

ABSTRACTS**1. EXPECTED PURCHASING POWER PARITY, BUDGET IMBALANCES AND THE EURO-DOLLAR EXCHANGE RATE**

Bala Batavia, DePaul University, Chicago, USA
Nandakumar Parameswar, Indian Institute of Management, Kozhikode, INDIA
Cheick Wagué, South Stockholm University, Stockholm, SWEDEN

ABSTRACT

An expected relative PPP model, augmented by elements of a monetary model and by external influences, is used to track the path of the Euro-Dollar rate since the inception of the European currency.

Expected inflation rates, based on a specified formation process, are, indeed, seen to be significant determinants of the Euro exchange rate. While money supplies are not significant, interest rate differentials do matter; higher real Euro area interest rates appreciate the Euro.

US government budget deficits appreciate the Dollar with a lag, presumably due to financing capital inflows, but current account deficits do not have a perceptible influence in the period of the study. Oil price increases and higher international reserve holdings in major Asian markets, which may be skewed towards the dollar, also have no discernible impact on the Euro-Dollar rate.

Keywords: Budget imbalances, PPP-model, Euro-Dollar rate, monetary model.

2. THE INVESTMENT DIVERSION EFFECTS OF REGIONAL INTEGRATION: A NEW DIMENSION TO FDI THEORY

William L. Casey Jr., Babson College, Babson Park, Massachusetts, USA

ABSTRACT

Efforts to promote economic integration regionally, such as the E.U., have altered the flow of both international trade and international investments. Interestingly, the trade diversion effects of economic integration have attracted more attention in the scholarly literature than in the case of investment diversion effects. To date, refinements in foreign direct investment theory have not fully captured the impact of regional integration on FDI flows. Relatively poor members of regional arrangements, such as the Republic of Ireland in the E.U., have been using relatively favorable, internal labor market conditions and duty free access to large common markets as magnets in attracting disproportionately heavy FDI inflows, particularly in the area of manufacturing investments. This has the effect of diverting FDI away from countries without regional affiliations and from member countries with less favorable labor market conditions.

Keywords: Foreign Direct Investment (FDI), Multinational Companies (MNCs), Regionalization, Globalization, Industrial Policy, Investment Promotion Agencies (IPAs)

3. RISK AND RETURN IN THE PRESENCE OF HUMAN CAPITAL: SOME EVIDENCE

Shijin S, Indian Institute of Technology, Madras, INDIA
G Arun Kumar, Indian Institute of Technology, Madras, INDIA
Sanghamitra Bhattacharyya, Indian Institute of Technology, Madras, INDIA

ABSTRACT

This study examines the role of human capital along with other factors in predicting stock and bond returns. In addition we also check the influence of factors proposed by Fama and French (1992) along with human capital. We propose vector autoregressive model, Granger-causality tests and variance decomposition analysis to find the nature of relationship. Results of our analysis suggest that human capital is a significant factor in the prediction of stock returns. With the inclusion of human capital the explanatory power of the variables improves remarkably. Human capital has a significant causal relationship with stock returns; in the presence of Fama- French factors it shows a causal relationship with market risk. The results of the study will provide better insights to investors in understanding the risk return characteristics that exist among the factors which affect stock prices

Keywords: Capital Asset Pricing Model, Human Capital, Size, Value, Market risk

4. A STUDY ON CUSTOMS TAX COMPLIANCE FOR AGRICULTURAL PRODUCE WITH EXPERIMENTAL DATA

Jaisik Kim, Seowon University, KOREA
James McCullough, University of Puget Sound, USA

ABSTRACT

Since Customs tariffs are nearly the last policy means to protect the domestic agriculture, the Korean government has high concern about having taxpayers comply with customs taxes for agricultural produce. The major interest of this experimental research was to test the likelihood that increased tariff rate might be a motive to lower customs tax compliance and the effectiveness of policy means to increase customs tax compliance. According to the results, while customs tariff rates, fine rates, and probabilities of investigation appeared to impact customs tax compliance for agricultural produce significantly; actual transaction value and probability of audit were not significant.

