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Phone: +40 251 598265 Fax : + 40 251 598265
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*J*ournal of *A*pplied *R*esearch in *F*inance

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

The intention of the *J*ournal of *A*pplied *R*esearch in *F*inance is to provide an outlet for innovative, quantitative research in financial economics which cuts across areas of specialisation, involves transferable techniques, and is easily replicable by other researchers. Contributions that introduce statistical methods that are applicable to a variety of financial problems are actively encouraged. The Journal also aims to publish review and survey articles that make recent developments in the field of theoretical and applied finance more readily accessible to applied economists in general.

*J*ournal of *A*pplied *R*esearch in *F*inance publishes high-quality research on all aspects of financial economics, including traditional areas such as asset pricing, corporate finance and market microstructure, as well as new areas such as markets and institutions of emerging markets. The journal welcomes contributions that deal with international issues or issues related to specific countries. Also *J*ournal of *A*pplied *R*esearch in *F*inance aims to publish articles of high quality dealing with the application of existing as well as new econometric techniques to a wide variety of problems in financial economics and related subjects, covering topics in measurement, estimation, testing, forecasting, and policy analysis. The emphasis is on the careful and rigorous application of econometric techniques and the appropriate interpretation of the results. The economic content of the articles is stressed.

*J*ournal of *A*pplied *R*esearch in *F*inance is indexed in EBSCO, IndexCopernicus, and CEEOL databases.

*J*ournal of *A*pplied *R*esearch in *F*inance appeals for experienced and junior researchers, who are interested in one or more of the diverse areas covered by the journal. It is currently published bi-annualy with two general issues in Summer, and a special one, in Winter.

The special issue contains papers selected from the International Conference organized by the *European Research Centre of Managerial Studies in Business Administration* (CESMAA) 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:

- Conference Session Chairs;
- Editorial Board Members.

The *J*ournal of *A*pplied *R*esearch in *F*inance invites paper submissions on issues related but are not limited to:

- Monetary Economics,
- Money and Interest Rates,
- Monetary Policy, Central Banking, and the Supply of Money and Credit,
- Macroeconomic Aspects of Public Finance,
- International Finance,

- Macroeconomic aspects of Finance,
- General Financial Markets,
- Financial Institutions and Services,
- Corporate Finance and Governance,
- Taxation, Subsidies, and Revenue,
- Fiscal Policies and Behavior of Economic Agents,
- Public Finance,
- Behavioral Finance.

Submissions to *Journal of Applied Research in Finance* are welcome. The paper must be an original unpublished work written in English (consistent British or American), not under consideration by other journals.

Invited manuscripts will be due till October 15, 2010, and shall go through the usual, albeit somewhat expedited, refereeing process.

Schedule

Deadline for Submission of Papers:	15th October 2010
Expected Publication Date:	November (e-version) – December (hard-copy) 2010

E-mail: jarf_secretary@yahoo.com
Cc: jaes_secretary@yahoo.com

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IMPACT OF FOREIGN CAPITAL ON ECONOMIC GROWTH IN INDIA: 1992 – 2009

Anand **BANSAL**
Punjabi University Guru Kashi Campus, **India**
preetmillie@yahoo.com
J.S. PASRICHA
Punjabi University Patiala, **India**
jspasricha1@rediffmail.com

Abstract

Generally, it is not possible for a developing country like India to grow without sufficient import of capital because of the gaps exist in domestic savings and capital requirements. During the initial stages of development, domestic savings are normally not adequate to finance the development projects required to achieve faster economic growth. Globally strong consensus has emerged that the achievement of more dynamic economic growth requires a greater role of the foreign capital. There are many forms of the foreign capital inflows including Official Aid, Commercial Borrowings, Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). There was a surge in foreign capital flows into India after 1992–93, because of drastic changes in India's policies regarding the FDI and FPIs. Since then Government of India have been relaxing capital control measures and taking large number of policy decisions towards the improvement of local financial infrastructure. Because of this, foreign capital has become an integral part of the development strategy of India. The main objective of the present study is to investigate the impact of foreign capital (FDI and FPIs) on economic growth of Indian economy during the period 1992–2009.

