Welcome from the Conference Chair

Dear INFINITI delegate

I'm delighted to welcome you to this, the 9th INFINITI Conference on International Finance.

Once again, we are blessed with an excellent programme, anchored by our Keynote Speakers, Andrei Schleifer and Ed Kane. It is very pertinent that, as the world financial crisis continues to drag along and the Irish banking crisis continues to linger without resolution, the Keynote Speakers are addressing issues around how regulation failed and how regulation can be restructured. Those of us who have seen or heard our Keynote Speakers before look forward to reacquainting ourselves with their penetrating, incisive and often quite amusing analysis, while for those who have not had the opportunity a rare treat is in store.

We’re also delighted to have an industry roundtable on the future of financial services, anchored by senior thought leaders from a variety of international financial institutions.

We have two full days of breakout sessions with a variety of papers ranging across the gamut of international finance, with papers on almost every area one can imagine, from modelling exchange rates through dealing with commodity exposure through discussions of bank contagion, international macroeconomic transmission, information transmission. It is the continued flow of high-quality submissions, not all of whom unfortunately can be accepted to the Conference, that is the backbone of this ongoing annual meeting. Thank you to all those who have agreed to chair sessions, and also agreed to discuss papers.

I want to thank especially our sponsors: Pioneer Investment Management Ltd, Eventus Software for Event Studies & Financial Market Research, and IBM.

As ever, this Conference would not be possible without the enormous organisational skills and talent of Linda Soriton.

I hope that you have an enjoyable Conference and that you look forward as I much as I do to this. Please do not hesitate to contact either Linda or myself if there are any issues that arise over the course of the next couple of days.

Brian M Lucey, PhD, FTCD
Associate Professor of Finance, School of Business, &
Research Associate, Institute for International Integration Studies
Trinity College Dublin

INFINITI 2011 has been sponsored by:

PIONEER Investments®
Eventus®
IBM®
What and Who are INFINITI?

INFINITI stands for International Financial Integration. The INFINITI Group is one of the research groupings within the Institute for International Integration Studies (IIIS).

INFINITI was constituted in the summer of 2003, and has three main activities:

- Running the annual INFINITI Conference on International Finance,
- Hosting short- and long-term visitors through the IIIS, and
- Maintaining an active research agenda. Our work is available from the IIIS, SSRN or REPEC.
Special Issue of the *Journal of Banking and Finance*

The Journal of Banking and Finance (JBF) will publish a Special Issue, edited by Brian M Lucey, from papers presented at the 9th INFINITI Conference on International Finance. The theme for this Special Issue is “Institutions, Actors and International Finance”.

Authors of papers presented here are therefore invited to submit their papers to the JBF for consideration in this special issue. Papers submitted will go through the normal JBF submission and review process. Papers must be submitted online through EES at http://ees.elsevier.com/jbf/default.asp and authors should specify “INFINITI 2011” for “Paper Type” during the submission process.

The time period for submitting papers through EES for the special issue is **from 15 July 2011 through to 31 July 2011**. You are strongly encouraged to address your Discussant’s comments prior to submitting the paper.

Should you have any further questions regarding the submission of the paper for the Special Issue, please do not hesitate to contact Brian Lucey (blucey@tcd.ie).

**CFA Institute CE Qualified Activity**

As a participant in the CFA Institute Approved-Provider Program, CFA Ireland has determined that this programme qualifies for 1 credit hour for each Plenary Session, 1.5 credit hours for each Special Session, and 1.5 credit hours for each Parallel Session attended. If you are a CFA Institute member, CE credit for your participation in this programme may be recorded in your CE Diary. Please see the Conference Reception Desk for a copy of the form to be filled out and returned.
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Keynote Speakers

Andrei Shleifer

A Professor of Economics at Harvard University, Andrei Shleifer holds an undergraduate degree from Harvard and a PhD from MIT. Shleifer has worked on corporate governance, law and finance, behavioral finance, and institutional economics. He has published four books, including The Grabbing Hand (with Robert Vishny) and Inefficient Markets: An Introduction to Behavioral Finance, as well as over a hundred articles. Shleifer has served as the Editor of the Quarterly Journal of Economics between 1989 and 1999 and the Editor of the Journal of Economic Perspectives between 2003 and 2008. He is a fellow of the Econometric Society and of the American Academy of Arts and Sciences. In 1999, Shleifer won the John Bates Clark medal of the American Economic Association. According to RePEc, Shleifer is the most cited economist in the world.

Edward J Kane

Edward J Kane is Professor of Finance at Boston College. From 1972 to 1992 he held the Everett D. Reese Chair of Banking and Monetary Economics at Ohio State University. A founding member of the Shadow Financial Regulatory Committee, Kane rejoined the organisation in 2005. He served for twelve years as a trustee and member of the finance committee of Teachers Insurance. Currently, he consults for the World Bank and is a senior fellow in the Federal Deposit Insurance Corporation’s Center for Financial Research. Previously, Kane has consulted for numerous agencies, including the IMF, components of the Federal Reserve System, and three foreign central banks. He consulted as well for the Congressional Budget Office, the Joint Economic Committee, and the Office of Technology Assessment of the U.S. Congress. He is a past president and fellow of the American Finance Association and a former Guggenheim fellow. He also served as president of the International Atlantic Economic Society and the North American Economics and Finance Association. Kane is a long-time research associate of the National Bureau of Economic Research. Besides authoring three books, he has published widely in professional journals and currently serves on six editorial boards. He received a BS from Georgetown University and a PhD from the Massachusetts Institute of Technology.

We are pleased to be welcoming him back to Trinity for his third INFINITI Conference in a row, and as a Keynote Speaker for a second time.
Industry Roundtable Participants

**Constantin Gurdgiev**

Dr Constantin Gurdgiev is Head of Research and Strategy for St Columbanus IA, and an Adjunct Lecturer in Finance with Trinity College Dublin. In the past, Gurdgiev served as the Head of Macroeconomics with the Institute for Business Value, IBM, Special Adviser to the Irish Exporters Association, Director of Research with NCB Stockbrokers Ltd, and Group Editor and Director of Business & Finance Publications.

Born in Moscow, Russia, Gurdgiev was educated in the University of California, Los Angeles, University of Chicago, Johns Hopkins University and Trinity College, Dublin. He currently serves as a Visiting Professor of Finance with the Russian State University and the Chairman of the Ireland Russia Business Association. He frequently contributes to Irish and international press.

**Keith Saxton**

Keith Saxton is Director, Global Banking and Financial Markets, IBM Financial Services for Ireland and UK. Saxton is an experienced executive leader who has a deep understanding of the Financial Services industry, and the role that technology plays in developing and executing business strategy. He has over 30 years experience in the industry, prior to joining IBM he held a number executive management positions in the front office of various large international investment and wholesale banks. Within IBM, Saxton has held a number of industry leadership positions, in his current role he is leading the industry efforts in Europe, in particular he is working globally with regulators, central banks, supervisors, and major firms on the implications of monitoring systemic risk and addressing the demands of ongoing regulatory reform.

Additionally he is Chairman of the Intellect UK Financial Services committee (UK’s Technology Trade Association), and is an Advisory Board member of DebtMarket.com (the world’s first online marketplace for buying and selling loans).

**Mark Mannion**

Mark Mannion, Managing Director, is Head of Relationship Management in EMEA for BNY Mellon Alternative Investment Services, the company’s hedge fund administration business. In this role, Mannion is responsible for client relationships in EMEA. He is also responsible for the transition of the recently acquired PNC GIS European business to BNY Mellon. Prior to his current role, he was responsible for the strategic and operational oversight of European operations in Ireland, Luxembourg, Poland and the UK. He became part the alternative investment services team in 2010 when BNY Mellon acquired PNC’s Global Investment Servicing (GIS) business. Mannion joined PNC GIS in 1998 as Senior Director of Fund Administration. He has more than 15 years experience within the industry and has served as Chief Executive Officer of UBS Fund Services (Ireland) Ltd and in various capacities with Bank of Bermuda Dublin, now HSBC.

Mannion is a Fellow of the Institute of Chartered Accountants in Ireland and qualified as a Chartered Accountant with KPMG in 1994. He holds a diploma in professional accounting and Bachelor of Commerce from University College Dublin.
Marc Westlake

Marc Westlake is GoldCore Head of Wealth Management. He is one of the most highly qualified financial planners in Ireland and has worked as an independent financial planning consultant since 1994. A specialist in portfolio management, pensions, tax and estate planning, he moved to Ireland from the UK and joined GoldCore in January 2008.

Westlake has a Bachelors Degree in Economics, Politics and American Studies from the University of Leeds and Pennsylvania State University. He is a Member of the Chartered Insurance Institute (www.cii.co.uk) and Personal Finance Society in the UK having been awarded the Diploma in Financial Planning, as well as a member of the Life Insurance Association in Ireland holding the QFA diploma. Westlake is also a member of the prestigious Society of Trust and Estate Practitioners. (www.step.ie) and works closely with Estate Planning Lawyers in Ireland to assist clients in managing their wealth transfer to the next generation. Finally, he was recently awarded a first class honours in the post-graduate Diploma in Financial Planning from the Institute of Bankers/University College Dublin.
General Information regarding the Conference

Conference Reception Desk

We have a dedicated Conference Reception Desk located on the Upper Concourse of the Arts Building (Level 2). It will be open at the following times:

- Monday, 13 June 0830 to 1800 hrs
- Tuesday, 14 June 0900 to 1730 hrs

Messages may be left here for delegates.

Completion of Registration

All registration fees and other charges must be paid in full in order to complete your Registration. At this time, you will receive your Conference Programme & Book of Abstracts, as well as a Conference Badge. Please wear your badge at all times during the Conference, as only delegates with official Conference ID will be allowed into any of the Conference Sessions and functions.

Conference Location

The Conference will be held in the Arts Building. The best entrance to use would be the Nassau Street entrance (at the top of Dawson Street) as this leads directly into Level 2 of the Arts Building. All the rooms we are using are on Levels 2, 3 and 4

- Level 2
  - Conference Reception Desk
  - Emmet Theatre
  - Synge Theatre
  - Swift Theatre
  - Ui Chadhain Theatre
There are Conference Assistants to help guide you to the specific rooms on every level.

Dress Code

The dress code for the entire Conference, including the Conference Gala Dinner, is smart casual.

Car Parking

There is no car parking available on campus.

Conference Programme

The Conference officially begins at 0900 hrs on Monday, 13 June 2011, in the Synge Theatre on Level 2 of the Arts Building.

Parallel Sessions

All presenters may upload their presentations in either MS PowerPoint or pdf format. They are responsible for ensuring that their presentations are uploaded onto the computer in the room in advance of the start of their Session. A Conference Assistant will be available to assist in the process – please note that the rooms are only available for the last 15 minutes of the break prior to the start of the Session. For example, upload anytime between 0845 and 0900 hrs for a Parallel Session 1 presentation. Presentations may of course be uploaded during any breaks prior to the allocated session, however only on the same day that they will be presented.

During the Parallel Sessions, each presenting Author will make a 15-20 minute presentation on their paper (depending on the number of papers in the Session). The allocated Discussant will then have 5 minutes to respond to the presentation.

The Session Chair is responsible for directing any Q&A and for ensuring that the Session ends on time. Any time left at the end of the each Session will be devoted to general Q&A on all papers presented during the Session. Presenting Authors are therefore asked to remain in their rooms until the end of the Session.

Papers

Full papers (and presentations) are only available directly from the Authors.

Photocopying

There are no photocopying facilities available to us in the Arts Building, but there are a few retail outlets on Nassau Street which can provide you with this service.
Catering

Tea, coffee and water will be served during the breaks, as indicated in the Conference Programme, on the Upper Concourse (next to the Conference Reception Desk area).

Delegates are reminded that they should make their own arrangements for lunch. On-campus, there is the Buttery Restaurant (beneath the Dining Hall), for those who prefer the economical option. Off-campus, there are many coffee shops, cafes, pubs and restaurants just beyond the Nassau Street entrance.

Social Events

*Monday evening at Doheny & Nesbitt’s, 4-5 Lower Baggot Street, Dublin 2*

On Monday evening, from 1930 hrs, you are invited to join us in Doheny & Nesbitt’s pub at 4-5 Lower Baggot Street, Dublin 2. Essentially, walk out the Nassau Street entrance and head straight out onto Dawson Street. When you reach St Stephen’s Green, turn left and keep walking for a good 5-10 minutes (depending on your pace).

*Tuesday evening Conference Gala Dinner in the Pillar Room, Rotunda Hospital, Dublin 1*

The Conference Gala Dinner will be held in the Pillar Room of the Rotunda Hospital (Parnell Street, Dublin 1) at 1930 hrs. There is a special entrance to this function room by the side of the Gate Theatre on Parnell Street. When you exit Trinity College via the Front Arch entrance, take a right and head straight down over O’Connell Bridge and to the end of O’Connell Street. This becomes Parnell Square and two sides of the Square are also Parnell Street. Make sure you keep heading straight up, rather than turning left. The Gate
Theatre should then be on your left and there is an entrance just past it that leads to the Pillar Room. Look out for some INFINITI helpers to help guide you through.

Registered delegates do not have to pay any additional charges to attend this event – it is included in the registration fee – however, if you did not indicate on your registration form that you would attend this event, please double check with the Conference Reception Desk no later than 1300 hrs on Monday, 13 June 2011, as spaces are now limited.
Programme

As a participant in the CFA Institute Approved-Provider Program, CFA Ireland has determined that this programme qualifies for 1 credit hour for each Plenary Session, 1.5 credit hours for each Special Session, and 1.5 credit hours for each Parallel Session attended. If you are a CFA Institute member, CE credit for your participation in this programme may be recorded in your CE Diary.

Chartered Accountants Ireland members may also be able to claim CPE hours for each session attended; please check with the CAI that the session is suitable CPE for your current role.

Sunday, 12 June 2011

1600-1800 Welcome Reception and Early Registration The Dining Hall

Monday, 13 June 2011

0830-1800 Registration Desk Open Upper Concourse, Level 2, Arts Building
0900-0930 Welcome Synge Theatre, Level 2, Arts Building

Robert Richardson, Pioneer Investment Management Ltd, Ireland

0930-1100 Parallel Sessions 1
1100-1115 Tea & Coffee Upper Concourse
1115-1230 Plenary Session Synge Theatre

Edward Kane, Boston College, USA

Financial reform in Europe and the US is being led by macroeconomists and industry leaders who turn a blind eye both to regulatory capture and to the anti-egalitarian distributional effects it engenders. Although everyone agrees that regulators should control systemic risk, official definitions of systemic risk leave out the role that government officials play in generating it. Policymakers’ support of creative forms of risk-taking and their proclivity for absorbing losses in crisis situations encourages opportunistic firms to foster and exploit incentive conflicts within the supervisory sector. To restore faith in the diligence, competence and integrity of officials responsible for managing the financial safety net, reforms need to rework information systems and incentives in the government and financial sectors. The goal should be to align the incentives of private risk managers, accountants, credit-rating firms, and government supervisors with those of ordinary citizens. Emphasising the ease of arbitraging reforms that focus only on strengthening capital requirements, Kane proposes a program of complementary ways of advancing toward this goal. The most important steps would be to measure regulatory performance in terms of its effect on taxpayer risk exposures and to require insured institutions to develop information to support this effort. This entails estimating the explicit and implicit safety-net benefits they receive and issuing extended-liability securities designed to improve the accuracy of these estimates.