Keywords: Customs Tax, Tax compliance, Agricultural Produce, Tariff

5. THE DYNAMIC EFFECTS OF AGGREGATE DEMAND AND AGGREGATE SUPPLY DISTURBANCES IN THE G-7 COUNTRIES

Dimitrios Tsoukalas, Purdue University- Calumet, Hammond, Indiana, USA

ABSTRACT

This paper examines the relative importance of the dynamic effects of aggregate demand, aggregate supply and money supply shocks in the G-7 countries from 1960 to end of 2004. The framework for the analysis is the structural vector autoregression model (SVR), in which long restrictions are imposed to identify these dynamics effects. Results indicate that in all G-7 countries shocks in aggregate demand, aggregate supply and money growth are mainly responsible for fluctuations. In particular, shocks in the nominal money supply and aggregate demand have an unambiguous effect on output. Shocks in the money growth is the main factor in explaining price variability.

Keywords: Structural VAR, AD/AS Disturbances, Impulse Response Functions, Variance, Decompositions

6. THE TERM STRUCTURE OF INTEREST RATES WITH REGIME SWITCHING

Adrian M. Austin, University of West Georgia, Carrollton, Georgia, USA

ABSTRACT

Closed-form, arbitrage-free, bond prices are developed for a short-term interest rate process that is assumed to follow a Markov regime switching process. The stochastic process allows two regimes for the short-term interest rate. One is a high mean/high volatility regime, and the other a low mean/low volatility regime. The model also permits a levels effect. These are features commonly found in empirical work. Closed form solutions are also provided for the transitional density of the short rate.

Keywords: Interest rates; Regime switching

7. A STRUCTURAL MODEL FOR DETERMINING FOREIGN CORPORATE TAX RATE

Yong Li, Chinese University of Politics & Law Beijing, P.R. CHINA

ABSTRACT

Whether China's current income tax rate for foreign-funded enterprises is appropriate has been a hot issue of debate among academics. Based on the comparison between China and selected countries, the author points out that the foreign corporate tax rate in China is lower than that of the most developing and developed countries, and calculates the balanced tax rate which should range between 18.7% and 20.4%. By producing a structural theoretical model grounded in investment return rate, tax rate and economic growth, the paper argues China should give up tax incentives to FDI and implement a feasible balanced tax, in order to prevent relatively FDI overflow, simultaneously, decrease the effect of FDI on stabilization of economic growth.

Keywords: Preferential Tax Policies FDI Economic Growth

8. ECONOMIC VALUE ADDED (EVA) AS THE MOST SIGNIFICANT MEASURE OF FINANCIAL PERFORMANCE: A STUDY OF SELECT INDIAN FIRMS

Anil Misra, Indian Institute of Foreign Trade, Delhi, INDIA
Kanwal Anil, Jaypee Institute of Information Technology University Noida, INDIA

ABSTRACT

The accounting based metrics are misleading measures of corporate financial performance as they are vulnerable to "accounting distortions". Major corporate failures like Enron, World Com etc. have brought to fore the malleability of these accounting based measures. Also, with the increasing participation of institutional investors in maturing stock markets the investment decisions are increasingly being based on intrinsic value. These lead steers go beyond the accounting shenanigans and are concerned with the real intrinsic value of the firm and not what the accounting based traditional measures of financial performance reveal. EVA framework that has overcome the limitations of the accounting based metrics is finding favour with these lead steers and is consequently expected to find a better reflection in the stock prices. The objective of this study is to find out whether EVA finds a better reflection in the firms' stock prices. If it does then EVA would emerge as the better measure of financial performance compared to the traditional accounting based measures. The hypothesis of this study is that of the seven chosen independent variables, EVA is the single most significant explanatory variable in explaining the variation in the Market Value Added as it finds a better reflection in the market value of the share. The above hypothesis is tested on the time series data of 'A group' companies listed on the Bombay Stock Exchange. The period of the study is 5 years beginning from the FY 2002-03 and ending with FY 200607. Cross sectional analysis of the sample firms has been done using the tool of Regression Analysis.