Keywords: economic growth, foreign capital inflows, foreign direct investment, foreign portfolio investment

JEL Classification: O16, G10, F21, F43

INSURANCE REGULATION AND THE CREDIT CRISIS. WHAT'S NEW?

Gustavo **FERRO**
Instituto de Economía UADE and CONICET, Buenos Aires, **Argentina**
gferro@uade.edu.ar; gferro05@yahoo.com.ar

Abstract

Prior to the 2008 global credit crisis, some developments had occurred in the regulation of the insurance industry worldwide. At different speeds, the world was heading toward a more risk-based solvency regulation and some convergence on principles and criteria.

We see a common thread in the present discussion and in the way events happened. We consider that the great debate in the industry is a fundamental decision: whether to engage in other than core business activities. If the industry focuses on its insurance business, the argument for specialized regulation and the continuity of a conservative and prudent line of business is strong. Instead, if the industry deepens its identification with other lines of financial business, the specialized supervision arrangement does not hold. The move entails both possibilities of new, riskier and promising business, but also perils, since the industry "buys" the systemic characteristics that distinguish other financial institutions.

Keywords: regulation, insurance, financial crisis, integrated supervision, financial conglomerates

JEL Classification: L51, G22

MODELLING AND FORECASTING VOLATILITY OF EAST ASIAN NEWLY INDUSTRIALIZED COUNTRIES AND JAPAN STOCK MARKETS WITH NON-LINEAR MODELS

Francesco **GUIDI**
University of Greenwich, **UK**
Department of International Business
f.guidi@gre.ac.uk

Abstract

This paper explores the forecasting performance of several non-linear models, namely GARCH, EGARCH, APARCH, which further utilize three distributions, namely the Gaussian normal, the Student-t and Generalized Error Distribution (GED). In order to evaluate the performance of the competing models we used the standard loss functions such as the Root Mean Squared Error, Mean Absolute Error, Mean Absolute Percentage Error and the Theil Inequality Coefficient. Our results show that the asymmetric GARCH family models are generally the best for forecasting daily stock returns in the NICs countries. We also find that both Root Mean Squared Error and Mean Absolute Error forecast statistic measures tend to choose models that were estimated assuming the normal distribution, while the other two remaining forecast measures privilege models with t-student and GED distribution.

Keywords: GARCH; Volatility forecasting; forecast evaluation.

JEL Classification: C22, G15; G17.

THE EFFECTS OF REAL EXCHANGE RATE ON TRADE BALANCE IN COTE D'IVOIRE: EVIDENCE FROM THE COINTEGRATION ANALYSIS AND ERROR-CORRECTION MODELS

Drama Bedi Guy **HERVE**
Shanghai University**, China**
School of International Business and Management,
dramsiben@yahoo.fr/ hotmail.com
Yao **SHEN**
Shanghai University, **China**
School of International Business and Management
yaoshen56@163.com
Amzath **AMED**
Shanghai University, **China**
School of International Business and Management
amzath_ahmed@hotmail.com

Abstract

This paper investigates the effect of real exchange rate on the balance of trade of Cote d'Ivoire using multivariate cointegration tests and vector error correction models with time series data covering the periods of 1975-2007. Our investigation results confirm the existence of long-run relationships among Trade Balance (TB), Real Exchange Rate (RER), and foreign and domestic incomes for Cote d'Ivoire. Estimated results also demonstrate that the (RER) has a significant positive influence on Cote d'Ivoire's trade balance in both short and long-run under fixed real exchange rate management policies for the considering period. The Granger Causality test shows that the (RER) does Granger causes the trade balance then, based on the estimations, the Marshall-Lerner condition in Cote d'Ivoire's data is explored by utilizing the Impulse Response Function (IFR) which traces the effect of (RER) on the trade balance viewing the J-curve pattern.

