

ABSTRACTS**1. SKEWED CURRENCY RETURNS AND THE PRICING OF CURRENCY OPTIONS**

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ABSTRACT

In option pricing, skewness in a binomial process impacts the values of the up and down parameters and changes their asymptotic properties such that for a large number of subperiods, they depend on the variance, skewness, and mean. In this paper, we present empirical evidence showing the significance of skewness when currency prices are increasing and decreasing. We next illustrate how the Johnson, Pawlukiewicz, and Mehta skewness-adjusted model can be used to calibrate a binomial tree for increasing and decreasing exchange rate cases in which the end-of-the-period distribution is characterized by skewness. We then show the spot currency option price differences between the skewness-adjusted binomial model and the traditional binomial option pricing model. This is verified using simulations in which there is an expectation that the underlying exchange rate will be increasing or decreasing and also from sample of several historical periods when such trends were extant.

2. A COINTEGRATION ANALYSIS OF THE LONG-RUN MONEY DEMAND IN CFA ZONE COUNTRIES

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ABSTRACT

This paper examines the existence of a long-run equilibrium relationship between the broad measures of monetary aggregates (M1 and M2) and their basic determinants in CFA zone countries using time series data (1970-2010). The existence of a stable long-run aggregate money demand function is crucial for an effective conduct of monetary policies. Hence, the results from a unit root testing of the time series and cointegration analysis provide evidence of a stable long-run equilibrium aggregate money demand M1 for Gabon and Senegal, as well as a stable long-run aggregate money demand M2 for Cameroon, Cote d'Ivoire, Gabon and Senegal. Moreover, the estimated coefficients of the error correction model for both monetary aggregates reveal the slow and persisting nature of monetary disequilibrium conditions in CFA zone economies. Such low adjustment rates towards long-run equilibrium relationship, from disequilibrium conditions in previous periods are probably inherent to the CFA monetary and exchange rate policies, which require all member states to maintain in their operating account with their regional bank at least 65% of their foreign exchange reserves as a guarantee of the convertibility of the CFA with other nations' currencies by France, and an additional 20% as an insurance coverage against international financial liabilities. These high required reserves, relative to their foreign exchange reserves, undermine their ability to conduct their own national monetary policies.

3. DETERMINANTS OF CORPORATE GOVERNANCE AND EQUITY RETURNS: EVIDENCE FROM THE THAI MARKET

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ABSTRACT

This study demonstrates the effects of determinants of corporate governance on the equity returns of firms listed on the Stock Exchange of Thailand from 2000 to 2008, a period when Thailand was accelerating the adoptions of corporate governance. The main contribution of this paper is the discovery of significant abnormal returns (alpha) in the portfolios of firms that adopted corporate governance characteristics. Specifically the portfolios of firms that have separated chairmen and CEOs, the firms that have corporate governance committees, and the firms that have nomination committees create significant abnormal return to investors. The study of equity performances is also conducted on two dimensions – firm sizes and book-to-market ratio. The analysis reveals that although the small firms generally enjoy higher abnormal return, the effects of corporate governance are even more pronounced than the big firms. The same is true for high book-to-market firms. The effects of corporate governance have more impact on them than on the low book-to-market firms.

Keywords: Thailand, corporate governance, equity returns, firm performance

4. CONFLICTS OF INTEREST IN VENTURE CAPITAL-BACKED IPO FIRMS

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ABSTRACT

In this paper, we study the potential conflicts of interest in venture-backed entrepreneurial companies at the IPO stage. In particular, we focus on the conflicts between venture capitalists and other pre-IPO investors. Our study proposes several potential conflicts of interest, including ownership conflict, liquidity conflict, strategic-objective conflict, grandstanding conflict, and self-dealing conflict. This paper can serve as a conceptual framework to guide future empirical investigation of the potential conflicts of venture investors in IPO firms and to derive policy implications for more disclosure on IPO procedures by venture investors, as well as implications for firm strategy.

Keywords: Corporate Governance, Venture Capital, IPO Firms, Conflicts of Interest

5. INTERNAL AUDIT OUTSOURCING: EFFECTS ON OPERATIONAL EFFECTIVENESS AND FIRM STABILITY OF THAI-LISTED FIRMS

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ABSTRACT

The purpose of this study is to investigate the effects of internal audit outsourcing on firm stability via the mediating influences of operational effectiveness which include competitive advantage management, audit effectiveness, and corporate governance achievement. Employee competency insecurity, diversity of stakeholder needs, and internal control involvement are hypothesized to

become the antecedents of internal audit outsourcing. Also, change awareness is the moderating variable of the relationship between internal audit outsourcing and operational effectiveness. Data was collected from 475 listed firms in Thailand. Questionnaire was used to analyze by the Ordinary Least Squares (OLS) regression analysis. The results of OLS regression analysis reveal that internal audit outsourcing has a positive influence on all operational effectiveness. In addition, competitive advantage management, audit effectiveness, and corporate governance achievement have a positive effect on firm stability. Moreover, competitive advantage management has a positive significant with audit effectiveness, meanwhile, audit effectiveness also has a positive significant with corporate governance achievement too. Three antecedents: employee competency insecurity, diversity of stakeholder needs, and internal control involvement also have a positive effect on internal audit outsourcing. Additionally, change awareness shows partially positive supported effects on internal audit outsourcing and operational effectiveness. Finally, contributions, suggestions for future research, and conclusions of this study are presented.