Keywords: Economic Value Added; Market Value Added; EPS; Return on Total Assets; Return on Capital Employed; Return on Average Net Worth; Net Operating Profit After Taxes;

9. THE DOMINO EFFECT: THE IMPACT OF HIV/AIDS ON ECONOMIC GROWTH AND FOREIGN DIRECT INVESTMENT (FDI) IN SUB-SAHARAN AFRICA

Shingirayi M. Mushonga, Jackson State University, Jackson, Mississippi, USA
Christopher G. Torrance, Jackson State University, Jackson, Mississippi, USA

ABSTRACT

A framework that links the prevalence of HIV/AIDS to the minute FDI inflows in the Sub-Saharan African region is proposed. The results will show that in addition to various factors that are attributed to the lack of FDI inflows, the HIV/AIDS epidemic has been overlooked as a significant deterrent of FDI. The paper will examine the effects of HIV/AIDS in Africa on human capital, economic growth, FDI inflows, and corruption in selected countries. The results will show that in addition to various factors that to which the lack of FDI inflows has, the HIV/AIDS epidemic has been overlooked as significant deterrent of FDI. This has practical implications for multinational corporations considering expansion into African markets. A discussion of the study's findings, limitations, and future research has been provided.

Keywords: HIV/AIDS; Foreign Direct Investment (FDI); Economic Growth; Corruption.

10. THE WEIGHTED AVERAGE COST OF CAPITAL IN FRONTIER MARKETS: THEORY AND PRACTICE

Vivian O. Okere, Providence College, Providence, Rhode Island, USA

ABSTRACT

The demand for external financing for projects in frontier markets has increased the profile of valuation methodologies. In this paper, I discuss the theory and practice of how the component costs of debt and equity capital and the weighted average cost of capital (WACC) of a specific project domiciled in a frontier country can be calculated. This paper also discusses how the capital weights of debt and equity are adjusted to reflect the structuring of the financing and the liquidity facility provisions found commonly in financing covenants. Frontier markets are those emerging markets considered very risky for investments.

Keywords: *Frontier markets; cost of debt; cost of equity capital; weighted average cost of capital; capital weights; soft capital and liquidity facility.*

11. AN EXAMINATION OF FIVE MARKETS FOR IMMEDIATE, DELAYED, AND ENDURING SPILLOVERS WITH CONTROL FOR PERIODIC CLOSURES

Armand Picou, Texas A&M University – Corpus Christi, Texas, USA
Ling T. He, University of Central Arkansas, Arkansas, USA

ABSTRACT

We investigate mean and volatility spillovers using ten years of daily stock market index data for Canada, Hong Kong, Japan, the United Kingdom, and the United States while controlling for periodic closures. We divide daily index returns into their daytime and overnight components, in order to analyze separately the spillover effects on price and volatility, specifically: immediate, delayed and enduring spillovers. We control for periodic closures: the standard weekend and all holiday closures. Significant immediate crossmean spillovers exist in all five stock markets. The results also suggest that overnight return series may experience more cross-volatility spillovers than daytime return series. Some markets exhibit delayed and enduring spillovers. Markets apparently incorporate surprises occurring during closures into the overnight reactions, while surprises occurring during trading will more often result in an enduring or delayed spillover.

Keywords: *Volatility, Garch, Spillover, Holiday Closures*

12. AN EXPLORATORY STUDY EXAMINING THE IMPACT OF CHINA'S RAPID ECONOMIC GROWTH ON THE ASIAN SHIPPING INDUSTRY

Alan T. Shao, University of North Carolina-Charlotte, Charlotte, North Carolina, USA
Hyungsuk Lee, A.P. Moller Maersk Logistics Japan K. K., JAPAN

ABSTRACT

China has an enormous population, double-digit economic growth, burgeoning exports, and the attention of the world's business arena. The shipping industry has played a prominent position in the success of China's economy. So too has China played a prominent role in the growth of the overall shipping industry. But the extent of its role is unclear. The purpose of this research effort is to better understand the relationship between China's economic growth and the overall shipping industry. The authors analyzed both survey data and qualitative information to learn the impact of China's economic growth on the Asian shipping industry and the resulting changes in global shipping companies' business strategies. Furthermore they offered a prediction regarding the future growth of the state-controlled Chinese carriers

which are taking advantage of China's mammoth export and import trade. The empirical findings exhibited a close relationship between China's economic factors and its major ports' traffic. Also, the results signaled that China will enjoy its dominant position in the shipping industry and will continue to impact changes in shipping companies' strategies for the foreseeable future.