Key words: real exchange rate, trade balance, cointegration test, VAR model, Granger Causality, IFR

JEL Classification: C22, C53, F17

MODELLING OF STOCK RETURN VOLATILITY

Taisei **KAIZOJI**
International Christian University, Mitaka, Tokyo, **Japan**
Department of Economics and Business
kaizoji@icu.ac.jp

Abstract

In this study, we investigate the statistical properties of the stock return volatility, defined as the absolute value of the logarithmic relative price changes. We show examples of power-law and of exponential-law for the volatility observed in the Japanese stock markets, and propose a stochastic model of stock markets inspired from physics to explore the empirical findings. In particular, we show that the model can naturally illustrate how power laws and exponential laws can arise.

Keywords: econophysics, share returns, share volumes, exponential law, power law, a stochastic model of stock markets

JEL Classification: G12

DOES THE SUBPRIME CRISIS AFFECT CREDIT DEFAULT SWAP MARKETS?

Nader **NAIFAR**
Institute of the Higher Business Studies (IHEC-Sfax), **Tunisia**
Nader.Naifar@fsegs.rnu.tn

Abstract

This paper investigates the impact of the Subprime crisis on the Credit Default Swap (CDS) market. The Subprime crisis presents a serious risk to global financial markets. The Japanese credit markets faces growing bank losses and a cruel market environment accompanied by a slowing economy and fluctuant equity prices. Using a daily dataset from the Japanese market covering the period from July 2007 to November 2008, we analyse the trends of CDS spread changes. We find that the CDS market has experienced a dramatic change since March 2008 and then CDS Spreads changes are regime dependent.

Keywords: subprime crisis**,** Credit Default Swap**,** Collateralized Debt Obligation.

JEL Classification: G00, G01

DID MARKET REFORM MAKE RISK EVALUATION ON JAPANESE FIRMS EASIER? AN EVIDENCE FROM CREDIT RATINGS [*]

Nobuyoshi **YAMORI**
Nagoya University, **Japan**
Graduate School of Economics
yamori@soec.nagoya-u.ac.jp
Yoshihiro **ASAI**
Josai University, **Japan**
Department of Contemporary Policy Studies
yasai@josai.ac.jp

Abstract

If other things be constant, more extensive and timely disclosure should result in more accurate evaluation of firm's risks. However, there is a lack of research that investigates how effective various reforms in disclosure regulation is in terms of evaluating corporate risks. This lack of research is mainly because there are not appropriate data sets and methodology to be used for empirical tests. We follow Morgan (2002) and investigate whether credit rating companies likely agreed on the evaluation on Japanese firms' risks after the financial and accounting Big Bang. If there are still large disagreements among credit rating companies, this fact suggests that the current disclosure is not enough for outsiders to evaluate firms, or that there is an inherent *limitation of disclosure usage. Also, we are interested in what sectors credit rating companies more often disagree on. Contrary to Morgan (2002), which pointed out that financial industries, such as banks and insurance companies, are difficult to evaluate, we failed to find that disagreements among credit rating companies over banks and insurance companies are larger than disagreements over other industries. However, consistent with Morgan (2002), we found that public utilities industry is easy to evaluate.*

Keywords: firm risk, credit rating companies, credit rating, financial markets

JEL Classification: L8, G21, G22, G24, G28

THE EFFECT OF ANNUAL EARNINGS ANNOUNCEMENT DELAY ON STOCK RETURNS

Xiaolou **YANG**
Youngstown State University, **USA**
Department of Accounting and Finance
Williamson College of Business
xyang@ysu.edu

Abstract

In this paper, I investigate the relationship between managerial annual earnings announcement delays and stock-return behavior surrounding their releases. The empirical results indicate that the pattern between announcement timing and stock returns persists. In particular, annual earnings announcement delay, on average, negatively affects stock market returns. Delayed disclosure of bad news is associated with a significant stock-return decline. On the other hand, stock markets reward the late disclosure that conveys good news. This study provides empirical evidences showing that information transaction delay, as proxy by earnings reporting lag, are associated with a smaller underreaction. This finding is consistent with the theory of conservatism in that the asymmetric underraction to good versus bad news appears to be consistent with the argument of exacerbated conservatism for market to full reveal on information.

Keywords: managerial disclosure, abnormal stock returns

JEL Classification: G12, G14