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***J**ournal of **A**pplied **E**conomic **S**ciences*

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The special issue contains papers selected from the *International Conference* organized by the *European Research Centre of Managerial Studies in Business Administration* (www.cesmaa.uv.ro) and *Faculty of Financial Management Accounting Craiova* in each October of every academic year. There will prevail the papers containing case studies as well as those papers which bring something new in the field. The selection will be made achieved by:

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Table of Contents

ON THE DETERMINANTS OF INTERNATIONAL FINANCIAL INTEGRATION IN THE GLOBAL BUSINESS AREA

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Abstract

Through this article we aim to shed light on the determinants of international financial integration in the current global finance area. We tell de jure indicators and de facto indicators apart and seek to assess the marginal explanation power of global (common) factors. Several measures of international financial integration are discussed and tested on both developed markets and the major emerging markets over the period 1988 to 2008, using a dynamic panel methodology. Our findings show that socioeconomic stability, trade openness, local investment, budget surplus, financial development and growth opportunities leads international financial integration. Furthermore, we ascertain the marginal explanation power of the global factors in the sustained rising IFI. Indeed, world interest rate, world economic situation and world PER are a prime determining factors. Our results corroborate recent empirical theory as well as provide a potential usefulness for international portfolio managers and for domestic governors aiming to improve their attractiveness indices.

Keys words: financial integration, international trade, asset–liabilities, FDI, common factors, Dynamic Panel

JEL classification: F02, F15, F21, F3, F4

DO CAPITAL MARKETS VALUE EARNINGS AND CASH FLOWS ALIKE? INTERNATIONAL EMPIRICAL EVIDENCE

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Abstract

In this study we examine empirically the value relevance of earnings and cash flows in three major capital markets, two Anglo–Saxon, the UK and the USA and one code law country, France. Our dataset consists of more than 41,000 USA, UK and French firm–year observations over a nine year period. Multivariate statistical regression analysis is undertaken to test the major research hypotheses. Results show that the value relevance of earnings and cash flows is country specific. Specifically, results indicate that earnings are valued more in France and less in the Anglo–Saxon countries, due to the fact that the financial reporting in the Anglo–Saxon countries is less conservative and managers may manipulate easier financial information. Moreover, as hypothesized, results show *that cash flows are the most (least) value relevant in the USA and the UK (France). In summary, results support that there are substantial differences in the way investors and financial analysts perceive earnings and cash flows in the UK, France and the USA. The results of this study should be of great importance to the major stakeholders such as investors, creditors, financial analysts, especially after the recent global financial crisis and the latest collapses of colossal organizations worldwide.*

Keywords: capital markets, earnings, cash flows, France, empirical

JEL Classification: G14, G15, G30

PORTFOLIO OPTIMAL CHOICE UNDER VOLATILITY AND PRICE RISK IMPACT APPLIED TO DERIVATIVE TRANSACTIONS

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Abstract

The idea that derivatives can complete the market and increase the efficiency of the portfolio has been debated for a long time in the literature of specialty. Our contribution in this study is to build upon these intuitions and to choose an explicit case for a realistic model of the incomplete market with a realist set of derivatives. In particular, we push the existent intuition a step forward, asking ourselves: which are the optimal dynamical strategies for an investor to control not only his holdings, but also the derivative ones? Which is the benefit resulted from the inclusion of the derivatives? We ask these questions focusing on two specific aspects of the incomplete market that have been very good documented in the empiric literature for the aggregated stock market: the stock volatility and the price jumps. In a specific way, we adopted an empiric realistic model for the aggregated stock market that includes three types of risk factors: the risk of the impacts of the prices' diffusion, the risk of the prices jumps and the volatility risk. Considering this condition of the market as already given, we resolve the dynamic allocation problem (Merton 1971) of an investor with a large utility of which opportunity of investment includes not only the risky stock and the usual bonds without risk, but also the stock derivatives.