1230-1300 Lunch (delegates’ own arrangements)
1300-1430 Parallel Sessions 2
1430-1445 Tea & Coffee Upper Concourse
1445-1615 Parallel Sessions 3
1615-1630 Tea & Coffee Upper Concourse
1630-1800 Industry Roundtable (sponsored by IBM) "The Future of Financial Services"

Synge Theatre

Moderator: Constantin Gurdgiev, Head of Research, St Columbanus International Advisers

Speakers:

- Keith Saxton, Director, Global Banking and Financial Services, IBM Financial Services for Ireland and UK
- Mark Mannion, Managing Director, Head of Relationship Management in EMEA for BNY Mellon Alternative Investment Services
- Marc Westlake, GoldCore Head of Wealth Management

As the global financial system continues to reform and rebuild, the industry is faced with a number of opportunities and challenges. More than ever before, the winners will be those organisations that find the ways to create competitive differentiation, deal with operational complexity and raise their risk and client management capabilities. The roundtable will discuss some of the core future themes for the financial services providers, including:

- Where is value being added versus destroyed?
- What will financial markets and leading financial institutions look like in 2020?
- How will financial institutions compete in the new economic environment?
- How will financial institutions regain the trust and mind-share of their clients?
- What are the roles that academic and industry partnerships can play in the areas of thought leadership and analytics research in shaping the future of financial services?

1800 Drinks Reception follows immediately

Upper Concourse

1930 Social Evening

Doheny & Nesbitt’s

Tuesday, 14 June 2011

0900-1730 Registration Desk Open

Upper Concourse

0930-1100 Parallel Sessions 4

1100-1130 Tea & Coffee

Upper Concourse

1130-1300 Plenary Session

Synge Theatre

“Alternative Views of the Crisis”

Andrei Schleifer, Harvard University, USA

Three broad views of the crisis will be discussed, in particular how financial institutions got themselves into so much trouble. The three views are “too big to fail”, “distorted compensation arrangements”, and “neglect of tail risk”. In particular, it will be argued that the third view provides the most coherent explanation of the various aspects of the crisis.

1300-1400 Lunch (delegates’ own arrangements)

1400-1530 Parallel Sessions 5

1530-1600 Tea & Coffee

Upper Concourse

1600-1730 Parallel Sessions 6

1930 Conference Gala Dinner

The Pillar Room, Rotunda Hospital
Parallel Sessions at a Glance

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# Parallel Sessions

*Where there are multiple authors, an asterisk indicates the presenting author.

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<td><strong>Investment Horizon, Risk, and Compensation in the Banking Industry</strong></td>
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| **Session 1b: Bank Lending** |           |
| **Chair:** Diana Knyazeva, University of Rochester, USA |           |
| Global diffusion of the non-traditional banking model and alliance networks: Social exposure, learning and moderating regulatory effort |           |
| *Alexander Cuntz, EC JRC Institute for Prospective Technological Studies, Spain |           |
| Knut Blind, Technische Universität Berlin, Germany |           |
| Discussant: Anzhela Knyazeva, University of Rochester, USA |           |
| **A Gravity Equation for Bank Loans** |           |
| Bettina Brüggemann, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany |           |
| Jörn Kleintert, Universität Graz, Austria |           |
| *Esteban Prieto, Eberhard Karls Universität Tübingen, Germany |           |
| Discussant: Alexander Cuntz, EC JRC Institute for Prospective Technological Studies, Spain |           |
| **The Geography of Bank Lending: Why Being Neighbors With Your Bank Still Matters** |           |
| *Anzhela Knyazeva, University of Rochester, USA |           |
| Diana Knyazeva, University of Rochester, USA |           |
| Discussant: Esteban Prieto, Eberhard Karls Universität Tübingen, Germany |           |

| **Session 1c: BRIC I** |           |
| **Chair:** Anatoly Peresetsky, Higher School of Economics, CEMI RAS & NES, Russian Federation |           |
| **An Empirical Study of Exchange Rate Pass Through in China** |           |
| Xiaowen Jin, Ludwig-Maximilians-Universität München, Germany |           |
| Discussant: Bernhard Mahlberg, WU Wirtschafts Universität Wien, Austria |           |
| **The Internationalisation of the Brazilian Real: An empirical investigation** |           |
| Annina Kaltenbrunner, University of London, School of Oriental and African Studies, UK |           |
| Discussant: Xiaowen Jin, Ludwig-Maximilians-Universität München, Germany |           |
| **Russian Banking: The impact of ownership on efficiency and performance** |           |
| Ulla Bernhart, WU Wirtschafts Universität Wien, Austria |           |
| *Bernhard Mahlberg, WU Wirtschafts Universität Wien, Austria |           |
| Peter Haiss, WU Wirtschafts Universität Wien, Austria |           |
| Discussant: Annina Kaltenbrunner, University of London, School of Oriental and African Studies, UK |           |
**Session 1d: International Integration I**
Chair: Charlie Reuter, ESCP Europe, France

Evidence on financial integration in Asian emerging markets
*Andrew Worthington, Griffith University, Australia
Helen Higgs, Griffith University, Australia
Discussant: Charlie Reuter, ESCP Europe, France

Liquidity Provision, Ambiguous Asset Returns and the Financial Crises
Willem Spanjers, University of Freiburg, Germany
Discussant: Andrew Worthington, Griffith University, Australia

Is the relation between business cycles and leverage mediated by structural, institutional or cultural factors?
Charlie Reuter, ESCP Europe, France
Discussant: Willem Spanjers, University of Freiburg, Germany

**Session 1e: Fiscal Policy**
Chair: Michel Normandin, HEC Montréal, Canada

Central Banks’ Dilemma: Reserve Accumulation, Inflation and Financial Instability
Andreas Steiner, Universität Osnabrueck, Germany
Discussant: Michel Normandin, HEC Montréal, Canada

Do large fiscal deficits in advanced economies eventually lead to a crash of their currency? A historical perspective
*Arnaud Mehl, European Central Bank, Germany
Isabel Vansteenkiste, European Central Bank, Germany
Marcel Fratzscher, European Central Bank, Germany
Discussant: Andreas Steiner, Universität Osnabrueck, Germany

External and Budget Deficits in Developing Countries
Foued Chihi, HEC Montréal, Canada
*Michel Normandin, HEC Montréal, Canada
Discussant: Arnaud Mehl, European Central Bank, Germany

**Session 1f: Modelling Exchange Rates**
Chair: Viviana Fernandez, Pontificia Universidad Catolica de Chile, Chile

Testing the predictability of exchange rate using the shape of yield curves: Evidence from Australia
Anh Tuan Bui, Macquarie University, Australia
Discussant: Joscha Beckmann, Universität Duisburg Essen, Germany

Information flow in international foreign exchange rates using symbolic transfer entropy
*Gabjin Oh, Chosun University, South Korea
Okyu Kwon, Asia Pacific Center for Theoretical Physics, South Korea
Discussant: Anh Tuan Bui, Macquarie University, Australia

Nonlinear adjustment of nominal exchange rates and prices to deviations from Purchasing Power Parity
Joscha Beckmann, Universität Duisburg Essen, Germany
Discussant: Gabjin Oh, Chosun University, South Korea

**Session 1g: Cross Border Banking**
Chair: Harald Sander, Cologne University of Applied Sciences & Maastricht University, Germany

Corporate Governance Spillover, CEO Compensations, and M&A Synergies for Acquiring Banks: Are Cross-Border M&As Different?
Sheng-Hung Chen, Nanhua University, Taiwan
*Yu-Juin Shen, Nanhua University, Taiwan
Discussant: Stephanie Kleimeier, Maastricht University, Netherlands

Euro Effects in Global Cross-Border Banking
Stephanie Kleimeier, Maastricht University, Netherlands
*Harald Sander, Cologne University of Applied Sciences & Maastricht University, Germany
Sylvia Heuchemer, Cologne University of Applied Sciences, Germany
Discussant: Aleksandar Šević, Trinity College Dublin, Ireland

Financial Crises and Cross-Border Banking: New Evidence
*Stephanie Kleimeier, Maastricht University, Netherlands
Harald Sander, Cologne University of Applied Sciences & Maastricht University, Germany
Sylvia Heuchemer, Cologne University of Applied Sciences, Germany
Discussant: Yu-Juin Shen, Nanhua University, Taiwan
### Session 1h: Emerging Markets
Chair: Thomas Lagoarde-Segot, EUROMED Marseille Ecole de Management, France

**Some Stylized Facts of Returns in the Foreign Exchange and Stock Markets in Peru**
Alberto Humala, Central Bank of Peru  
*Gabriel Rodriguez, Pontificia Universidad Católica of Peru, Peru  
Discussant: Samreen Malik, Cornell University, USA

**Risk Taking by Emerging Economies**
Samreen Malik, Cornell University, USA  
Discussant: Gabriel Rodriguez, Pontificia Universidad Católica of Peru, Peru

### Session 1i: Risk Management
Chair: Manuel Moreno, University of Castilla-La Mancha, Spain

**Risk Management with Thinly Traded Securities: Methodology and Implementation**
Alejandro Bernales, The University of Manchester, UK  
*Diether Beuermann, University of Maryland & Inter-American Development Bank, USA  
Gonzalo Cortazar, Pontificia Universidad Católica de Chile, Chile  
Discussant: Muhammed Altuntas, Universität zu Köln (University of Cologne), Germany

**Business Cycle and Interest Rates: Pricing and Risk Management Under a New Term Structure Model**
*Manuel Moreno, University of Castilla-La Mancha, Spain  
Federico Platania, University of Castilla-La Mancha, Spain  
Discussant: Diether Beuermann, University of Maryland & Inter-American Development Bank, USA

**Dynamic Determinants of Enterprise Risk Management Adoption in the Financial Services Industry: Evidence from German Property-Liability Insurers**
*Muhammed Altuntas, Universität zu Köln (University of Cologne), Germany  
Thomas R Berry-Stoedle, University of Georgia, USA  
Robert E Hoyt, University of Georgia, USA  
Discussant: Manuel Moreno, University of Castilla-La Mancha, Spain

### Session 1j: Liquidity & Trading
Chair: Kjell Jørgensen, BI Norwegian Business School, Norway

**Detection of Algorithmic Trading from Raw Order Book Message Data**
*Arne Breuer, Universität Hohenheim, Germany  
Hans-Peter Burghof, Universität Hohenheim, Germany  
Discussant: Geir Høidal Bjønnes, BI Norwegian Business School, Norway

**Liquidity or Credit Deterioration: A Study of Liquidity in the US Corporate Bond Market during Financial Crises**
Nils Friewald, WU Wirtschafts Universität Wien, Austria  
*Rainer Jankowitsch, WU Wirtschafts Universität Wien, Austria  
Marti Subrahmanyam, NYU, USA  
Discussant: Arne Breuer, Universität Hohenheim, Germany

**Algorithmic Trading: Strategies and Liquidity Provision**
*Geir Høidal Bjønnes, BI Norwegian Business School, Norway  
Kjell Jørgensen, BI Norwegian Business School, Norway  
Discussant: Rainer Jankowitsch, WU Wirtschafts Universität Wien, Austria
### Parallel Sessions 2: Monday, 13 June 2011
1300-1430

#### Session 2a: Banks, Competition & Failure
**Chair:** Vincent Bouvatier, Université Paris Ouest, France

**Bank Failure Prediction: Empirical Evidence from Asian Banks**  
*Terrence Hallahan, RMIT University, Australia  
Richard Heaney, RMIT University, Australia  
Dirk Hollander, zeb/rolfes.schierenbeck.associates gmbh, Germany  
Tony Naughton, RMIT University, Australia  
Malick Sy, RMIT University, Australia  
Discussant: Vincent Bouvatier, Université Paris Ouest, France

**Efficiency and Probability of Default in Cooperative Banks**  
Franco Fiordelisi, Università Roma Tre, Italy  
*Davide Salvatore Mare, Università Roma Tre, Italy  
Discussant: Terrence Hallahan, RMIT University, Australia

**On the link between credit procyclicality and bank competition**  
*Vincent Bouvatier, Université Paris Ouest, France  
Antonia López-Villavicencio, Université Paris Nord, France  
Valérie Mignon, Université Paris Ouest & CEPII, France  
Discussant: Davide Salvatore Mare, Università Roma Tre, Italy

#### Session 2b: Asset Pricing
**Chair:** Yoram Kroll, Ono Academic College, Israel

**Conditional Evaluation of International Asset Pricing Models**  
*Devraj Basu, SKEMA Business School, France  
Daniel Hung, Durham University, UK  
Alexander Stremme, University of Warwick, UK  
Discussant: Yoram Kroll, Ono Academic College, Israel

**The risk–return trade-off in Emerging Markets**  
Enrique Salvador Aragó, Universitat Jaume I, Spain  
Discussant: Devraj Basu, SKEMA Business School, France

**Valuation, Downside Risk Measures and Asymmetric Information**  
*Yoram Kroll, Ono Academic College, Israel  
Moshe Ben Horin, Ono Academic College, Israel  
Discussant: Enrique Salvador Aragó, Universitat Jaume I, Spain

#### Session 2c: BRIC II
**Chair:** Lucia Morales, Dublin Institute of Technology, Ireland

**What factors does Russian stock market depend on?**  
Anatoly Peresetsky, Higher School of Economics, CEMI RAS & NES, Russian Federation  
Discussant: Lucia Morales, Dublin Institute of Technology, Ireland

**Time-Scale Dependent Stock Market Integration of the BRIC Countries: Wavelet-DCC analysis**  
*Heikki Lehkonen, University of Jyväskylä, Finland  
Kari Heimonen, University of Jyväskylä, Finland  
Discussant: Anatoly Peresetsky, Higher School of Economics, CEMI RAS & NES, Russian Federation

**Structural breaks and financial volatility: lessons from BRIC countries**  
Lucia Morales, Dublin Institute of Technology, Ireland  
Discussant: Heikki Lehkonen, University of Jyväskylä, Finland
### Session 2d: International Integration II
**Chair:** Marie-Hélène Gagnon, Université Laval, Canada

**Earnings Response Coefficients in the Greek Market**  
*Dimitrios Maditinos, Technological Education Institute of Kavala, Greece*  
Željko Šević, Glasgow Caledonian University, UK  
Karakoltsidis Nikolaos, Technological Education Institute of Kavala, Greece  
**Discussant:** Marie-Hélène Gagnon, Université Laval, Canada

**From International to Transnational Finance: The New Face of Global Capital Markets**  
Harold James, Princeton University & European University, USA & Italy  
*Christopher Kobrak, ESCP Europe, France*  
**Discussant:** Dimitrios Maditinos, Technological Education Institute of Kavala, Greece

**Conditioning Information and Asset Pricing Anomalies in Multivariate Tests of Financial Integration**  
Marie-Claude Beaulieu, Université Laval, Canada  
*Marie-Hélène Gagnon, Université Laval, Canada*  
Lynda Khalaf, Carleton University, Canada  
**Discussant:** Christopher Kobrak, ESCP Europe, France

### Session 2e: Personal Finance
**Chair:** Aarti Rughoo, London Metropolitan University, UK

**Life-cycle determinants of credit to households**  
Michał Rubaszek, National Bank of Poland, Poland  
*Dobromił Serwa, National Bank of Poland & Warsaw School of Economics, Poland*  
**Discussant:** Aarti Rughoo, London Metropolitan University, UK

**Households’ Foreign Currency Borrowing in Central and Eastern Europe**  
Jarko Fidrmuc, Österreische Nationalbank, Austria  
Mariya Hake, Österreische Nationalbank, Austria  
*Helmut Stix, Österreische Nationalbank, Austria*  
**Discussant:** Dobromił Serwa, National Bank of Poland & Warsaw School of Economics, Poland

**Integration in European Retail Banking: Evidence from Savings and Lending Rates to the Household Sector**  
*Aarti Rughoo, London Metropolitan University, UK*  
Nicholas Sarantis, City University London, UK  
**Discussant:** Helmut Stix, Österreische Nationalbank, Austria