Keywords: *China, Asia, Economic Growth, Shipping Industry, Ports, Chinese Carriers.*

13. DYNAMICS OF U.S. FEDERAL BUDGET AND CURRENT ACCOUNT DEFICITS: EVIDENCE FROM 1980-2005

Matiur Rahman, McNeese State University, Lake Charles, LA, USA
Mihajlo Balic, McNeese State University, Lake Charles, LA, USA
Bruce Swindle, McNeese State University, Lake Charles, LA, USA

ABSTRACT

This paper analyzes the nature of the dynamic relationship between the U.S. federal budget deficit and the current account deficit (each expressed as a ratio of U.S. GDP). Data from the first quarter of 1980 through the final quarter of 2005 are employed. An examination of time series properties of the U.S. federal budget deficit reveals conflicting evidence based on the ADF and the Phillips-Perron tests. Both tests confirm nonstationarity and I (1) behavior of the U.S. current account deficit. Engle and Granger (1987) procedure unveils no clear evidence of cointegrating relationship between these variables. As a result, simple vector autoregressive models are estimated for possible bidirectional causality. Stronger evidence exists of a short-run causal flow from the U.S. federal budget deficit to the current account deficit compared to that from the U.S. current account deficit to the federal budget deficit.

Keywords: *Current Account Deficit, Budget Deficit, Time Series Property, Granger Causality, Cointegration.*

14. DO CREDIBLE FINANCIAL REPORTING AND GOVERNMENT INTERVENTION PLAY A ROLE IN PREVENTING CORRUPTION? A PRELIMINARY INVESTIGATION OF THE EUROPEAN UNION

Bert J. Zarb, Embry-Riddle Aeronautical University, Daytona Beach, Florida, USA

ABSTRACT

This study investigates whether an association exists between credible financial reporting, government intervention, and corruption in the European Union. A high level of financial disclosures together with the number of auditors in a country should provide the infrastructure necessary to ensure the credibility of accounting and financial information. When governments do not interfere with the rights of citizens to do what they want with what they earn or create, citizens prosper, economies thrive, and the incidence of corruption is minimized. The results show that, economic freedom, disclosure levels, and the number of auditors in a country have a statistically significant relationship with corruption.

Keywords: *Financial reporting, government intervention, corruption, European Union.*

15. DETERMINANTS OF INTERNET FINANCIAL REPORTING BY LISTED COMPANIES ON THE KUWAIT STOCK EXCHANGE

Bader Al-Shammari, Public Authority for Applied Education and Training, KUWAIT

ABSTRACT

The aims of this study were to investigate the use of the Internet for disseminating financial reporting by companies listed on the Kuwait Stock Exchange in 2005 and to determine the factors influencing companies to use the Internet for this purpose. The factors investigated were: company size, leverage, liquidity, profitability, company age, ownership structure, industry, auditing firm and internationality.

The results reported 77% (110 of the 143 companies) had websites and 70% (77) disseminated financial reporting information on their websites. Logit analysis indicated that the use of Internet financial reporting by listed companies in Kuwait could be predicted based on company size, liquidity, auditor and industry. Larger companies with lower levels of liquidity that were audited by local auditing firms affiliated with the Big Four international audit firms were more likely to engage in Internet financial reporting. In addition, insurance companies were more likely to engage in Internet financial reporting than other industries.

Keywords: *Internet financial reporting, Company characteristics, Kuwait Stock Exchange.*

16. A VEBLENIAN EXPLANATION OF THE 'NEW AMERICAN ECONOMY' OF THE 1990S

Adil H. Mouhammed, University of Illinois at Springfield, USA

ABSTRACT

Several arguments have been made for establishing the proposition that the American economy of the 1990s can really be called the 'new economy', because it had many new products, new innovations of information technology, high rates of productivity and economic growth, and low rates of unemployment and inflation. This paper, using Thorstein Veblen's theory of the higher plane capitalism, attempts at clearly demonstrating that there was no 'New Economy' during the 1990s, and the 'New Economy' was globally oriented aiming at hegemony and at obtaining economic resources and commodities from other developing countries, an orientation that justified military build-ups and wars.

Keywords: *Thorstein Veblen, Imperialism, New Economy, Absentee Owners, Inequality, Outsourcing, Poverty, and Militarism and Wars.*