Keywords: financial modelling, optimal portfolio choice, dynamic asset allocation, derivative, stochastic volatility, diffusive price shocks risk, price jumps risk, volatility risk

JEL Classification: C52, C61, G11, G12

THE PROBLEM OF MONEY ILLUSION IN ECONOMICS

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Abstract
Money illusion in economic theory has been an assumption rejected by academic economists for quite some time. However, with the gradual diffusion of behavioural economics based on experimental research this has changed. Now, it has become a respected fact to accept money illusion as a stylized fact of human behaviour. However, it still needs a better understanding why monetary phenomena especially related to financial markets play an important role in understanding the real economy, the production, consumption and exchange of commodities and services. Financial markets in comparison to goods markets are particular engaged in intertemporal valuation problems which are common to any kind of economic activity. Since money is the unit of account, accounting problems related to the uncertain nature of future economic development makes a continuous readjustment of valuations in money units necessary. However, as Minsky has pointed out financial markets are imperfect. Because of these imperfections even significant long–lasting valuation problems emerge. One reason is that in mainstream economic reasoning the problem of intentional cheating of market participants is ignored causing false valuations. Furthermore major innovations like e.g. the ICT revolution with the Internet or the introduction of securitization as a means to redistribute risk as general purpose innovations make valuations of long term to medium term impacts of these innovations on the economy extremely difficult. Recent financial market bubbles are significantly related to such general purpose innovations. If monetary policy fails to control for irrational exuberance of investors about the future benefits and profits of such innovations, this inherently embodies the risk of a financial market shock, if expectations of the general public have suddenly to adjust after overoptimistic prediction about the future economic development.

Keywords: money illusion, imperfect financial markets, regulatory failure, behavioural finance

JEL Classification: G01, G17, G18, G28

ESTIMATION AND DECOMPOSITION OF TOTAL FACTOR PRODUCTIVITY GROWTH IN THE EU MANUFACTURING SECTOR: A LONG RUN PERSPECTIVE

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Abstract
In this paper the Stochastic Frontier approach was used for the estimation and decomposition of manufacturing TFP growth in 14 EU member countries, drawing upon the EU–KLEMS database. This study identifies some key issues: in the period 1970–2005, the TFP rate of change in the EU manufacturing sector constantly decreased, mainly due to the reduction in technical efficiency and, to a lesser extent, to the decline in the rate of growth of input factors and allocative efficiency. In the same period, the sector recorded considerable technical progress, which, nonetheless, did not offset the negative forces which pulled the EU TFP growth down, especially in the last decade of the sample period.

Keywords: stochastic frontier, Total Factor Productivity, technical efficiency, technical change, allocative efficiency

JEL Classification: D24, O47, C33

FINANCIAL AND REAL SECTOR INTERACTIONS: THE CASE OF GREECE

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Abstract

In this study we try to detect the relationship between financial and real sector employing in the estimation procedure the recent time–series techniques of co–integration, vector error–correction modelling and Granger multivariate causality. We contribute to the existing literature by using for the first time a number of financial and economic variables for the case of Greece for the time period 1960–2005. Our empirical results reveal that the linkage between financial and real development is relatively weak in Greece and real sector plays the major role in the evolution of the financial system. The latter seems to promote growth only by increasing its competitiveness.

Keywords: financial sector, real sector, Greek banks

JEL Classification: E5, G0

GUIDELINES FOR PROMOTING SCIENCE, TECHNOLOGY AND TECHNICAL–SCIENTIFIC CREATIVITY, BY ANALYZING THE COMPANIES' PERFORMANCES, IN THE CONTEXT OF THE GLOBALIZED ECONOMY

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Abstract

On account of the way in which the technologies of the information society accelerate the scientific development, as well as the crucial importance of science for the development of the knowledge–based society, this article aims at enlarging upon the importance of science for the economic and social development. It is strong evidence the fact that the technical–scientific progress represents a priority for each country and for humankind, in general, as their future depends essentially on solving some fundamental problems, such as, creating new sources of energy, exploiting the huge resources of seas and oceans, the systematic modernization of techniques and technologies used, the protection of the population's health, the protection of the environment etc. Under these circumstances, it is necessary to study and know the guidelines for promoting science, technology and contemporary technical progress, as the first steps towards their engenderment, assimilation and embedment in the economic–social practice.