### Session 2f: EU Sovereign Bonds
**Chair:** Sergio Mayordomo, CNMV Comision Nacional del Mercado de Valores, Spain

**New estimates of the real term structure for the euro area**  
Marcello Pericoli, Banca d’Italia, Italy  
**Discussant:** Juan Ignacio Peña, Universidad Carlos III de Madrid, Spain

**The Term Structure of Sovereign Default Risk in EMU Member Countries and its Determinants**  
*Dominik Maltritz, Universität Erfurt, Germany*  
Stefan Eichler, Technische Universität Dresden, Germany  
**Discussant:** Marcello Pericoli, Banca d’Italia, Italy

**Towards a Common European Monetary Union Risk Free Rate**  
Sergio Mayordomo, CNMV Comision Nacional del Mercado de Valores, Spain  
*Juan Ignacio Peña, Universidad Carlos III de Madrid, Spain*  
Eduardo S Schwartz, UCLA, USA  
**Discussant:** Dominik Maltritz, Universität Erfurt, Germany

### Session 2g: Corporate Capital Structure & Financing
**Chair:** Sushanta Mallick, Queen Mary, University of London, UK

**Corporate Financial Constraints, Bank Governance, and Financial System Stability**  
Patrick Behr, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany  
Lars Norden, RSM Erasmus University, Netherlands  
*Felix Noth, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany*  
**Discussant:** Sushanta Mallick, Queen Mary, University of London, UK

**Determinants of capital budgeting methods and hurdle rates in Nordic firms**  
Tor Brunzell, Stockholm University, Sweden  
Eva Lijefors, Hanken School of Economics, Finland  
*Mika Vaihekoski, University of Turku, Finland*  
**Discussant:** Felix Noth, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany

**Sources of Financing, Profitability and Productivity: First Evidence from Matched Firms**  
*Sushanta Mallick, Queen Mary, University of London, UK*  
Yong Yang, Essex University, UK  
**Discussant:** Mika Vaihekoski, University of Turku, Finland
### Session 2h: Development

**Chair:** Ramon Castillo-Ponce, Universidad Autónoma de Baja California & California State University, Los Angeles, USA

**Lucas Paradox in the Short Run and in the Long Run**  
Bilal Keskinsoy, The University of Nottingham, UK  
Discussant: Ramon Castillo-Ponce, Universidad Autónoma de Baja California & California State University, Los Angeles, USA

**Firm Ownership Structure and Economic Growth**  
*Ramon Castillo-Ponce, Universidad Autónoma de Baja California & California State University, Los Angeles, USA  
Erika Garcia-Meneses, Universidad Autónoma de Baja California, Mexico  
Discussant: Bilal Keskinsoy, The University of Nottingham, UK

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### Session 2i: Institutions & Finance

**Chair:** Anzhela Knyazeva, University of Rochester, USA

**Funding Pension Obligations: International Differences**  
Raj Aggarwal, University of Akron, USA  
*John Goodell, University of Akron, USA  
Discussant: Diana Knyazeva, University of Rochester, USA

**Information Asymmetries and Institutional Investor Mandates**  
Tatiana Didier, The World Bank, USA  
Discussant: John Goodell, University of Akron, USA

**Ownership change, institutional development and performance**  
Anzhela Knyazeva, University of Rochester, USA  
*Diana Knyazeva, University of Rochester, USA  
Joseph Stiglitz, Columbia University, USA  
Discussant: Tatiana Didier, The World Bank, USA

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### Session 2j: Platforms

**Chair:** Edward Nelling, Drexel University & University of Pennsylvania, USA

**Competition for Traders and Risk**  
Michiel Bijlsma, CPB Netherlands Bureau for Economic Policy Analysis, Netherlands  
*Gijsbert Zwart, Tilburg University & CPB Netherlands Bureau for Economic Policy Analysis, Netherlands  
Jan Boone, Tilburg University, Netherlands  
Discussant: Victor Mendes, Universidade de Évora & Comissão do Mercado de Valores Mobiliários (CMVM), Portugal

**Information Acquisition and Trading: Do the Sources of Information Matter?**  
Margarida Abreu, ISEG-UTL, Portugal  
*Victor Mendes, Universidade de Évora & Comissão do Mercado de Valores Mobiliários (CMVM), Portugal  
Discussant: Gijsbert Zwart, Tilburg University & CPB Netherlands Bureau for Economic Policy Analysis, Netherlands
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<td>Hannes Juvan, WU Wirtschafts Universität Wien, Austria</td>
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<td><strong>Do surges in international capital inflows influence the likelihood of banking crises?</strong></td>
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<td>Julian Caballero, University of California, Santa Cruz, USA</td>
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<td><strong>Volume Volatility in Dual Markets: Lessons from Chinese ADR</strong></td>
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<td><strong>An Analysis of the Chinese Stock Market during the Global Financial Crisis</strong></td>
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### Session 3d: International Integration III
Chair: Jennifer Berrill, Trinity College Dublin, Ireland

**Large Capital Inflows and Stock Returns in a Thin Market**
*Janusz Brzeszczynski, Heriot-Watt University, UK
Martin Bohi, Westfälische Wilhelms-Universität Münster, Germany
Dobromil Senwa, National Bank of Poland & Warsaw School of Economics, Poland
Discussant: Martha O’Hagan-Luff, Trinity College Dublin, Ireland

**Financial integration and business cycle synchronisation - Further evidence from panel data**
Jonas Keil, Universität Duisburg Essen, Germany
Discussant: Janusz Brzeszczynski, Heriot-Watt University, UK

**The indirect international diversification benefits of investing in US based Multinationals**
Colm Kearney, Trinity College Dublin, Ireland
Jennifer Berrill, Trinity College Dublin, Ireland
*Martha O’Hagan-Luff, Trinity College Dublin, Ireland
Discussant: Jonas Keil, Universität Duisburg Essen, Germany

### Session 3e: Ratings Agencies
Chair: Manuel Lingo, WU Wirtschafts Universität Wien & Oesterreichische Nationalbank, Austria

**Rating Shopping and Rating Inflation: Empirical Evidence from Israel**
Inna Baklayar, Ben-Gurion University of the Negev, Israel
*Koresh Galil, Ben-Gurion University of the Negev, Israel
Discussant: Manuel Lingo, WU Wirtschafts Universität Wien & Oesterreichische Nationalbank, Austria

**The path to impairment: Are structured finance ratings perspicacious?**
*Matthias Bodenstedt, University of Cambridge, UK
Daniel Rösch, Leibniz Universität Hannover, Germany
Harald Scheule, The University of Melbourne, Australia
Discussant: Koresh Galil, Ben-Gurion University of the Negev, Israel

**Re-Mapping Credit Ratings**
*Manuel Lingo, WU Wirtschafts Universität Wien & Oesterreichische Nationalbank, Austria
Alexander Eisl, WU Wirtschafts Universität Wien, Austria
Hermann Elendner, WU Wirtschafts Universität Wien, Austria
Discussant: Matthias Bodenstedt, University of Cambridge, UK

### Session 3f: Exchange Rate Effects
Chair: Michael Binder, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany

**Dynamic relations between stock returns and exchange rate changes**
*Can Inci, Bryant University, USA
Bong-Soo Lee, Florida State University, USA
Discussant: Michael Binder, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany

**Price Transmission and Effects of Exchange Rates on Domestic Commodity Prices via Offshore and Currency Hedging**
Nongnuch Tantisantiwong, University of Dundee, UK
Discussant: Can Inci, Bryant University, USA

**On the Effects of Monetary Policy Shocks on Exchange Rates**
*Micahel Binder, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany
Qianying Chen, Hong Kong Monetary Authority, Hong Kong
Xuan Zhang, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany
Discussant: Nongnuch Tantisantiwong, University of Dundee, UK
### Session 3g: Corporate Finance
Chair: Leonidas Barbopoulos, University of St Andrews, UK

**Information Arrival, Changes in R-square and Pricing Asymmetry of Corporate News**  
Louis T W Cheng, Hong Kong Polytechnic University, Hong Kong  
*Yan Leung, City University of Hong Kong, Hong Kong  
Wayne Yu, Hong Kong Polytechnic University, Hong Kong  
Discussant: Leonidas Barbopoulos, University of St Andrews, UK

**Why are Abnormal Returns after Insider Transactions Larger in Better Shareholder Protection Countries?**  
*Jana Fidrmuc, University of Warwick, UK  
Adriana Korczak, University of Bristol, UK  
Piotr Korczak, University of Bristol, UK  
Discussant: Yan Leung, City University of Hong Kong, Hong Kong

**Determinants of Earnout as Optimal Payment Currency in Domestic versus Cross-Border Acquisitions and Bidders’ Gains**  
*Leonidas Barbopoulos, University of St Andrews, UK  
Krishna Paudyal, University of Strathclyde, UK  
Sudi Sudarsanam, Cranfield University, UK  
Discussant: Jana Fidrmuc, University of Warwick, UK

### Session 3h: Emerging Markets, Information & Trading
Chair: Yair E Orgler, Tel Aviv University, Israel

**Emerging Market Microstructures, Financial Reforms and Informational Efficiency**  
Vaalmikki Arjoon, The University of Nottingham, UK  
Discussant: Thomas Lagoarde-Segot, EUROMED Marseille Ecole de Management, France

**Dynamic herding behavior in Pacific-Basin markets: Evidence and implications**  
Thomas Chang, Drexel University, USA  
Jiandong Li, Central University of Finance & Economics, China  
Lin Tan, California State Polytechnic University, Pomona, USA  
*Edward Nelling, Drexel University & University of Pennsylvania, USA  
Discussant: Vaalmikki Arjoon, The University of Nottingham, UK

### Session 3i: Culture, Law & Finance
Chair: Wolfgang Breuer, RWTH Aachen University, Germany

**Embedding Culture and Finance: divorce or a fresh start?**  
Charlie Reuter, ESCP Europe, France  
Discussant: Wolfgang Breuer, RWTH Aachen University, Germany

**Intra-National Cultural Influences on Household Financial Decision-Making: An Exploratory Study of the Netherlands**  
Michael Dowling, University of Central Lancashire, UK  
Discussant: Charlie Reuter, ESCP Europe, France

**National Culture and the Choice between Bank and Bond Financing**  
Ron Christian Antoniczcyk, RWTH Aachen University, Germany  
*Wolfgang Breuer, RWTH Aachen University, Germany  
Astrid Juliane Salzmann, RWTH Aachen University, Germany  
Discussant: Michael Dowling, University of Central Lancashire, UK

### Session 3j: Portfolios
Chair: Juan Ignacio Peña, Universidad Carlos III de Madrid, Spain

**How Does Set-Up Decision Affect Mutual Fund Fees?**  
*Gunnar Lang, ZEW Centre for European Economic Research & Universität Stuttgart, Germany  
Matthias Kohler, Deutsche Bundesbank, Germany  
Discussant: Sergio Mayordomo, CNMV Comision Nacional del Mercado de Valores, Spain

**Portfolio Choice with Indivisible and Illiquid Housing Assets: The Case of Spain**  
Sergio Mayordomo, CNMV Comision Nacional del Mercado de Valores, Spain  
*María Rodriguez Moreno, Universidad Carlos III de Madrid, Spain  
Juan Ignacio Peña, Universidad Carlos III de Madrid, Spain  
Discussant: Gunnar Lang, ZEW Centre for European Economic Research & Universität Stuttgart, Germany
## Parallel Sessions 4: Tuesday, 14 June 2011  
0930-1100

### Session 4a: Banks & Bailouts
Chair: Edward Kane, Boston College, USA

**Communicating Bailout Policy and Risk Taking in the Banking Industry**  
Jakob Bosma, University of Groningen, Netherlands  
Discussant: Edward Kane, Boston College, USA

**"Too Systemically Important to Fail" in Banking**  
*Philip Molyneux, Bangor University, UK  
Klaus Shaeck, Bangor University, UK  
Tim Zhou, Bangor University, UK  
Discussant: Jakob Bosma, University of Groningen, Netherlands

**Safety-Net Benefits Conferred on Difficult-to-Fail-and-Unwind Banks in the US and EU Before and During the Great Recession**  
Santiago Carbo, University of Grenada, Spain  
*Edward Kane, Boston College, USA  
Francisco Rodriguez, University of Grenada, Spain  
Discussant: Philip Molyneux, Bangor University, UK

### Session 4b: Systemic Risk
Chair: Mikael Bask, Uppsala University, Sweden

**Systemic risk diagnostics: coincident indicators and early warning signals**  
*Bernd Schwaab, European Central Bank, Germany  
Siem Jan Koopman, Vrije Universiteit Amsterdam & Tinbergen Institute, Netherlands  
Andre Lucas, Vrije Universiteit Amsterdam & Duisenberg School of Finance, Netherlands  
Discussant: Maria Rodriguez Moreno, Universidad Carlos III de Madrid, Spain

**Systemic Tail Risk**  
*Maarten van Oordt, De Nederlandsche Bank, Netherlands  
Chen Zhou, De Nederlandsche Bank & RSM Erasmus University, Netherlands  
Discussant: Bernd Schwaab, European Central Bank, Germany

**Systemic Risk Measures: the Simpler the Better?**  
*Maria Rodriguez Moreno, Universidad Carlos III de Madrid, Spain  
Juan Ignacio Peña, Universidad Carlos III de Madrid, Spain  
Discussant: Maarten van Oordt, De Nederlandsche Bank, Netherlands

### Session 4c: International Finance & the Macroeconomy
Chair: John Hunter, Brunel University, UK

**Exchange Rates, Macroeconomic Fundamentals and Risk Aversion**  
Ricardo Laborda, Ibercaja, Spain  
*Jose Olmo, Centro Universitario de la Defensa Zaragoza, Spain  
Discussant: John Hunter, Brunel University, UK

**The Effect of World and Domestic Economic Factors on European Stock Markets: An Empirical Analysis between 2001 and 2010**  
*Theodoros Spyridis, Technological Education Institute of Kavala, Greece  
Željko Šević, Glasgow Caledonian University, UK  
Nikolaos Theriou, Technological Education Institute of Kavala, Greece  
Discussant: Jose Olmo, Centro Universitario de la Defensa Zaragoza, Spain

**Multifactor consumption based asset pricing models using the US stock market as a reference: evidence from a panel of developed economies.**  
*John Hunter, Brunel University, UK  
Feng Wu, Santander, UK  
Discussant: Theodoros Spyridis, Technological Education Institute of Kavala, Greece
### Session 4d: International Integration IV
Chair: Ron Ratti, University of Western Sydney, Australia

**An Equilibrium Model of ‘Global Imbalances’ Revisited**  
Finn Marten Körner, Carl von Ossietzky Universität Oldenburg, Germany  
Discussant: Vincent Duwicquet, Université Paris Nord, France

**The dynamics of European frontier emerging stock markets comovement: a wavelet approach**  
Jussi Nikkinen, University of Vaasa, Finland  
*Vanja Piljak, University of Vaasa, Finland  
Timo Rothovius, University of Vaasa, Finland  
Discussant: Finn Marten Körner, Carl von Ossietzky Universität Oldenburg, Germany

**Financial integration and stabilization in a Monetary Union without or with bank rationing**  
*Vincent Duwicquet, Université Paris Nord, France  
Jacques Mazier, Université Paris Nord, France  
Discussant: Finn Marten Korner, Carl von Ossietzky Universität Oldenburg, Germany

### Session 4e: Modelling
Chair: Florian Resch, Oesterreichische Nationalbank, Austria

**Solution and Simulation of Large Stock Flow Consistent Monetary Production Models via the Gauss Seidel Algorithm**  
Stephen Kinsella, University of Limerick, Ireland  
Discussant: Florian Resch, Oesterreichische Nationalbank, Austria

**An Empirical Study of the World Price of Sustainability**  
Yuchao Xiao, Monash University, Australia  
Robert Faff, University of Queensland, Australia  
*Philip Gharghori, Monash University, Australia  
Darren Lee, University of Queensland, Australia  
Discussant: Stephen Kinsella, University of Limerick, Ireland