Keywords: *Internal Audit Outsourcing; Operational Effectiveness; Firm Stability; Change Awareness*

6. THE RELATIONSHIP BETWEEN THE BOVESPA INDEX AND THE RATE OF RETURN OF MARFRIG, CREMER AND ANHANGUERA BRAZILIAN COMPANIES THAT BELONG TO NEW MARKET

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ABSTRACT

With the evolution of the markets, especially as of the globalization process, investors started demanding more detailed information about the quality of the investments carried out by companies. The transparency and solidity of the information published by companies become essential elements, so that notorious cases of financial scandals or bad corporate governance cases do not occur again. Such practice not only contributes towards the reduction of problems with information asymmetry, but would also enable investors to calculate more accurately the capital cost of their transactions. In this paper, we introduce the main characteristics of corporate governance and the results of a research that analyzes the performance of the rate of return of stock prices of three Brazilian companies – Marfrig, Cremer and Anhanguera – after the inclusion of their stocks in BOVESPA's Corporate Governance Index (IGC). The outcome of the study shows a non conclusive result about the positive price variation of the companies which adopted BOVESPA's New Market regulation related to corporate governance practices. A significant increase in the rate of return for researched stocks companies followed by a risk reduction calculated by stock beta was just confirmed in the case of Marfrig company.

Keywords: *Corporate Governance; Beta; Risk and Return*

7. ERRORS IN AUDITED FINANCIAL STATEMENTS AND RESTATEMENT: EVIDENCE FROM BRAZIL

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ABSTRACT

The main objective of this study was to analyze the pattern of accounting events that signals error in audited financial statements and resulted in restatement in Brazil during the periods of 2000-

2009. The study which is characterized as interpretative, borrows a leaf from the contexts studied by academics and practitioners worldwide by reflecting upon the phenomenon of restatement through narrative approach. The study identified that 2008 restatement was comprised of 3rd Quarterly Financial statement reporting, motivated by errors in reporting financial instruments (derivatives, swaps, hedges) interpreted wrongly by companies with incorrect policies or have had lukewarm attitude on their treatment. This made up of approximately 43% of the restatements listed during 2000-2009. There was also evidence from our study that shows that restatements had institutional causality. Others were organisational accounting policies, tax contingencies, risk assumptions, items treated as others, to mention just a few. With the trend of things, evidence suggests that the financial reporting environment — securities regulators, independent auditors, the security markets themselves appear to be successfully causing firms who are caught in violation of financial accounting rules to reform their financial reporting policies through restatement. We arrive at this conclusion as a result of the perceived increase of restatement generated recently.

Keywords: Accounting Errors, Audited Financial Statement, Restatement Brazil

8. UNTANGLING THE RELATIONSHIP BETWEEN INFLATION CONTROL AND ECONOMIC/NON-ECONOMIC VARIABLES

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ABSTRACT

This research extends the concept of price stability by examining inflation control levels through the lenses of both economic and non-economic variables, with particular emphasis on central banks' characteristics. The analyzed sample consists of eighty three central banks/countries. Using a series of diagnostic tools including descriptive statistics, correlations, and a linear regression analysis, this paper affirms a significant relationship between inflation control levels and several economic determinants, as well as with the size of the central bank in terms of its total assets. The findings also highlight a variation of inflation control levels among countries at different development stages. Moreover, this study shows a significant relationship between inflation control and IMF lending. From a practical standpoint, this paper attempts to provide regulating bodies, especially central banks, with a non-economic perspective on the control of inflation. It is intended to draw attention to several non-economic factors not yet widely studied, such as the characteristics of the central bank, and how they play a significant role in determining inflation control levels.

Keywords: Inflation Control, Characteristics of Central Banks, Economic Indicators, Non-Economic Indicators, Central Banks

9. LAYOFF ANNOUNCEMENTS, CEO OPTION AWARDS AND SHAREHOLDINGS

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ABSTRACT

This study investigates whether CEOs of firms announcing layoffs manage the timing of option award dates or the timing of layoff announcements by examining abnormal stock return surrounding layoff announcements and option award dates based on the interval between layoff announcements (L) and option award dates (A), and examine the effect of economic state on managerial opportunism. Our finding provides further evidence that CEOs of firms announcing

employee layoffs are more likely to receive stock options in advance of value-enhancing layoff announcements and subsequent to value-destroying layoff announcements. Moreover, our findings imply that if CEOs who announced layoffs during 1997 and 2006 sell substantial amounts of shares received from option awards, they may receive abnormal positive return within 60 days following option award date. Our results offer strong support to previous findings of managerial opportunism of layoff firms.