Keywords: globalization, new economy, technical–scientific progress, economic performance

JEL Classification: F00, O14, O30, M15, L25

MANAGEMENT OF STOCK PRICE AND ITS EFFECT ON ECONOMIC GROWTH: CASE STUDY OF WEST AFRICAN FINANCIAL MARKETS

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Abstract

This paper investigates the statistical properties of stock returns in the West African regional stock market and the link between the West African regional stock market and economic growth. To examine the nature of the distribution of West African regional stock returns, the daily closing prices of the two stock index of West African regional stock market, and eighteen of it sub–indices were utilized. Nine years data from 1998 to 2007 interval were employed. The analysis of our study shows that the distribution of the West African regional stock market returns is non–normal and non–i.i.d (independent, identically and normally distributed). The linear and non–linear dependencies in the returns appeared to be the main reasons for the data being non–i.i.d. The study also demonstrates the presence of the day–of–the–week effect in West African regional stock market.

Keywords: West Africa regional stock markets, day of the week effects, economic growth

JEL Classification: C52, E44, G15, N27, R11

THE MONETARY ORIGINS OF THE ECONOMIC AND FINANCIAL CRISIS

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Abstract

The global economic situation suddenly worsened in the fall of 2008 and output expansion was negative almost everywhere for 2009. Fluctuation analysis has shown that most of the financial crises and recessions of the past were triggered and worsened by inadequate monetary policies. For our times, the monetary policy played a significant role in the development of the events through its responsibility in the outbreak of the financial crisis.

All together, the monetary policy, especially the American one, can be blamed for the remote role (2002–2004) it played in the creation of the speculative bubble which led to a financial crisis. It also has a part of the responsibility through its restrictive direction during the 2004–2006 period; this time, a direction shared by other central banks. Finally, it is more immediately involved through its lack of clear–sightedness and responsiveness in the first months of the recession.

Keywords: monetary policy, interest spread, Taylor Rule, financial crisis, recession.

JEL Classification: E 62

PUBLIC DEBT AND ECONOMIC GROWTH IN THE EUROPEAN UNION

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Abstract

The main aim of the article is to present the relationships between public debt and economic growth in the European Union in the period 2000–2010. The article consists of two parts. The first part deals with theoretical analysis of the relationships between public debt and economic growth, including reasons and factors determining these relationships. In the next part of article, there are examined the relationships between public debt and gross domestic product in the EU by using the Vector Autoregression Model (VAR). There are estimated elasticity coefficients of public debt to GDP and elasticity coefficients of GDP to public debt on the base of impulse response function. Then, there is made variance decomposition of the public debt and GDP in order to assess the impact of these factors on the variability of GDP and public debt respectively.

Keywords: public debt, budget deficit, economic growth, crowd–in effect

JEL Classification: H6

Call for papers
Journal of Applied Research in Finance

Published two times a year, the journal is the official publication of *The European Centre of Managerial and Business Studies*, academic organization devoted to the study and promotion of knowledge about financial economics. The journal has been established in year 2009 as a descendant to *Journal of Applied Economic Sciences* (JAES). Two issues are published per volume. All articles and communications are available online for free. Printed copies can be ordered at a cost. The editors maintain classic *double blind peer review* procedure aiming at high academic standards but at the same time emphasize dynamic referee process so that the journal tracks scientific progress in real time.

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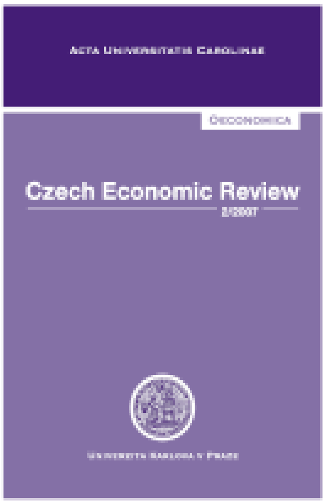

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