**Consistent Joint Testing of Calibration Quality in the Presence of Default Dependence**  
Manuel Lingo, WU Wirtschafts Universität Wien & Oesterreichische Nationalbank, Austria  
*Florian Resch, Oesterreichische Nationalbank, Austria  
Discussant: Philip Gharghori, Monash University, Australia

### Session 4f: No Session

### Session 4g: Exchange Rates
Chair: Gerald P Dwyer, Federal Reserve Bank of Atlanta, USA

**The Effect of Capital Controls on Exchange Rate Risk**  
*Roald Versteeg, University of London Birkbeck, UK  
Stefan Straetmans, Maastricht University, Netherlands  
Discussant: Gerald P Dwyer, Federal Reserve Bank of Atlanta, USA

**Asymmetric Foreign Exchange Exposure and Foreign Currency Denominated Debt: International Evidence**  
*Sung Bae, Bowling Green State University, USA  
Taek Ho Kwon, Chungnam National University, South Korea  
Discussant: Roald Versteeg, University of London Birkbeck, UK

**Learnings across Countries: Purchasing Power Parity**  
*Gerald P Dwyer, Federal Reserve Bank of Atlanta, USA  
Mark Fisher, Federal Reserve Bank of Atlanta, USA  
Thomas Flavin, National University of Ireland, Maynooth, Ireland  
James R Lothian, Fordham University, USA  
Discussant: Sung Bae, Bowling Green State University, USA
### Session 4h: Integration & Trading

**Chair:** Mark Cummins, University of Limerick, Ireland

1. **How strong is the global integration of emerging market regions? An empirical assessment**
   - Duc Khuong Nguyen, ISC Paris School of Management, France
   - Khaled Guesmi, Université Paris Ouest, France
   - Discussant: Mark Cummins, University of Limerick, Ireland

2. **Global financial crisis and microstructure destabilization in ASEAN countries**
   - Céline Gimet, Université de Lyon 2, GATE & CNRS, France
   - Thomas Lagoarde-Segot, EUROMED Marseille Ecole de Management, France
   - Discussant: Khaled Guesmi, Université Paris Ouest, France

3. **A Unified Analysis of Emissions and Energy Market Interactions across the EU**
   - Mark Cummins, University of Limerick, Ireland
   - Patrick O'Shea, University of Limerick, Ireland
   - Kieran Lyons, University of Limerick, Ireland
   - Discussant: Thomas Lagoarde-Segot, EUROMED Marseille Ecole de Management, France

### Session 4i: Precious Metals

**Chair:** Brian Lucey, Trinity College Dublin, Ireland

1. **Do Precious Metals Still Shine Amidst Financial Crises?**
   - David McDonagh, Dublin Institute of Technology, Ireland
   - Lucia Morales, Dublin Institute of Technology, Ireland
   - Discussant: Patrick Stephan, Westfälische Wilhelms-Universität Münster, Germany

2. **Is There a Speculative Bubble in the Price of Gold?**
   - Jedrzej Bialkowski, University of Canterbury, New Zealand
   - Martin Bohl, Westfälische Wilhelms-Universität Münster, Germany
   - Patrick Stephan, Westfälische Wilhelms-Universität Münster, Germany
   - Tomasz Wisniewski, University of Leicester, UK
   - Discussant: Brian Lucey, Trinity College Dublin, Ireland

### Session 4j: Exposure & Value

**Chair:** Sandra Dow, Monterey Institute of International Studies, USA

1. **Interest rate sensitivity of European firms**
   - Frédéric Délèze, Hanken School of Economics, Finland
   - Timo Korkeamaki, Hanken School of Economics, Finland
   - Discussant: Sandra Dow, Monterey Institute of International Studies, USA

2. **The Management of Foreign Exchange Exposures**
   - Göran Bergendahl, Göteborg University, Sweden
   - Stefan Sjögren, Göteborg University, Sweden
   - Discussant: Frédéric Délèze, Hanken School of Economics, Finland

3. **Hedging Strategies of Non-Financial Firms under Different Economic Conditions: Evidence from Canada**
   - Wendy Rotenberg, University of Toronto, Canada
   - Discussant: Stefan Sjögren, Göteborg University, Sweden

4. **Greenhouse Gas Emissions Mitigation and Firm Value: A Study of Large European and North American Firms**
   - Raj Aggarwal, University of Akron, USA
   - Sandra Dow, Monterey Institute of International Studies, USA
   - Discussant: Wendy Rotenberg, University of Toronto, Canada
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<td>Preparing for Basel IV – Why Liquidity Risks Still Present a Challenge to Regulators in Prudential Supervision (II)</td>
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<td>Marianne Ojo, Oxford Brookes University, UK</td>
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<td>Leverage and risk in US commercial banking in the light of the current financial crisis</td>
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<td>*Nikolaos Papanikolaou, Université du Luxembourg &amp; NYU, Luxembourg &amp; USA</td>
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<td>Christian Wolff, Université du Luxembourg, Luxembourg</td>
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<td>Portfolio selection with commodities under conditional dependence and skew preferences</td>
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<td>*Carlos Gonzalez-Pedraz, Universidad Carlos III de Madrid, Spain</td>
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<td>Manuel Moreno, University of Castilla-La Mancha, Spain</td>
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<td>Juan Ignacio Peña, Universidad Carlos III de Madrid, Spain</td>
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<td>Discussant: Stefan Straetmans, Maastricht University, Netherlands</td>
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<td>The Cross-Section of Tail Risks in Stock Returns</td>
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<td>Chen Zhou, Erasmus Universiteit Rotterdam, Netherlands</td>
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<td>Long-Term Asset Tail Risks in Developed and Emerging Markets</td>
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<td>Discussant: Kyle Moore, Erasmus Universiteit Rotterdam, Netherlands</td>
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<td>Do Natural Resource Revenues Hinder Financial Development? The Role of Political Institutions</td>
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<td>*Sambit Bhattacharyya, University of Oxford, UK</td>
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<td>Roland Hodler, Study Center Gerzensee, Switzerland</td>
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<td>Discussant: Dirk Baur, University of Technology, Sydney, Australia</td>
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<td>Lucia Baldi, Università degli Studi di Milano, Italy</td>
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<td>Massimo Peri, Università degli Studi di Milano, Italy</td>
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<td>Building Legal Indexes to explain Recovery Rates: An Analysis of the French and UK Bankruptcy Codes</td>
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<td>Nirjar Nigam, Luxembourg School of Finance, Luxembourg</td>
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<td>Anil Mishra, University of Western Sydney, Australia</td>
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<td>*Ronald Ratti, University of Western Sydney, Australia</td>
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<td>Discussant: Régis Blazy, Université de Strasbourg, France</td>
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### Session 5e: Contagion & Crises

**Chair:** Mark Griffiths, Miami University, USA

- **Actual and Potential Market Risks during the Stock Market Turmoil 2007-2008**
  *Mikael Bask, Uppsala University, Sweden
  Anna Widerberg, Göteborg University, Sweden
  Discussant: Mark Griffiths, Miami University, USA

- **Is there life in the old dogs yet? Making break-tests work on financial contagion**
  *Bartosz Gebka, Newcastle University, UK
  Michail Karoglou, Aston University, UK
  Discussant: Mikael Bask, Uppsala University, Sweden

  *Mark Griffiths, Miami University, USA
  Vladimir Kotomin, Illinois State University, USA
  Drew Winters, Texas Tech University, USA
  Discussant: Bartosz Gebka, Newcastle University, UK

### Session 5f: No Session

### Session 5g: Mergers & Privatisation

**Chair:** Arnold Cowan, Eventus & Iowa State University, USA

- **Privatization and Globalization: An Empirical Analysis**
  Narjess Boubakri, American University of Sharjah, UAE
  Jean-Claude Cosset, HEC Montréal, Canada
  *Pascale Valery, HEC Montréal, Canada
  Discussant: Jens Hagendorff, The University of Edinburgh, UK

- **The Safety and Soundness Effects of Bank M&A in the EU**
  *Jens Hagendorff, The University of Edinburgh, UK
  Maria J Nieto, Banco de España, Spain
  Larry Wall, Federal Reserve Bank of Atlanta, USA
  Discussant: Arnold Cowan, Eventus & Iowa State University, USA

- **The Other Side of Privatization: Acquirer Performance**
  Ginka Borisova, Iowa State University, USA
  *Arnold Cowan, Eventus & Iowa State University, USA
  Discussant: Pascale Valery, HEC Montréal, Canada

### Session 5h: CDS I

**Chair:** Robert Vermeulen, De Nederlandsche Bank, Netherlands

- **Reduced-Form Evidence of Levy-Driven Dynamics in Credit Default Swap Prices**
  Gareth Moloney, University of Limerick, Ireland
  *Bernard Murphy, University of Limerick, Ireland
  Discussant: Jiri Svec, The University of Sydney, Australia

- **Capital Structure Arbitrage: An Analysis of the Australian CDS Market**
  *Jiri Svec, The University of Sydney, Australia
  Nicholas Reeves, The University of Sydney, Australia
  Discussant: Bernard Murphy, University of Limerick, Ireland

- **The Information Content of Ratings: An Analysis of Australian CDS Spreads**
  *Maurice Peat, The University of Sydney, Australia
  Jue Wang, The University of Sydney, Australia
  *Jiri Svec, The University of Sydney, Australia
  Discussant: Robert Vermeulen, De Nederlandsche Bank, Netherlands

### Session 5i: Volatility

**Chair:** Can Inci, Bryant University, USA

- **Volatility patterns of CDS, bond and stock markets before and during the financial crisis: Evidence from major financial institutions**
  Ansgar Belke, Universität Duisburg Essen, DIW Berlin & IZA Bonn, Germany
  *Christian Gokus, Universität Duisburg Essen, Germany
  Discussant: Viviana Fernandez, Pontificia Universidad Catolica de Chile, Chile

- **Stock volatility and pension funds’ holdings in an individual capitalization-based system**
  Viviana Fernandez, Pontificia Universidad Catolica de Chile, Chile
  Discussant: Christian Gokus, Universität Duisburg Essen, Germany
**Session 5j: Equity Investments**

Chair: Camilo Mondragon-Velez, International Finance Corporation – World Bank Group, USA

**Short Selling and Stock Returns: Evidence from the UK**
Aziz Jaafar, Bangor University, UK
*Azhar Mohamad, Bangor University, UK
Lynn Hodgkinson, Bangor University, UK
Jo Wells, Bangor University, UK
Discussant: Anuk Serechetapongse, Cornell University, USA

**Revisiting the Stealth Trading Hypothesis**
*David Abad, Universidad de Alicante, Spain
Roberto Pascual, Universitat de les Illes Balears, Spain
Discussant: Stuart McLeay, The University of Sydney, Australia

**Equity Prices and Equity Flows: Testing Theory of the Information-Efficiency Tradeoff**
Razin Assaf, Cornell University, USA
*Anuk Serechetapongse, Cornell University, USA
Discussant: David Abad, Universidad de Alicante, Spain
## Parallel Sessions 6: Tuesday, 14 June 2011  
**1600-1730**

### Session 6a: Banking II
**Chair:** Stefanie Kleimeier, Maastricht University, The Netherlands

**Why Do Banks Ask for Collateral in SME lending?**  
*Régis Blazy, Université de Strasbourg, France*  
Laurent Weill, Université de Strasbourg, France  
**Discussant:** Rama Seth, Indian Institute of Management Calcutta, India

**An Investigation into the Relationship between the Multinationality of Banks and their Cost of Equity**  
*Philip Beattie, Trinity College Dublin, Ireland*  
Jennifer Berrill, Trinity College Dublin, Ireland  
Aleksandar Šević, Trinity College Dublin, Ireland  
**Discussant:** Régis Blazy, Université de Strasbourg, France

**Lending Activities of Foreign Banks during Three US Recessions**  
Anoop Rai, Hofstra University, USA  
*Rama Seth, Indian Institute of Management Calcutta, India*  
Sunil Mohanty, University of St Thomas, USA  
**Discussant:** Harald Sander, Cologne University of Applied Sciences & Maastricht University, Germany

### Session 6b: Corporate Control
**Chair:** Maxwell Stevenson, The University of Sydney, Australia

**Employee-Governed Firm and Capital Structure**  
*Matjaž Črnigoj, Institute for Economic Research, Slovenia*  
Dušan Mramar, University of Ljubljana, Slovenia  
**Discussant:** Maxwell Stevenson, The University of Sydney, Australia

**Risk Management, Corporate Governance, and Bank Holding Company Performance in the Financial Crisis**  
Subramanian Iyer, Oklahoma State University, USA  
Takeshi Nishikawa, St John’s University, USA  
Ramesh Rao, Oklahoma State University, USA  
*William Simpson, Oklahoma State University, USA*  
**Discussant:** Matjaž Črnigoj, Institute for Economic Research, Slovenia

**Takeover Prediction Using Forecast Combinations**  
Bruno Dore Rodrigues, The University of Sydney, Australia  
*Maxwell Stevenson, The University of Sydney, Australia*  
**Discussant:** William Simpson, Oklahoma State University, USA

### Session 6c: Cross Listings
**Chair:** Graham Partington, The University of Sydney, Australia

**What Makes the Bonding Stick? A Natural Experiment Involving the Supreme Court and Cross-Listed Firms**  
*Amir Licht, IDC Interdisciplinary Center Herzliya, Israel*  
Xi Li, Boston College, USA  
Jordan Siegel, Harvard University, USA  
**Discussant:** Graham Partington, The University of Sydney, Australia

**Cross-listing Across European Markets and Accruals Management**  
*Stuart McLeay, The University of Sydney, Australia*  
Christina Dargenidou, University of Exeter, UK  
Aziz Jaafar, Bangor University, UK  
**Discussant:** Amir Licht, IDC Interdisciplinary Center Herzliya, Israel

**Taxes international clienteles and the value of ADR dividends**  
Jun Aelee, University of Wollongong, Australia  
*Graham Partington, The University of Sydney, Australia*  
**Discussant:** Aziz Jaafar, Bangor University, UK
**Session 6d: Real Estate**  
Chair: Gunter Löffler, Universität Ulm, Germany

**Housing And The Macroeconomy**  
*Ambrogio Cesa-Bianchi, Università Cattolica del Sacro Cuore, Italy*  
Alessandro Rebucci, Inter-American Development Bank, USA  
Discussant: Peter N Posch, Universität Ulm, Germany

**Hedge Funds and the US Real Estate Bubble: Evidence from NYSE Real Estate Companies**  
*Theodoros Stamatiou, University of Piraeus, Greece*  
Gikas Hardouvelis, University of Piraeus, Greece  
Discussant: Ambrogio Cesa-Bianchi, Università Cattolica del Sacro Cuore, Italy

With bail-outs there is no bad news: market reactions to house price releases  
*Peter N Posch, Universität Ulm, Germany*  
Gunter Löffler, Universität Ulm, Germany  
Discussant: Theodoros Stamatiou, University of Piraeus, Greece

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**Session 6e: Contagion**  
Chair: Marcello Pericoli, Banca d’Italia, Italy

**International Transmission of Bank and Corporate Distress**  
Qianying Chen, Hong Kong Monetary Authority, Hong Kong  
Dale Gray, IMF International Monetary Fund, USA  
Papa N’Diaye, IMF International Monetary Fund, USA  
Hiroko Oura, IMF International Monetary Fund, USA  
*Natalia Tamirisa, IMF International Monetary Fund, USA*  
Discussant: Emidio Cocozza, Banca d’Italia, Italy

**Testing for East-West Contagion in the European Banking Sector during the Financial Crisis**  
Paolo Piselli, Banca d’Italia, Italy  
*Emidio Cocozza, Banca d’Italia, Italy*  
Discussant: Natalia Tamirisa, IMF International Monetary Fund, USA

