provision and market efficiency have increased on the electronic exchange. Unlike previous literature, this study finds that private information provision decreased between exchange types. Under standard liquidity conditions, clear efficiency differences exist between the open outcry and electronic regimes. However, by employing a liquidity adjustment procedure, this study finds no difference in efficiency between the two exchange types. Based on previous literature, this study concludes that higher efficiency in electronic exchanges is due to enhanced liquidity provision from informed traders and not private information provision.

Capital Structure and Market Power: Evidence from Thai Firms

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Utilizing a sample of 223 non-financial Thai firms over an eight-year period from 1997-2004, we test the relationship between financing decisions and market power using Ordinary Least Squares (OLS) and fixed-firm effects regressions. Our results show a non-linear relationship between capital structure and market power. Specifically, we find the relationship between total debt and market power, and short-term debt and market power, to be U-shaped, while the relationship between long-term debt and market power exhibits an inverted U-shaped relation. We suggest that these non-linear relationships may result from opposing limited liability and predation effects in the product market.

The Influence of Managerial Incentives and a Firm's Multinationality on Corporate Reorganization

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This study investigates the influence of two factors – managerial incentives and multinationality – on financially distressed firms' choice between the two options in debt resolution: file for Chapter 11 or seek private workout solutions. Prior literature examines the influence of creditors' holdout problems in distressed firms' choice of debt resolution. However, the previous studies have not examined other important factors related to a firm's choice of a debt restructuring method, namely, managerial incentives and multinationality. By using samples of 124 voluntary Chapter 11 firms and 98 private workout firms in the period of 1993 through 2003, this study shows that managers do affect the incidence of Chapter 11 filing when there is a conflict between equityholders and creditors and that distressed firms are more likely to restructure their debt privately with creditors when there is an increased level of multinationality. Consistent with prior literature, this study confirms that the choice of resolution methods depends on the extent of creditors' holdout problems and the level of a firm's economic distress.

The Impact of Mortgage Loans Transferred on Bank Employee Compensation

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This paper compares how employees are compensated when they originate loans that are held by the bank versus loans that are sold. Banks may be less concerned about the credit quality of a borrower when they sell the loan to an outsider. This study looks at mortgages transferred out of banks where partial recourse is transferred. First, it finds that loans transferred out of banks into Government Sponsored Enterprises (FNMA and FHLMC) and private entities increase employee compensation by 6 cents per dollar of loans transferred. Compared to the 3.5 cent increase in employee compensation per dollar of mortgage loans underwritten and held by the bank, this impact of mortgage loan transfers on compensation is about 71% higher. Thus, employees receive a stronger incentive to focus on loan volume and potentially focus less on credit quality, for those loans where liability for loss is being partially transferred away from the bank. This suggests that banks should review their compensation practices, and be prepared to communicate to regulators and investors who purchase loans about these practices. Regulators and investors may need to pay closer attention to the compensation policies of banks, and may even consider creating policies regarding the compensation of employees who originate not only mortgages, but any kind of loan that is being sold and securitized, or where recourse is being transferred.

Causality between Foreign Currency and Equity Markets of Singapore and Thailand: Evidence from Post-Crisis Daily Data

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This paper investigates the causality between foreign currency and stock markets of Singapore and Thailand by using high frequency daily data from January 3, 2000 through December 28, 2007. A conventional autoregressive model with its reverse specification is implemented (Granger, 1988). The evidences on short-run causality between foreign currency and stock markets of both countries are bidirectional with interactive feedbacks.