Determinants of U.S. Equity Flows to Brazil

Joseph J. French

This research investigates the impact of global and financial variables on American equity flows to Brazil. Portfolio flows to Brazil increased 159% in 2009. This rapid increase of foreign investment prompted the Brazilian government to impose a 2% tax on some types of foreign portfolio investment. This paper dissects the factors that predict U.S. equity flows into Brazil. Consistent with existing literature on other countries, this research finds that U.S. equity flows follow high local market returns. It is further documented that U.S. equity flows to Brazil are negatively related to returns on the S&P 500 and U.S. prime interest rates. Finally, this paper uncovers two new variables that predict equity flows to Brazil: 1) an increase in the Brazilian equity market volatility negatively forecasts U.S. equity flows to Brazil; and 2) increases in commodity prices positively predict U.S. investment in Brazil where a 1% increase in commodity prices predicts a 0.5% increase in U.S. purchases of Brazilian equities as a percentage of market capitalization.

Strategic Trade Policy with Generalized Social Welfare Functions

Sudesh Mujumdar and Mark D. White

This paper investigates the conduct of strategic trade policy when the government maximizes a generalized social welfare function with variable weights on profit and consumer surplus. We find the unexpected result that increased emphasis on either will tend to favor the use of the subsidy rather than the tariff.
Governance, CEOs’ Compensation, and Risk Management

Xiaolou Yang

This study tests the causal relations of bank governance structure, CEO compensation, and bank risk-taking investments. The empirical results show that CEO incentive compensation is higher when the CEO is also the board chair; the CEO’s ownership stake is bigger; and the number of outside blockholders is larger. The managerial incentive compensation is a decreasing function of CEO tenure and the percentage held by outside blockholders. Furthermore, the results show that CEO incentive compensation is positively related with bank risk, security underwriting, mortgage investment, and total loan write-offs. These findings suggest that the weightings of the board and ownership variables in the compensation equation are related to the effectiveness of banks’ investment strategies and performance.

Does the Valuation of the Target’s Market Matter?
Evidence from Cross-Border Acquisitions by U.S. Firms

Jeffrey M. Coy

Most cross-border transactions by U.S. firms occur when the target’s market is in a period of high valuation. In this study, I show that timing of cross-border acquisitions by U.S. firms can have a positive impact on announcement returns and on two-year buy-and-hold returns if the acquisition occurs during a period of low market valuation in the target’s country. During such periods, abnormal announcement returns and the two-year buy-and-hold abnormal returns are significantly higher than when the acquisition is made during periods of high target market valuation. The implication is that if a short difference in acquisition timing—a month or less—can have a significant impact on the value of the firm, then timing should always be given serious consideration.
Executive Compensation, Ownership Structure and Firm Performance in Chinese Financial Corporations

Yongli Luo and Dave O. Jackson

Executive compensation in the U.S. banking industry has been criticized as a root cause of the recent financial crisis. This study examines the relationship between executive compensation, ownership structure, and firm performance for Chinese financial corporations during 2001-2009. The results reveal that executive compensation in Chinese banks follows a relation-based rather than a market-based contract. There is little evidence in support of the pay-for-performance setting for Chinese executive compensation. Ownership concentration has significantly negative impacts while firm size has significantly positive impacts on CEO compensation. Further, the involvement of state ownership tends to limit executive compensation, while the compensation committee is friendly and enhances management compensation. The results suggest that the government or regulation may ensure efficient corporate governance in business activity as a helping hand when corporate governance is weak.

The Direction of Foreign Direct Investment and International Migration between Developing and Developed Countries

Sang Kyun Kim and Aditya Simha

Despite much research on foreign Direct Investment (FDI), there is seemingly a paucity of research on how international migration is related to inward and outward FDI. Focusing on the macro-level process, this article provides a theoretical rationale that accounts for the flow of FDI between a developing country and a developed country in a different stage. Specifically, we propose that international migration between the developing country and the developed country is increased by inward FDI which causes outward FDI consequentially; moreover, the difference in level of economic development between two countries exogenously influences the relationship. Our article contributes to the literature in the FDI field by providing a causal inference between inward/outward FDI and international migration.
Improving Congeniality in the Bangladesh Stock Market

Matiur Rahman, Prashanta K. Banerjee, and Mohiuddin Siddique

The principal objective of this study is to understand the current status of the equity market in Bangladesh by qualitatively analyzing the survey data. In the process, the obstacles to congeniality in this market are reported and identified. Also, a host of remedial measures are reported as suggested by the respondents. The most important finding is that the Bangladesh equity market has the potential to entice portfolio investment in larger volumes by enhancing an investor friendly environment.