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**Session 6f: No Session**

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**Session 6g: Money**  
Chair: Stephen Kinsella, University of Limerick, Ireland

**Long-run Money Demand in OECD Countries: Cross-Member Cointegration**  
Frauke Dobnik, Universität Duisburg Essen, Germany  
Discussant: Lars Winkelmann, Freie Universität Berlin, Germany

**A commodity-based SI currency numeraire: isolation of commodity prices from currency exchange rate volatility**  
Ian Mcfarlane, The University of Reading, UK  
Discussant: Frauke Dobnik, Universität Duisburg Essen, Germany

**The Norges Bank’s key rate projections and the news element of monetary policy: a wavelet based jump detection approach**  
Lars Winkelmann, Freie Universität Berlin, Germany  
Discussant: Ian Mcfarlane, The University of Reading, UK

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**Session 6h: CDS II**  
Chair: Maurice Peat, The University of Sydney, Australia

**A Case for Europe: the Relationship between Sovereign CDS and Stock Indexes.**  
Maria Coronado, Universidad Pontificia Comillas de Madrid, Spain  
*Teresa Corzo, Universidad Pontificia Comillas de Madrid, Spain*  
Laura Lazcano, Universidad Pontificia Comillas de Madrid, Spain  
Discussant: Maurice Peat, The University of Sydney, Australia

**Are All Credit Default Swap Databases Equal?**  
*Sergio Mayordomo, CNMV Comision Nacional del Mercado de Valores, Spain*  
Juan Ignacio Peña, Universidad Carlos III de Madrid, Spain  
Eduardo S Schwartz, UCLA, USA  
Discussant: Teresa Corzo, Universidad Pontificia Comillas de Madrid, Spain

**Transmission of the Financial and Sovereign Debt Crises to the EMU: Stock Prices, CDS Spreads and Exchange Rates**  
Theoharry Grammatikos, Université du Luxembourg, Luxembourg  
*Robert Vermeulen, De Nederlandsche Bank, Netherlands*  
Discussant: Sergio Mayordomo, CNMV Comision Nacional del Mercado de Valores, Spain
### Session 6i: Sentiment

**Chair:** Frank McGroarty, University of Southampton, UK

**The Value Relevance of Sentiment**
*Peter Dunne, Central Bank of Ireland, Ireland
John Forker, University of Bath, UK
Andrey Zholos, Queen’s University Belfast, UK
Discussant: Frank McGroarty, University of Southampton, UK

**Textual sentiment analysis in finance: A survey of methods and models**
Colm Kearney, Trinity College Dublin, Ireland
*Sha Liu, Trinity College Dublin, Ireland
Discussant: Peter Dunne, Central Bank of Ireland, Ireland

**Market Reaction Around Quarterly Earnings Announcements: The Case of Market Sectors and Impact of Sentiment**
*Frank McGroarty, University of Southampton, UK
Charles Dapaah-Siakwan, University of Southampton, UK
Discussant: Sha Liu, Trinity College Dublin, Ireland

### Session 6j: Models of Stock Prices

**Chair:** Sergey Gelman, Higher School of Economics, Russian Federation

**Do equity values embed or ignore the issuance of asset-backed securities?**
Simon Wolfe, University of Southampton, UK
Discussant: Sergey Gelman, Higher School of Economics, Russian Federation

**Bounding Security Prices in Incomplete Markets. Does Stochastic Volatility Matter?**
*Manuel Moreno, University of Castilla-La Mancha, Spain
Naroa Marroquin-Martinez, University of the Basque Country, Spain
Discussant: Simon Wolfe, University of Southampton, UK

**Option pricing on target stock under multiple decision reversions**
*Sergey Gelman, Higher School of Economics, Russian Federation
Bernd Wilfling, Westfälische Wilhelms-Universität Münster, Germany
Discussant: Manuel Moreno, University of Castilla-La Mancha, Spain
Abstracts

Parallel Sessions 1
Monday, 13 June 2011, 0930-1100

Session 1a, Synge: Banking I
Chair: Ian Cooper, London Business School, UK

Business Cycle Effects on Commercial Bank Loan Portfolio Performance in Developing Economies
Jack Glen, International Finance Corporation – World Bank Group, USA
*Camilo Mondragon-Velez, International Finance Corporation – World Bank Group, USA
Discussant: Garen Markarian, IE Business School, Spain

This paper studies the business cycle effects on the performance of commercial bank loan portfolios across major developing economies in the period 1996-2008. We measure loan performance via loan loss provisions (that is, recognized expenses related to expected losses in bank income statements). Our results indicate that while economic growth is the main driver of loan portfolio performance, interest rates have second-order effects. Furthermore, we find the relationship between loan loss provisions and economic growth to be highly non-linear only under extreme economic stress: GDP growth needs to decline by more than 6 percentage points (pp, in absolute terms) in order to generate an increase in loan loss provisions equivalent to the median emerging market bank profitability; while a decline of more than 10 pp in growth implies significant capital losses, of at least 20 percent, for the median emerging market bank. In addition, we find higher loan loss provisions are associated with private sector leverage, poor loan portfolio quality, and lack of banking system penetration and capitalization.

The real effects of bank branch deregulation at various stages of economic development: The European experience
José Manuel Pastor, Universitat de València, Spain
Lorenzo Serrano, Universitat de València, Spain
*Emili Tortosa Ausina, Universitat Jaume I & IVIE, Spain
Discussant: Camilo Mondragón-Velez, International Finance Corporation – World Bank Group, USA

This paper provides evidence on the links between financial deregulation and economic performance in a European context. Specifically, we study the relaxation of bank branching restrictions in Spain which triggered off a remarkable inter-regional expansion of savings banks which has been coincidental with an unprecedented period of sustained growth. Although related questions have been largely investigated for the US, the European experiences remain largely unexplored. An additional contribution is the use of quantile regression techniques which, unlike traditional OLS regression analyses, do not focus on the “average effect for the average province”. This change of focus helps overcoming the difficulties found by previous studies for identifying any strong link between financial deregulation and growth. We also extend the analysis to other measures of economic activity, not only per capita income but also labor productivity and capital intensity. Our main findings indicate that, should bank inter-regional branch deregulation had any positive effect, the most benefited provinces would be the least developed ones.

Investment Horizon, Risk, and Compensation in the Banking Industry
*Garen Markarian, IE Business School, Spain
Gilad Livne, City University London, UK
Discussant: Emili Tortosa Ausina, Universitat Jaume I & IVIE, Spain

This paper examines the relation between investment mix of banks and CEO compensation during 2000-2008. We find that banks with larger short-term investments pay more cash bonus, while long-term loans are unrelated to bonus compensation and are negatively related to equity-based compensation. Moreover, we find that short-term investments are positively related to share price volatility, and especially systematic volatility, while they don’t increase firm performance. This evidence is broadly consistent with the view that compensation schemes encouraged a risky short-term investment focus, which was incongruent with shareholders’ interest. Higher short-term risk accompanied with high cash compensation implies banks were exposed to the ex-post settling up problem. However, in the credit crisis years the relation between short-term investments and compensation is much weaker, suggesting possible modification by banks of pay arrangements as a result of public and political pressure.

Session 1b, Emmet: Bank Lending
Chair: Diana Knyazeva, University of Rochester, USA

Global diffusion of the non-traditional banking model and alliance networks: Social exposure, learning and moderating regulatory effort
*Alexander Cuntz, EC JRC Institute for Prospective Technological Studies, Spain
Knut Blind, Technische Universität Berlin, Germany
Discussant: Anzhela Knyazeva, University of Rochester, USA

We analyze the impact of (alliance) network exposure on the speed and extent of adoption of the business model as being one explanatory factor for diffusion controlling for actor specific characteristics and embeddedness in the network. In order to explain how existing national regulation moderated this relationship and whether it succeeded in its risk-limiting mission by moderating global adoption patterns and risk-bearing behavior among financial institutions we estimate various history event analysis model i.e. standard Cox and extended frailty models. We find strong support for the role of network exposure rather than social learning, the impact of regulatory effort on patterns of adoption and the role of country clusters for diffusion in the financial sector.

Keywords. Diffusion, networks, alliances, banking, regulation, social learning, exposure

A Gravity Equation for Bank Loans
Bettina Brüggemann, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany
Jörn Kleinen, Universität Graz, Austria
*Esteban Prieto, Eberhard Karls Universität Tübingen, Germany
Discussant: Alexander Cuntz, EC JRC Institute for Prospective Technological Studies, Spain

We present a gravity equation for bank loans derived from a firms search for the “ideal” loan offered by a bank. A loan offer can have various criteria (maturity, amount, timing, collateral, disclosure requirements) that imply costs that go beyond the mere interest rate. A firm will choose the cost minimizing bank loan. Based on this decision criterion, we derive the probability of a firm from country i choosing any bank from country j for the desired loan contract. We then use this probability to model the total volume of bank loans issued in country j to firms in i. The resulting equation resembles a gravity equation for cross-border bank loans which proposes fixed-effects at the lending country and the borrowing country. We estimate the gravity equation using different methods while controlling for the unobserved heterogeneity proposed by our theoretical model.

Keywords: Gravity Equation, Cross-border bank lending

The Geography of Bank Lending: Why Being Neighbors With Your Bank Still Matters
*Anzhela Knyazeva, University of Rochester, USA
Diana Knyazeva, University of Rochester, USA
Discussant: Esteban Prieto, Eberhard Karls Universität Tübingen, Germany

This paper provides new evidence on the role of distance between banks and borrowers in bank lending. We argue that delegated monitors face higher costs of collecting information about non-local borrowers due to the difficulty of obtaining and verifying soft information over distances.

Keywords: Ex-post settling up, trading strategies, compensation, short-term investment, credit crisis
Further, the higher information collection and monitoring costs associated with distance should be reflected in loan terms. Empirically, loan spreads are increasing in the distance between borrowers and lenders. The result continues to hold after we account for the optimal choice of distance in a two-stage setting that uses variation in local lender availability and distance preferences typical in the borrower’s industry and region to identify the spread-distance relation. Moreover, the distance effect is magnified during high volatility periods when banks face greater information collection hurdles. Finally, we consider the relation between distance and other loan terms. We find that banks are more likely to include covenant provisions or require collateral when lending to borrowers located far away.

Keywords: bank lending, spreads, covenants, geography, distance between borrowers and lenders

Session 1c, Swift: BRIC I
Chair: Anatoly Peresetsky, Higher School of Economics, CEMI RAS & NES, Russian Federation

An Empirical Study of Exchange Rate Pass Through in China
Xiaowen Jin, Ludwig-Maximilians-Universität München, Germany
Discussant: Bernhard Mahlberg, WU Wirtschafts Universität Wien, Austria

This paper estimates exchange rate pass through in China and investigates its relationship with monetary policy, especially the debate of exchange rate regime, by applying single equation model. Result shows that 1% appreciation of NEER declines 0.132% CPI inflation rate and 0.495% PPI inflation rate over the long run. When monetary policy regime is considered, such as exchange rate regime and inflation environment, I find that monetary policy regime matters for CPI pass through, but not for PPI. Especially, CPI pass through in fixed exchange rate period is higher, combined with the fact that appreciation declines inflation rate, it implies Chinese government could pursue more flexible exchange rate policy. In addition, reason for low CPI exchange rate pass through is also discussed, from the aspect of price control, basket and weight of Chinese price indices, distribution cost, non-tradable share and imported input.

Keywords: Pass through, Exchange rate, Consumer price, Producer price, Monetary policy

The internationalisation of the Brazilian Real: An empirical investigation
Annina Kaltenbrunner, University of London, School of Oriental and African Studies, UK
Discussant: Xiaowen Jin, Ludwig-Maximilians-Universität München, Germany

This paper highlights one very recent and novel aspect of the process of financial internationalisation: the internationalisation of developing and emerging market currencies, i.e. the increased use of these currencies as international medium of exchange and primarily store of wealth and speculative assets. Using single-equation and multivariate cointegration analysis and multivariate GARCH models the paper provides empirical evidence that the Brazilian Real has become such an internationalised currency. It further shows the implications this process had for exchange rate dynamics. More concretely, it tests the hypotheses that, as a result of its internationalisation, movements in the Brazilian Real have become increasingly determined by short-term returns and international market conditions. Econometric results confirm these hypotheses which potentially have important policy implications for developing and emerging countries negotiating the nature of their integration in the global economy.

Russian Banking: The impact of ownership on efficiency and performance
Ulla Bernhart, WU Wirtschafts Universität Wien, Austria
*Bernhard Mahlberg, WU Wirtschafts Universität Wien, Austria
Peter Hais, WU Wirtschafts Universität Wien, Austria
Discussant: Annina Kaltenbrunner, University of London, School of Oriental and African Studies, UK

This paper analyses the development of the Russian banking sector over the period 2001-2007 to assess the impact of ownership differences on the operations of commercial banks. The stochastic frontier approach is employed for a sample of the 50 largest Russian banks to determine efficiency differences between foreign-owned, domestic private and state-owned banks. We find that the overall efficiency of the Russian banking market decreased over the observed period if technical change is taken into account. The estimation results further suggest that foreign banks are more efficient than state-owned banks, and state-owned banks achieve higher efficiency levels than private domestic banks. These results are consistent with the development of the market share of private domestic banks after the crisis. Finally the lower efficiency of the private segment of the Russian banking sector seems to be due to the higher interest rates, which private banks have to pay for their deposits.

Session 1d, UI Chadhain: International Integration I
Chair: Charlie Reuter, ESCP Europe, France

Evidence on financial integration in Asian emerging markets
Andrew Worthington, Griffith University, Australia
Discussant: Charlie Reuter, ESCP Europe, France

This paper measures the extent of interdependence suggestive of financial market integration among 5 Asian equity markets over the period January 1993 to June 2006 using daily data. The analysis includes three developed markets (Hong Kong, Japan and Singapore) and eight emerging markets (China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan and Thailand). The study uses panel unit root tests to test for nonstationarity, and conducts multivariate cointegration, Granger causality and level VAR procedures and variance decomposition to examine the equilibrium and 10 causal relationships between these markets. The results indicate that there is a stationary long-run equilibrium relationship among, and significant and substantial short and long run causal linkages between these Asian equity markets. This evidence suggests that a high level of financial integration currently exists in the Asian region, notwithstanding the absence of extensive formal regional agreements aimed at promoting financial integration as found elsewhere, especially in the European Union.

Liquidity Provision, Ambiguous Asset Returns and the Financial Crises
Willem Spanjers, University of Freiburg, Germany
Discussant: Andrew Worthington, Griffith University, Australia

For an economy with dysfunctional intertemporal financial markets the financial sector is modelled as a competitive banking sector offering deposit contracts. In a setting similar to Allen and Gale (1998, [1]) properties of the optimal liquidity provision are analyzed for illiquid assets with ambiguous returns.

In the context of the model, ambiguity – i.e. incalculable risk – leads to dynamically inconsistent investor behaviour. If the financial sector fails to recognize the presence of ambiguity, unanticipated fundamental crises may occur, which are incorrectly blamed on investors ‘losing their nerves’ and ‘panicking’.

The basic mechanism of the current financial crisis resembles a banking panic in the presence of ambiguous asset returns. The combination of providing additional liquidity and supporting distressed financial institutions implements the regulatory policy suggested by the model.