Keywords: CEO stock option awards; Layoff

10. REAL EXCHANGE RATE STABILITY AND ADJUSTMENT FOR NON-EURO EUROPEAN UNION COUNTRIES

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ABSTRACT

For a common currency area to be viable, real exchange rate shock variability must be low, the adjustment to real exchange rate shocks should be fast and monetary policy must be coordinated. This paper examines these three conditions for the ten non-euro European Union countries. The results of this paper find that none of the countries satisfy all three conditions. Denmark had a relatively stable real exchange rate with the euro and adjusted to the real exchange rate shocks however monetary policy coordination had recently declined. For Latvia and Lithuania, the other two participates in the ERM II, the support gained from reduced real exchange rate variability was offset by persistent real exchange rate shock impacts and declining monetary policy coordination. For the remaining seven countries that are not included in ERM II, the results indicate without greater monetary policy coordination and economic integration, continuing a flexible exchange rate will minimize distortions in the markets.

Keywords: euro, real exchange rates, monetary union, common currency, European Union

11. ON THE COMPLEMENTARITY OF BANKING SECTOR AND STOCK MARKET DEVELOPMENT ON ECONOMIC GROWTH

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ABSTRACT

This paper investigates the relationship between the relationship between stock market development and economic growth in case of a small island economy namely Mauritius. The data set covers half annual times series data from 1989 to 2010. After testing that the variables in use in the model were both $I(0)$ and $I(1)$, the ARDL framework was employed to investigate long-run causal linkages and short-run dynamics respectively. Our findings suggest that there exists a strong relationship between stock market development and economic growth both in the short run and long run

12. DIVERSIFYING INVESTMENTS IN STOCKS: RESULTS SLIGHTLY NAÏVE

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ABSTRACT

This paper, based on the ideas that the superior moments represent the behavior of the investor in front of risk situations, and that the selection of portfolios based on the asymmetry, presents itself as hard to execute for the investor, proposes itself to investigate if the income earned through the naive diversification, justify its use in front of the use of the asymmetry based in the multi-objective model proposed in Lai (1991). Of hard execution, the selection models of portfolios based in the asymmetry, seek to determine the best portfolio. On the other side, the naive diversification $1/n$, of easy execution, is present in the diary activities realized by humans. Selecting two groupings of stocks, all the São Paulo's Stock Exchange belongings (BOVESPA), the empiric data indicated better performance in terms of returns obtained and asymmetry to the Lai model (1991) in the two grouping of stocks.

Keywords: portfolios selection; asymmetry; naïve diversification

13. EXPLAINING THE STOCK RETURNS THROUGH THE CAPM AND MULTIFACTORIAL MODELS FOR THE AIR TRANSPORT SECTOR OF BRAZIL

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ABSTRACT

The discussions of the most efficient method to be used in order to analyze the behavior of several factors, among them the stock prices in the money market, are constant nowadays. Finding the best way to estimate a model requires a theoretical study on the different estimation methods, as well as the practical accomplishment of statistical tests using programs which are specific for that purpose. This work consists in analyzing whether a multifactorial model which uses only economically relevant variables is more efficient than a model with just one variable, such as the CAPM in explaining the behavior of stock prices of Brazil's air transport companies. Thus, statistical tests using the SPSS program were carried on in order to test the efficiency of a multifactorial model which takes into account variables such as the GDP, petrol, dollar, stock exchange, inflation, selic and prime in face of the CAPM model which makes use of just one variable. The results suggest that, for the period considered, from 2000 to 2010, with annual data and taking into account the insertion of such variables in the model, it is not possible to state that the multifactorial model explains the behavior of the stock prices of the air transport sector more efficiently than the CAPM model. However, this is not a conclusion which can be generalized. It may be that, for a distinct sector analyzed, a greater data interval or a set of different variables, the multifactorial model is a more efficient model to explain the behavior of the stock prices.

Keywords: CAPM Model, Multifactorial Model, Air Transport Sector, Multivariate Analysis, Return

14. USING VISUALIZATION OF MUTIVARIATE DATA TO GAIN INSIGHT FOR STATISTICAL ANALYSIS

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ABSTRACT

Discovering factors that influence the stock prices and relationships among them is difficult and complicated. Many researchers believe that representing data visually should improve business analysis and decision-making. In this paper, we apply Scatter Plot Matrices, Parallel Coordinates to visually explore a multivariate stock market and financial time series data set to gain insight about the relationship among variables before using regression analysis and a neural network model.

Keywords: *Visualization, Multivariate Data, Neural Network*

15. P&L INSURERS' SECURITY OFFERINGS: A NEW EVIDENCE

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ABSTRACT

This paper presents an empirical investigation of property-liability insurers' recapitalization behavior and the valuation effect of their securities offerings after the industry-wide capital shock, September 11 attacks. The valuation effect is measured by the stock price response to announcements of impending security issues. The result demonstrates that the announcement of securities offerings by property-liability insurers after unexpected catastrophic events significantly reduces the stock price, but to a less extent than industrial firms and commercial banks, but to a more extent than insurers during the period from 1977 to 1992. The cross-sectional analyses suggest that after September 11 attacks market reacted positively to large new issues and negatively to insurers who have larger internal capital stocks and high market-to-book ratios. Poor financial quality insurers appear to be constrained.

Keywords: *Property-Liability Insurer, Securities Offerings, Valuation Effects, September 11 Attacks*