Keywords: Financial Intermediation, Liquidity Provision, Ambiguity, Choquet Expected Utility, Financial Crisis

Is the relation between business cycles and leverage mediated by structural, institutional or cultural factors?
Charlie Reuter, ESCP Europe, France
Discussant: Willem Spanjers, University of Freiburg, Germany

In traditional financial theorizing, business cycles are of limited relevance for the understanding of capital structure mechanisms. A number of other dimensions are more important (agency costs, market timing, signalling, etc.), and business cycles proxies are not robust in empirical studies (Frank and Goyal, 2009). Recent research has evidenced that, based on a pan-European sample of listed firms, two conflicting mechanisms coexist: a pro-cyclical one, related among other things, to the primary importance of
the disciplining role of debt. The other mechanism, contra-cyclical, is to be observed among firms with concentrated ownership. It is derived from risk-related considerations, comparative benefits and costs of entrenchment or discretion, and it is fostered by incentive-alignments (Reuter, 2010). We suggest that the contra-cyclical effect is underestimated in the literature, because it is of limited relevance in the paradigmatic U.S. role model with broad and liquid stock markets, strong shareholders' rights, and dispersed ownership.

Based on a sample of listed European firms, we show that both the pro- and contra-cyclical mechanisms are mediated by structural, cultural and institutional factors. We show that, on contextual dimensions corresponding to the U.S. context, some pro-cyclicality is observed, while there is limited or no contracyclicality (the first mechanism dominates in aggregate). This observation is reversed when contextual dimensions are opposite to that of the U.S. (the second and opposite mechanism dominates). Further, it encompasses varying dimensions of capital structures (cyclicity of leverage, market timing, dividend policies) and it extends to the following dimensions of context: ownership dispersion, institutional anchoring, transparency and risk, structural firms' variables, the quality of the contracting environment, or still measures of national cultures, particularly the one related to bank-based macro-financial systems. Overall we complement existing institutional approaches, which emphasize the relatedness in varying contextual national dimensions.

Key words: International capital structure; Business cycles; Market Timing; Dividend policies; Ownership dispersion; Institutional context; National Culture; Business Systems.

Session 1f, 3126: Modelling Exchange Rates
Chair: Viviana Fernandez, Pontificia Universidad Catolica de Chile, Chile

Testing the predictability of exchange rate using the shape of yield curves: Evidence from Australia
Anh Tuan Bui, Macquarie University, Australia
Discussant: Joscha Beckmann, Universitat Duisburg Essen, Germany

The paper carries out an empirical investigation of information implied in the term structures of interest rate on exchange rate dynamics. We incorporate the information on macroeconomic fundamentals behind the relative factors of yield curve to forecast exchange rate changes. Our results show that the relative slope and curvature factors of cross country yield curve can predict exchange rate movement and excess returns from one month to two year ahead.

Keywords: Exchange rate, Term structure of interest rate

Information flow in international foreign exchange rates using symbolic transfer entropy
*Gabjin Oh, Chosun University, South Korea
Okyu Kwon, Asia Pacific Center for Theoretical Physics, South Korea
Discussant: Anh Tuan Bui, Macquarie University, Australia

In this paper, we investigate the asymmetry effect of information flow for the 31 daily international foreign exchange rates and also observe the relationship between the differences in the degree of market efficiency and the degree of asymmetry in the information flow. We utilize the symbolic transfer entropy (STE) to estimate the information flows between foreign exchange rates and also use the approximate entropy (ApEn) method which can measure the randomness in time series. We find that the information for the 31 daily international foreign exchange rates streams from European to Asian continents. We then consider the difference in the degree of market efficiency as a driving force of information flow and calculate the ApEn value for all foreign exchange rates used. We find that the degree of asymmetry in information flows between foreign exchange rates shows a strong positive correlation with the difference in the degree of market efficiency. Our finding suggest that for the international foreign exchange markets the difference in the degree of market efficiency plays an important role as a driving force that can determine the direction of information flow.

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External and Budget Deficits in Developing Countries
Foued Chihi, HEC Montreal, Canada
*Michel Normandin, HEC Montreal, Canada
Discussant: Arnaud Mehl, European Central Bank, Germany

This paper documents and explains the positive comovement between the external and budget deficits for several developing countries. First, the covariance estimated from the post-1960 time-series data is numerically positive for all countries and statistically significant for many cases. This is consistent with previous findings obtained from panel regressions. Second, the empirical covariance is close to that predicted by theoretical factors. We decomposed a tractable small-open-economy, overlapping-generation model with heterogeneous goods. Also, the predicted covariance is induced by shocks which are closely related to internal conditions such as domestic resources and fiscal policies, and to a much lesser extent to external conditions such as the world interest rate, real exchange rate, and terms of trade. This structural analysis explaining the joint behavior of the external and budget deficits contrasts with earlier reduced-form studies characterizing the individual behavior of either the external deficit or budget deficit.

Keywords: Covariance Decomposition; Dynamic Responses; Internal and External Conditions; Restricted Vector Autoregression; Small-Open Economy, Overlapping-Generation Model with Heterogeneous Goods.

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Chair: Michel Normandin, HEC Montreal, Canada
Session 1e, 3106: Fiscal Policy
Chair: Michel Normandin, HEC Montréal, Canada

Central Banks' Dilemma: Reserve Accumulation, Inflation and Financial Instability
Andreas Steiner, Universität Osnabrück, Germany
Discussant: Michel Normandin, HEC Montréal, Canada

Central banks' international reserves have increased significantly in the recent past. While this accumulation has been widely perceived as precautionary savings to prevent financial crises, rising reserves might also endanger monetary and financial stability. This paper sheds new light on the implications for financial stability and assesses the consequences for monetary policy on theoretical and empirical grounds. Our estimation results show that the accumulation of reserves raises the inflation rate, both on the global and the individual-country level.

Keywords: International Reserves, Inflation, Panel Data Analysis

Do large fiscal deficits in advanced economies eventually lead to a crash of their currency? A historical perspective
*Arnaud Mehl, European Central Bank, Germany
Isabel Vansteenkiste, European Central Bank, Germany
Marcel Fratzscher, European Central Bank, Germany
Discussant: Andreas Steiner, Universität Osnabrück, Germany

To uncover whether and why large fiscal deficits lead to currency crashes in mature economies, this paper tests three of the main theoretical channels through which such deficits could cause a currency crash in these economies over the last 130 years. To that end, it relies on a new extensive dataset constructed by the authors on real effective exchange rates and fiscal balances in 21 countries over 1880-2009 which extends significantly the time dimension of existing official datasets. The paper finds that large fiscal deficits do lead to currency crashes, but that not all transmission channels matter to the same extent. In particular, there is weak evidence that crashes depend on the magnitude of fiscal deficits per se, and much stronger evidence if those deficits are associated with a banking crisis or if public debt is largely foreign. We also uncover significant nonlinear effects at “high” levels of public debt and fiscal deficits as well as significantly negative risk premia for major reserve currencies, which enjoy a lower probability of currency crash than other currencies ceteris paribus. Our estimates yet indicate that such premia remain small in size relative to the conditional probability of a currency crash if a banking crisis occurs or if public debt is largely foreign. This suggests that a currency’s international status is not necessarily sufficient to shelter it from a possible crash.
Nonlinear adjustment of nominal exchange rates and prices to deviations from Purchasing Power Parity
Joscha Beckmann, Universität Duisburg Essen, Germany
Discussant: Gabijn Oh, Chosun University, South Korea

Although the literature on purchasing power parity (PPP) is rich in controversy, the relative contribution of prices and nominal exchange rates to real exchange rate movements which restore PPP disequilibria has rarely been put under any close scrutiny. Using monthly data from 1973:01 to 2009:12 from the USA, UK, France, and Japan, this paper as a first step applies a cointegrated VAR framework to test for stationary real exchange rates and linear adjustments in prices and nominal exchange rates. As a second step, ESTR error correction models are fitted to test whether nonlinear error correctional behaviour characterizes the data. The results clearly indicate that the nominal exchange rate is responsible for the nonlinear mean reversion behaviour in real exchange rates and also mainly drives overall adjustment. Applying dynamic stochastic simulations based on the estimated models, this study also confirms recent results that the half-live times of real exchange rate shocks are significantly smaller than the consensus benchmark of three to five years.

Keywords: purchasing power parity, cointegration, nonlinear vector error correction

Session 1g, 3051: Cross Border Banking
Chair: Harald Sander, Cologne University of Applied Sciences & Maastricht University, Germany

Corporate Governance Spillover, CEO Compensations, and M&A Synergies for Acquiring Banks: Are Cross-Border M&As Different?
Sheng-Hung Chen, Nanhua University, Taiwan
*Yu-Juin Shen, Nanhua University, Taiwan
Discussant: Stephanie Kleimeier, Maastricht University, Netherlands

Do banks with better corporate governance gain higher premiums through Cross-Border Mergers and Acquisitions (CB M&As)? This question could be partially explained by Weston et al. (2004) indicating that the corporate mergers as a result of expected efficiency-enhancing or synergies with the successful resource integration from targets would create potential value for bidders. The substantial benefits from control changes between target and bidder substantially enlarge synergistic gains via CB M&As. Though previous corporate finance literature has extensively examined such similar question, those issues focus on domestic M&As not only within a single country but also selected regions, and international investigation is surprisingly little known.

Euro Effects in Global Cross-Border Banking
Stephanie Kleimeier, Maastricht University, Netherlands
*Harald Sander, Cologne University of Applied Sciences & Maastricht University, Germany
Discussant: Aleksandar Sević, Trinity College Dublin, Ireland

We use a unique global dataset from the BIS to investigate the effect of the Euro on cross-border banking in a gravity setting. We demonstrate that the Euro increases cross-border depositing among Euro zone countries by around 31%, while the effect on cross-border loans is quantitatively weaker and statistically insignificant at conventional levels. Conversely, the impact of being a member of the EU is very strong for loans (plus 49%) but insignificant for deposits. Our findings that other currency unions do not have the potential to increase cross-border lending and that non-EU regional trading organizations have a strong and positive impact on cross-border deposits but not on loans call for more research in what makes Europe and the Euro zone so special.

Keywords: common currency, Euro, banking market integration, cross-border banking, gravity model, European single market

Financial Crises and Cross-Border Banking: New Evidence
*Stephanie Kleimeier, Maastricht University, Netherlands
Harald Sander, Cologne University of Applied Sciences & Maastricht University, Germany
Sylvia Heuchemer, Cologne University of Applied Sciences, Germany
Discussant: Yu-Juin Shen, Nanhua University, Taiwan

Cross-border banking has increased dramatically in the recent years. We utilize an exclusive and confidential data set for bilateral cross-border loans and deposits in a gravity model setting to estimate the impact of banking and currency crises on cross-border deposits and loans. We show that globalization trends, trade and currency unions have been important drivers of banking globalization and document that financial crises often lead to sustained increases in cross-border deposit and loan holdings. Our results can be valuable in benchmarking whether the current global financial crises will be different.

Keywords: cross-border banking, banking crisis, currency crisis, gravity model, currency union, banking geography

Session 1h, 3071: Emerging Markets
Chair: Thomas Lagoarde-Segot, EUROMED Marseille Ecole de Management, France

Some Stylized Facts of Returns in the Foreign Exchange and Stock Markets in Peru
Alberto Humala, Central Bank of Peru
*Gabriel Rodriguez, Pontificia Universidad Católica de Peru, Peru
Discussant: Samreen Malik, Cornell University, USA

Some stylized facts for foreign exchange and stock market returns are explored using statistical methods. Formal statistics for testing presence of autocorrelation, asymmetry, and other deviations from normality is applied to these financial returns. Dynamic correlations and different kernel estimations and approximations of the empirical distributions are also under scrutiny. Furthermore, dynamic analysis of mean, standard deviation, skewness and kurtosis are also performed to evaluate time-varying properties in return distributions. Main results reveal different sources and types of non-normality in the return distributions in both markets. Left fat tails, excess kurtosis, return clustering and unconditional time-varying moments show important deviations from normality. Identifiable volatility cycles in both forex and stock markets are associated to common macro financial uncertainty events.

Risk Taking by Emerging Economies
Samreen Malik, Cornell University, USA
Discussant: Gabriel Rodriguez, Pontificia Universidad Católica de Peru, Peru

This paper provides a theoretical explanation for the well-documented lack of risk sharing by Emerging Economies. I study a two period model of a small open economy with a risk-averse representative agent who has the opportunity to use international capital flows to fully hedge against country-specific idiosyncratic productivity shocks. However, the country also faces discrete technology and policy regime choices. A simple discrete technology choice and a decision whether to service or default on external debts leads to non-concavities in the agent’s period 2 expected value function. Limited risk sharing can be welfare improving when it represents a randomization over the non-concavities over the period 2 value function. In particular, the model shows that countries can be endogenously separated into three categories. Countries with a high debt to capital ratio default on debt, have low domestic output and low consumption risk. These features are due to the choice of a technology with a low mean and low variance of total factor productivity. Countries with a low debt to capital ratio do not default on debt, have high and volatile domestic output and low consumption risk. The higher output is due to the choice of a high mean and high variance technology, and the low consumption volatility is due to substantial use of risk sharing through international capital ownership. Finally, countries with an intermediate level of debt to capital experience high output, high output volatility and high consumption volatility. It is efficient for countries with intermediate levels of debt to capital to make limited use of international capital ownership, because the implicit risk-taking randomizes over the default and non-default regimes. Hence, the model gives an explanation for the empirical finding (see, e.g., Kose, Prasad and Terrones, 2009) that international borrowing did not lead to increased international risk-
Session 1j, 4050A: Liquidity & Trading
Chair: Kjell Jørgensen, BI Norwegian Business School, Norway

Detection of Algorithmic Trading from Raw Order Book Message Data
*Arne Breuer, Universität Hohenheim, Germany
Discussant: Geir Håidal Bjønnes, BI Norwegian Business School, Norway

We analyse order book message data in order to detect algorithmic trade activity. Previous papers usually analyse order book data with a time stamp precision of one hundredth of a second. In times of co-location, those levels of precision are not sufficient to see effects of ultra-high frequency algorithms. Our Nasdaq-supplied dataset is equipped with a time stamp precision of a billionth of a second. Thus, we ‘zoom in’ and research the sub-millisecond effects of algorithmic trading on the order book. We find evidence of algorithmic trading with the limit order lifetime, limit order revision time, and inter order placement time. In addition to that, we apply the proxies separately on exchange-traded funds and stocks to see if structured products are treated differently than common stocks.

Illiquidity or Credit Deterioration: A Study of Liquidity in the US Corporate Bond Market during Financial Crises
Nils Friewald, WU Wirtschafts Universität Wien, Austria
*Rainer Jankowitsch, WU Wirtschafts Universität Wien, Austria
Marti Subrahmanyam, NYU, USA
Discussant: Arne Breuer, Universität Hohenheim, Germany

We use a unique data-set to study liquidity effects in the US corporate bond market, covering more than 20,000 bonds. Our analysis explores time-series and cross-sectional aspects of corporate bond yield spreads, with the main focus being on the quantification of the impact of liquidity factors, while controlling for credit risk. Our time period starts in October 2004 when detailed transaction data from the Trade Reporting and Compliance Engine (TRACE) became available. In particular, we examine three different regimes during our sample period, the GM/Ford crisis in 2005 when a segment of the corporate bond market was affected, the sub-prime crisis since mid-2007, which was much more pervasive across the corporate bond market, and the period in between, when market conditions were more normal. We employ a wide range of liquidity measures and find in our panel-regression analysis that liquidity effects account for approximately one-tenth of the explained market-wide corporate yield spread changes. During periods of crisis, the economic impact of the liquidity measures increases significantly. Our data-set allows us to examine in greater detail liquidity effects in various sub-segments of the market: investment grade vs. speculative grade bonds, financial sector firms which have been particularly affected by the crisis vs. industrial firms, and retail vs. institutional trades. In addition, our cross-sectional analysis based on Fama-MacBeth regressions shows that liquidity explains an important part of the variation in yield spreads across bonds, after accounting for credit risk. These results yield important insights regarding the liquidity drivers of corporate bond yield spreads, particularly during periods of crisis.

Keywords: liquidity, corporate bonds, financial crises, OTC markets.

Algorithmic Trading: Strategies and Liquidity Provision
*Geir Håidal Bjønnes, BI Norwegian Business School, Norway
Kjell Jørgensen, BI Norwegian Business School, Norway
Discussant: Rainer Jankowitsch, WU Wirtschafts Universität Wien, Austria

This paper examines algorithmic trading strategies with respect to liquidity provision using a unique data set from Oslo Stock Exchange that allow us to separate orders/trades from algorithmic models from other orders/trades at the individual dealer level. We find no evidence that algorithmic strategies are highly correlated. Hence, results suggest that it is unlikely that such models produce excessive volatility. Compared with other investors, algorithmic models are more frequently providing liquidity by submitting limit orders. However, algorithmic models are more often consuming liquidity close to the end of the trading day.

Keywords: Enterprise risk management, career concerns, CEO turnover, insurance company operations

Enterprise Risk Management (ERM) is based on the concept of managing all risks in an integrated, holistic fashion. This research analyzes factors that influence a company’s decision to start an ERM program. Unlike previous research, where ERM adoption is proxied by the existence of a chief risk officer (CRO), we conducted a comprehensive survey to get a direct measure of ERM program adoption. We argue that top management’s decision to adopt ERM is influenced by managerial career concerns. If firm performance deteriorates top management may get fired. Hence, top management might adopt ERM to signal that it can get the firm back on track. Consistent with the career concerns view, we find that negative changes in past firm performance increase a firm’s probability to adopt ERM.

Key words: Enterprise risk management, career concerns, CEO turnover, insurance company operations

Dynamic Determinants of Enterprise Risk Management Adoption in the Financial Services Industry: Evidence from German Property-Liability Insurers
*Muhammed Altuntas, Universität zu Köln (University of Cologne), Germany
Discussant: Manuel Moreno, University of Castilla-La Mancha, Spain

We propose a methodology to calculate market risk measures based on a modified Kalman filter which can be used with incomplete datasets. We implement our approach in a fixed income portfolio within a thin trading environment; however a similar approach may be also applied to other markets. Our methodology provides reliable market risk measures in portfolios with infrequent trading.

Keywords: incomplete panels, Kalman Filter, market risk, risk management, thin trading, value-at-risk.

Business Cycle and Interest Rates: Pricing and Risk Management Under a New Term Structure Model
*Manuel Moreno, University of Castilla-La Mancha, Spain
Federico Platania, University of Castilla-La Mancha, Spain
Discussant: Diether Beuermann, University of Maryland & Inter-American Development Bank, USA

This paper introduces a new macro-financial continuous-time model for the term structure of interest rates assuming that the instantaneous interest rate converges to a certain long-term mean level that depends on the business cycle. In short, our model assumes that this mean reversion level is modeled by using a harmonic oscillator. Under this assumption, we compute closed-form expressions for the values of different fixed income and interest rate derivatives and for relevant risk management measures.

Keywords: CKLS model, interest rates, term structure, continuous-time model, harmonic waves, martingale.

New Term Structure Model
*Geir Håidal Bjønnes, BI Norwegian Business School, Norway
Discussant: Rainer Jankowitsch, WU Wirtschafts Universität Wien, Austria

We analyze order book message data in order to detect algorithmic trade activity. Previous papers usually analyse order book data with a time stamp precision of one hundredth of a second. In times of co-location, those levels of precision are not sufficient to see effects of ultra-high frequency algorithms. Our Nasdaq-supplied dataset is equipped with a time stamp precision of a billionth of a second. Thus, we ‘zoom in’ and research the sub-millisecond effects of algorithmic trading on the order book. We find evidence of algorithmic trading with the limit order lifetime, limit order revision time, and inter order placement time. In addition to that, we apply the proxies separately on exchange-traded funds and stocks to see if structured products are treated differently than common stocks.

Illicity or Credit Deterioration: A Study of Liquidity in the US Corporate Bond Market during Financial Crises
Nils Friewald, WU Wirtschafts Universität Wien, Austria
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Keywords: liquidity, corporate bonds, financial crises, OTC markets.

Session 1i, 4047: Risk Management
Chair: Manuel Moreno, University of Castilla-La Mancha, Spain

Risk Management with Thinly Traded Securities: Methodology and Implementation
Alejandro Bernalles, The University of Manchester, UK
*Diether Beuermann, University of Maryland & Inter-American Development Bank, USA
Gonzalo Cortazar, Pontificia Universidad Católica de Chile, Chile
Discussant: Muhammed Altuntas, Universität zu Köln (University of Cologne), Germany

Thinly traded securities exist worldwide, in both well developed markets (such as the NYSE or the CBOE) and multiple emerging markets. To our surprise, however, methodologies to calculate market risk measures for portfolios with infrequently traded securities appear to be rather limited. We propose a methodology to calculate market risk measures based on a modified Kalman filter which can be used with incomplete datasets. We implement our approach in a fixed income portfolio within a thin trading environment; however a similar approach may be also applied to other markets. Our methodology provides reliable market risk measures in portfolios with infrequent trading.

Keywords: incomplete panels, Kalman Filter, market risk, risk management, thin trading, value-at-risk.

Business Cycle and Interest Rates: Pricing and Risk Management Under a New Term Structure Model
*Manuel Moreno, University of Castilla-La Mancha, Spain
Federico Platania, University of Castilla-La Mancha, Spain
Discussant: Diether Beuermann, University of Maryland & Inter-American Development Bank, USA

This paper introduces a new macro-financial continuous-time model for the term structure of interest rates assuming that the instantaneous interest rate converges to a certain long-term mean level that depends on the business cycle. In short, our new model assumes that this mean reversion level is modeled by using a harmonic oscillator. Under this assumption, we compute closed-form expressions for the values of different fixed income and interest rate derivatives and for relevant risk management measures.

Keywords: CKLS model, interest rates, term structure, continuous-time model, harmonic waves, martingale.

Dynamic Determinants of Enterprise Risk Management Adoption in the Financial Services Industry: Evidence from German Property-Liability Insurers
*Muhammed Altuntas, Universität zu Köln (University of Cologne), Germany
Discussant: Manuel Moreno, University of Castilla-La Mancha, Spain

Enterprise Risk Management (ERM) is based on the concept of managing all risks in an integrated, holistic fashion. This research analyzes factors that influence a company’s decision to start an ERM program. Unlike previous research, where ERM adoption is proxied by the existence of a chief risk officer (CRO), we conducted a comprehensive survey to get a direct measure of ERM program adoption. We argue that top management’s decision to adopt ERM is influenced by managerial career concerns. If firm performance deteriorates top management may get fired. Hence, top management might adopt ERM to signal that it can get the firm back on track. Consistent with the career concerns view, we find that negative changes in past firm performance increase a firm’s probability to adopt ERM.

Key words: Enterprise risk management, career concerns, CEO turnover, insurance company operations

Sharing among emerging economies, even after the wave of capital integration in the 1990’s.
Session 2a, Syngè: Banks, Competition & Failure
Chair: Vincent Bouvatier, Université Paris Ouest, France

Bank Failure Prediction: Empirical Evidence from Asian Banks
*Terrence Hallahan, RMIT University, Australia
Richard Heaney, RMIT University, Australia
Dirk Hollander, zeb/rolfes.schierenbeck.associates gmbh, Germany
Tony Naughton, RMIT University, Australia
Malick Sy, RMIT University, Australia
Discussant: Vincent Bouvatier, Université Paris Ouest, France

This research contributes to the literature on bank failure prediction by augmenting the set of traditional bank-specific financial distress indicators incorporated in econometric bank failure forecasting models, with a range of indicators that capture information relating to a bank's business structure, off-balance sheet items, derivative investments and credit risk. To evaluate both classification accuracy and to estimate probable time to failure, we use a Cox proportional hazards model incorporating an expanded vector of explanatory variables in the hazard function. Our data set comprises both publicly-listed banks and private banks, engaged in commercial banking or investment banking, from nine Central and East Asian countries, over the period 2000-2009. We also estimate a Probit model incorporating the same explanatory variables to provide a benchmark for evaluation of the classification accuracy of the Cox model. We find that while variables relating to a bank's derivative investments and credit risk have predictive power, variables relating to business structure and off-balance sheet items do not have a role in bank failure prediction in our sample.

Efficiency and Probability of Default in Cooperative Banks
Franco Fiordelisi, Università Roma Tre, Italy
*Davide Salvatore Mare, Università Roma Tre, Italy
Discussant: Terrence Hallahan, RMIT University, Australia

Cooperative banks are small and their survival is not guaranteed by the “Too Big To Fail” policy so that their default can be concrete in time of crises. We analyze the contribution of efficiency to cooperative bank probability of default. We estimate several measures of bank efficiency (focusing on costs, revenues, net profits, operating income, intermediation and interest margins) and we run the survival analysis to identify if different managerial abilities play a different role. By using a discrete-time survival model, we show that efficiency has a positive and statistically significant link with the probability of survival of cooperative banks.

Keywords: Bank failure, Small banks, Efficiency measures, Hazard model.

On the link between credit procyclicality and bank competition
*Vincent Bouvatier, Université Paris Ouest, France
Antonia López-Villavicencio, Université Paris Nord, France
Valéne Mignon, Université Paris Ouest & CEPII, France
Discussant: Davide Salvatore Mare, Università Roma Tre, Italy

This paper investigates the relationship between bank competition and credit procyclicality for 17 OECD countries in the 1980-2009 period. We account for heterogeneity among countries in terms of bank competition through the use of a hierarchical clustering methodology. We then estimate panel VAR models for the identified sub-groups of economies to investigate whether credit procyclicality is more important when the degree of bank competition is high. Our findings show that while credit significantly responds to shocks to GDP, the degree of bank competition is not essential in assessing the procyclicality of credit for OECD countries.

Keywords: Credit cycle, economic cycle, bank competition, financial stability, panel VAR.
**Session 2c, Swift: BRIC II**

Chair: Lucia Morales, Dublin Institute of Technology, Ireland

What factors does Russian stock market depend on?

Anatoly Peresetsky, Higher School of Economics, CEMI RAS & NES, Russian Federation

Discussant: Lucia Morales, Dublin Institute of Technology, Ireland

This paper empirically test the dependence of the Russian stock market on the world stock market, world oil prices and Russian political and economic news during the period 2001-2010. We find that oil prices are not significant after 2006, the Japan stock index is significant over the whole period, since it is the nearest market index in terms of closing time to the Russian stock index. We find that the political news like Yukos arrests or news on the Georgian war have a short term impact, since there are many other shocks, the structural instability of the Russian financial market is confirmed.

Time-Scale Dependent Stock Market Integration of the BRIC Countries: Wavelet-DCC analysis

*Heikki Lehkonen, University of Jyväskylä, Finland
Kari Heimonen, University of Jyväskylä, Finland

Discussant: Anatoly Peresetsky, Higher School of Economics, CEMI RAS & NES, Russian Federation

This paper develops a theoretical framework for timescale-dependent market integration and examines the differences between several return periods by studying the asset return co-movement of the BRIC countries (Brazil, Russia, India and China), the other developed economies in their regions (Canada, Hong Kong and Australia) and the major industrialized economies (the U.K., Germany and Japan) with respect to the U.S. for different return periods. The novelty of the paper is that the stock return indices are decomposed to several timescales using wavelet analysis and that the results are further used as inputs for the dynamic conditional correlation (DCC) framework, which is used as a measure of integration. The results propose that the level of stock market integration depends on regional aspects, the level of development and especially on the timescale of returns. These factors should be carefully considered in designing internationally diversified portfolios. The BRICs provide some portfolio diversification benefits, but it is not justifiable to treat all BRICs as a homogeneous group of emerging economies in terms of stock market integration.

Keywords: International stock markets, BRIC, Co-movement, Wavelets, Dynamic conditional correlation

Structural breaks and financial volatility: lessons from BRIC countries

Lucia Morales, Dublin Institute of Technology, Ireland

Discussant: Heikki Lehkonen, University of Jyväskylä, Finland

Despite the fact that there is a substantial literature on the analysis of volatility spillovers between stock returns and domestic exchange rates, surprisingly, little empirical research has examined volatility spillovers between oil prices and emerging economies, where a clear gap of research has been found regarding to the BRIC financial markets and the effects of the 2007-2009 World economy crisis. This lack of research might appear as surprising given that energy markets are of particular interest as they are considered a fundamental reference for economic recovery and growth. Therefore, this work aims to address this gap in the literature by looking at the BRIC financial markets and their co-movements with regard to some energy markets (oil, natural gas and electricity) and also to the international pressures that may arise from fluctuations originated in the US stock markets. This research major findings show compelling evidence highlighting the weak integration levels that exist among the Chinese financial markets, energy markets and the US stock market. On the other hand, the Brazilian, Indian and Russian markets are found to be more sensitive to international shocks arising from US markets and also to energy markets instability, especially with regard to oil market uncertainty.

Keywords: BRIC, Energy Markets, GARCH, T-GARCH modeling, Volatility.

**Session 2d, Ui Chadhain:**

International Integration II

Chair: Marie-Hélène Gagnon, Université Laval, Canada

Earnings Response Coefficients in the Greek Market

Dimitrios Matidinos, Technological Education Institute of Kavala, Greece

Discussant: Marie-Hélène Gagnon, Université Laval, Canada

The present study attempts to explore the relationship between accounting data and stock returns of the companies listed on the Athens Stock Exchange (ASE). To achieve it, publicly available financial data of the listed companies in the ASE during 1998-2008 was collected and analysed. The data sample consists of 245 companies and varies from 2,166 to 1,441 firm-year observations. The research methodology was based on Kothari and Sloan (1992) and it was investigated whether the level of earnings divided by price at the beginning of the stock return period is associated with returns in the context of ‘prices lead earnings’ using annual and quarterly data. Cross-sectional regression analysis indicates that there is a significant relationship between earnings and returns for measurement windows of one year and longer. Similar results found in the case of cumulative model where earnings are aggregated up to four years, however, the relationship in the short measurement window up to three quarters resulted in low earnings response coefficients.

Keywords: Earnings response coefficient, ERC, Kothari and Sloan (1992), Stock returns, Earnings, Athens Stock Exchange, ASE.

From International to Transnational Finance: The New Face of Global Capital Markets

Harold James, Princeton University & European University, USA & Italy

*Christopher Kobrak, ESCP Europe, France

Discussant: Dimitrios Matidinos, Technological Education Institute of Kavala, Greece

Most discussions of globalization and multinationals do not address specifically how changes in financial markets and banking have helped differentiate our era’s globalization from previous ones. Given the turmoil in capital markets, this lacuna in the literature is particularly odd. Insofar as the effect of the growth of multinational financial conglomerates on the financial system is discussed in technical and more general financial literature, it is generally focused on the internalization of international sources of funding and its impact on bank and market liquidity.

This paper focuses on two distinct literatures. The first deals with the theory of multinationals, especially foreign direct investment in the financial sector. The second attempts to explain and respond to the current financial crisis. Many commentators have asked why so many financial economists failed to foresee the current financial crisis. We argue that part of the explanation lies in that discipline’s failure to understand institutions and, by implication, the evolution of those institutions.

We highlight how the development of international banking has helped reconfigure international relations and markets. We emphasize that the development of multinational financial conglomerates have transformed finance from an international to a supranational activity. In effect, multinational banks have created an institutional platform, which has virtually eliminated national borders in finance and reduced the importance of individual public, national markets. By operating branches and subsidiaries in key markets with highly automated systems for trading foreign exchange and other products as well as for applying modern risk management, and by maintaining cross-border teams for deal making and distribution of securities, these giant public banks have internalized many cross-border and domestic financial activities that were once done among independent entities and in public markets. This transformation may have resulted in increased efficiencies and reduced transaction costs, but it also entails huge upfront expenditures and greater risk to the institutions themselves as well as of systemic failure.
This paper tests financial market integration in North America using unconditional and conditional factor models. The question of financial market integration is relevant to several areas of modern finance such as asset pricing and portfolio theory. In this context, empirical evidence regarding financial market integration helps to identify appropriate global or domestic risk factors in an asset pricing model or to assess the diversification requirements of a firm or a portfolio.

The literature on financial market integration is diverse and the approaches used can be summarized in three categories. 1) Tests based on international capital asset pricing models (ICAPM) such as Jorion and Schwartz (1986) and Mitto (1992). 2) Tests based on APT with macroeconomic factors such as Mitto (1992), Carmichael and Samson (1996), and Normandin (2006), Beaulieu and Gagnon (2009). The recent literature in asset pricing which has a much deeper impact in the United States than in Canada, partly due to Canada stricter banking regulations. To measure the degree of the Canada-US financial market integration thus remains an enduring empirical research question.

Results available in the existing literature are mixed. Evidence in favor of financial integration is found in Mitto (1992), Errunza, Losq and Padmanabhan (1992), Karolyi (1995) and Carmichael and Samson (1996), for example. In contrast, several studies suggest the presence of segmentation between the two markets and/or do not find evidence of an increasing trend toward integration. Examples of such studies include Jorion and Schwartz (1986), Koutoulas and Kryzanowski (1994), King, Sentana and Wadwhani (1994), Normandin (2006), and Beaulieu, Gagnon and Khalaf (2009).

The literature on financial market integration is diverse and the approaches used can be summarized in three categories. 1) Tests based on international capital asset pricing models (ICAPM) such as Jorion and Schwartz (1986) and Mitto (1992). 2) Tests based on APT with macroeconomic factors such as Mitto (1992), Carmichael and Samson (1996), and Normandin (2006). 3) Tests based on APT models with financial factors such as Normandin (2006) and Beaulieu, Gagnon and Khalaf (2009). Although the recent literature in asset pricing has evolved toward multi-factor models (see Fama and French 1992 and 1993 for example), there is still much debate over what factors should be included in the systematic risk specification (see for example Lewellen and Nagel, 2006).

Integration in European Retail Banking: Evidence from Savings and Lending Rates to the Household Sector

The aim of this paper is to examine the integration process within the European Union retail banking sector during the period 1991-2008 by analysing deposit and lending rates to households. The important contribution of the paper is the application of the recently developed Phillips and Sul (2007a) panel convergence methodology which has not hitherto been employed in this area. This method analyses the degree of convergence as well as the speed of convergence, identifies the presence of club formation, and measures the behaviour of each country’s transition path relative to the panel average. We find evidence supporting integration in the deposit and short-term mortgage markets but not in the consumer credit market and longer-term mortgages. The club clustering tests suggest that the convergence process is not homogeneous among countries. In addition, it is observed that the speed of convergence is inversely related to the maturity duration for all deposit and lending rates.

Keywords: Integration; European retail banking; savings; lending rates; household sector; Phillips and Sul convergence method

Households’ Foreign Currency Borrowing in Central and Eastern Europe

Foreign currency loans represent an important feature of recent financial developments in CEECs. This might pose a serious challenge for macroeconomic stability. Against this background, we study why private households prefer foreign currency loans, using data on the behavior of households in nine CEECs. Our results reveal that, on the one hand, foreign currency loans to households are driven by interest rate differentials, by the variance of financial portfolios and by lack of trust in domestic financial institutions. This suggests that foreign currency loans are partly demanded in response to domestic macroeconomic instabilities. On the other hand, we find that banks also advise customers to take out foreign currency loans which points towards risk shifting and the role of competition for market shares.

Keywords: Foreign currency loans, dollarization, euroization, supply factors, demand factors, minimum variance portfolio, trust

Lending Rates to the Household Sector

The aim of this paper is to examine the integration process within the European Union retail banking sector during the period 1991-2008 by analysing deposit and lending rates to households. An important contribution of the paper is the application of the recently developed Phillips and Sul (2007a) panel convergence methodology which has not hitherto been employed in this area. This method analyses the degree of convergence as well as the speed of convergence, identifies the presence of club formation, and measures the behaviour of each country’s transition path relative to the panel average. We find evidence supporting integration in the deposit and short-term mortgage markets but not in the consumer credit market and longer-term mortgages. The club clustering tests suggest that the convergence process is not homogeneous among countries. In addition, it is observed that the speed of convergence is inversely related to the maturity duration for all deposit and lending rates.

Keywords: Integration; European retail banking; savings; lending rates; household sector; Phillips and Sul convergence method

Keywords: Life cycle determinants of credit to households

Life-cycle determinants of credit to households

This paper applies a life-cycle model with individual income uncertainty to investigate the determinants of credit to households. We show that the value of household credit to GDP ratio depends on (i) the lending-deposit interest rate spread, (ii) individual income uncertainty, (iii) individual productivity persistence, and (iv) the generosity of the pension system. Subsequently, we provide empirical evidence for the predictions of the theoretical model on the basis of data for OECD and EU countries.

Keywords: Household credit, life cycle, economic variables, banking sector.
The Term Structure of Sovereign Default Risk in EMU Member Countries and its Determinants
*Dominik Maltritz, Universität Erfurt, Germany
Stefan Eichler, Technische Universität Dresden, Germany
Discussant: Marcella Pericoli, Banca d’Italia, Italy
We analyze the determinants of sovereign default risk of EMU member states using bond yield spreads as risk indicators. We focus on default risk for different time spans indicated by spreads for different maturities. Using a panel framework we analyze whether there are different drivers of default risk for different maturities. We find that lower economic growth and larger openness increase default risk for all maturities. Higher indebtedness only increases short-term risk, whereas net lending, trade balance and interest rate costs drive only long-term default risk.

Keywords: Sovereign default risk; Term structure; EMU; Yield spreads; Financial crisis

Towards a Common European Monetary Union Risk Free Rate
Sergio Mayoròndomo, CNMV Comisión Nacional del Mercado de Valores, Spain
*Juan Ignacio Peña, Universidad Carlos III de Madrid, Spain
Eduardo S Schwartz, UCLA, USA
Discussant: Dominik Maltritz, Universität Erfurt, Germany
A common European bond would yield a common European Monetary Union risk free rate. We present tentative estimates of this common risk free for the European Monetary Union countries from 2004 to 2009 using variables motivated by a theoretical portfolio selection model. First, we analyze the determinants of EMU sovereign yield spreads and find significant effects of the credit quality, macro, correlation, and liquidity variables. However, their effects are different before and after the current financial crisis, being stronger in the latter period. Robustness tests with different data frequencies, benchmarks, liquidity variables, cross section regressions and balanced panels confirm the initial results. We propose four different estimates of the common risk free rate and show that, in most cases, this common rate could imply savings in borrowing costs for all the countries involved.

Session 2g, 3051: Corporate Capital Structure & Financing
Chair: Sushanta Mallick, Queen Mary, University of London, UK

Corporate Financial Constraints, Bank Governance, and Financial System Stability
Patrick Behr, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany
Lars Norden, RSM Erasmus University, Netherlands
*Felix Noth, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany
Discussant: Sushanta Mallick, Queen Mary, University of London, UK

Financial constraints are frictions that prevent firms from funding all desired investments, which might affect firm value and aggregate economic activity. We investigate whether and how bank governance, especially private vs. non-private bank ownership, affects financial constraints of small and medium-sized enterprises (SMEs). We focus on SMEs because they are more opaque, bank-dependent and riskier than large firms. Given the significant differences between private and non-private banks’ objectives, governance, and organizational structure we expect a different impact on corporate financial constraints. Based on a rich dataset on German SMEs from the period 1995-2007, we find that an increase in relative borrowings from non-private banks reduces corporate financial constraints significantly. There is no such effect for private banks, the lending behavior of non-private banks is consistent with allocative efficiency, and the reduction in financial constraints becomes stronger in periods of low regional economic growth. Our findings highlight two important features of a financial system that consists of private and non-private banks: aggregate corporate financial constraints are reduced and corporate borrowings become less cyclical, reducing the volatility of economic activity.

Keywords: Corporate investment, financial constraints, SME lending, allocative efficiency, financial system stability

Determinants of capital budgeting methods and hurdle rates in Nordic firms
Tor Brunzell, Stockholm University, Sweden
Eva Liljenblom, Hanken School of Economics, Finland
*Miika Vaihekoski, University of Turku, Finland
Discussant: Felix Noth, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany
Using survey data for 157 Nordic firms, we study the determinants for the choice of capital budgeting methods and the setting of hurdle rates (WACCs) in five Nordic countries. We combine survey data with a rich set of determinants, including ownership data, CFO characteristics, and financial data (firm characteristics). We find that the use of the NPV method as a primary method and the sophistication of the capital budgeting is related to firm characteristics, variables proxying for real option features in investments, and CFO characteristics (age and education). We also find support for a significant positive hurdle rate premium (i.e., a hurdle rate higher than that motivated by economic theory). The premium is weakly positively related to managerial short-term pressure and strongly negatively related to the sophistication level of the firm’s capital budgeting. This relationship is in line with the predictions from real options and agency theory, as explanations from both categories combine the use of higher hurdle rates with a higher use of multiple methods and “rules of thumb.”

Keywords: capital budgeting methods, hurdle rate, WACC, NPV, IRR, Nordic countries

Sources of financing, Profitability and Productivity: First Evidence from Matched Firms
*Sushanta Mallick, Queen Mary, University of London, UK
Yong Yang, Essex University, UK
Discussant: Miika Vaihekoski, University of Turku, Finland
This paper contributes to the literature on capital structure and firm performance. Using firm-level data covering over 11,000 firms from 47 countries over a recent period of 1997-2007, we address the effect of different sources of financing on corporate performance, employing a matching process, which allows an adequate ‘like-for-like’ comparison between high and low financing firms. Robust to different matching estimators, the main findings are consistent with the theories of capital structure, in that firms with high debt-to-equity ratio tend to have lower profitability and productivity. The results become more robust when we separate the firms into advanced and emerging country groups or countries with high/low levels of financial development. Given the lower level of leverage below 50% on average in emerging markets (or in countries with lower level of financial reforms), firms in these economies face lower risk of financial distress and thereby less adverse effect on firm profitability and productivity, relative to their counterparts in advanced economies. It indicates that a high level of leverage not only lowers the return to external shareholders (profitability) but also has a negative effect on internal efficiency of firms (productivity). We also find that retained earnings and equity financing improve performance, while debt financing by firms particularly in the form of bank loans leads to lower performance, although not so in the case of debt raised through issuing bonds.

Keywords: Sources of Financing, Profitability, Productivity, Propensity Score Matching

Session 2h, 3071: Development
Chair: Ramon Castillo-Ponce, Universidad Autónoma de Baja California & California State University, Los Angeles, USA

Lucas Paradox in the Short Run and in the Long Run
Bilal Keskinsoy, The University of Nottingham, UK
Discussant: Ramon Castillo-Ponce, Universidad Autónoma de Baja California & California State University, Los Angeles, USA
Affar et al. (2008) find out that, for a cross section of countries from all income levels, the quality of institutions resolve the puzzle that capital flows to richer rather than to poorer countries (the Lucas paradox). For a panel of seven five-year sub-period moving averages over 1970-2006 and up to 47 developing countries, we test if the Lucas paradox is still resolved by including a measure for institutional quality. We also assess the implications of Acemoglu and Zilibotti (1997) on the patterns of international capital flows over time. Employing static and dynamic
Information Acquisition and Trading: Do the Sources of Information Matter?
Margarida Abreu, ISEG-UTL, Portugal
*Victor Mendes, Universidade de Évora & Comissão do Mercado de Valores Mobiliários (CMVM), Portugal
Discussant: Gijsbert Zwart, Tilburg University & CPB Netherlands Bureau for Economic Policy Analysis, Netherlands

We investigate how the strength of the positive association between information acquisition and frequency of trading is dependent on the type of sources of information used by investors. Our results confirm the sources of information are most relevant to explaining trader activities, and differentially influence the relationship between the frequency of trading and frequency of information. These two variables are positively related for investors who are informed via friends and family, who use specialized sources of information and who use the press. However, such a positive and linear association does not exist for investors who use their bank account manager as a source of information.

These results reveal new empirical evidence in the finance literature on individual investors’ preferences: i) professional advice increases trading, particularly in the case of investors who seek advice on a monthly basis; ii) word-of-mouth from friends and family increases trading, whereas iii) information acquired from friends and family increases trading only if the information is trusted and iv) word-of-mouth from friends and family increases trading only if the information is perceived as reliable.

Keywords: optimal contracts, remuneration policy, imperfect competition, financial institutions, risk
Wachtel (2009) is refined by focusing on the empirical analysis on a set of growth. Former research by King and Levine (1993) and Rousseau and episodes and the disappearing impact of financial depth on economic

Discussant: Stephanie Kleimeier, Maastricht University, Netherlands
Peter Haiss, WU Wirtschafts Universität Wien, Austria

European perspective
The impact of financial crises on the finance-growth relationship: a paper that accounts for credit, bond and stock markets. We observe a weakening effect of financial variables on growth which is persistent even when dummy variables are added to control for financial crises. One- and two-year lags on total financial intermediation indicators yield negative and significant coefficients in the overall sample. The development of European financial markets seems to have not only decoupled from the real sector but also exert an inverted impact on growth. We identify structural change and the procyclical nature of financial markets as potential adverse factors influencing the finance effect on growth.

International propagation of the credit crisis
Richard Brealey, London Business School, UK
*Ian Cooper, London Business School, UK
Evi Kaplanis, London Business School, UK
Discussant: Basma Majerbi, University of Victoria, Canada

In this study we examine the propagation of the recent crisis to banks outside the US. We develop a framework combining stock market and structural variables that can be used with both individual bank and country aggregate data. We find that the differential incidence of the crisis measured by share price impact is explained by prior correlation with the US banking sector, bank leverage and liability structure, the foreign assets of banks, and the importance of banking in the economy. We find that a simple measure of bank capital was a better predictor of crisis impact than the risk-weighted measure of Basel II, but do not find that banks were penalized for making aggressive use of Basel II rules. These results are robust to various specifications and whether we use country data or individual banks. Using this framework we test a number of hypotheses which have been put forward in other studies. We find that some results are sensitive to sample selection and test specification. We do not find evidence that the incidence of the crisis was associated with mortgage holdings, stock market returns prior to the crisis, or standards of governance. We do find that countries with higher prior GDP growth suffered less in the crisis. We discuss the implications of our results for bank regulation.

Keywords: banking, financial institutions, capital structure, risk management, international finance, monetary economics, credit crisis, international transmission, contagion, financial regulation.

Camelia Minoiu, IMF International Monetary Fund, USA
*Javier Reyes, University of Arkansas, USA
Discussant: Ian Cooper, London Business School, UK

In this paper we explore the properties of the global banking network using cross-border bank lending data for 184 countries over 1978-2009. Specifically, we analyze financial interconnectedness using network metrics of centrality, connectivity, and clustering. We document a relatively unstable global banking network, with structural breaks in network indicators identifying several waves of capital flows. Interconnectedness rankings, especially for borrowers, are relatively volatile over the period. Connectivity tends to fall during and after systemic banking crisis and sovereign debt crises. The 2008-09 global financial crisis stands out as an unusually large perturbation to the cross-border banking network.

Keywords: cross-border bank lending, network analysis, interconnectedness, financial crises, systemic risk

Systemic Banking Crises, Liberalization and Banking Governance
*Basma Majerbi, University of Victoria, Canada
Houssem Rachdi, Université El Manaar, Tunisia
Discussant: Javier Reyes, University of Arkansas, USA

This paper uses multivariate logit models to estimate the probability of systemic banking crisis for a sample of 54 countries over the period 1980-2005. In particular, we investigate the interaction between financial liberalization and banking governance and institutional variables in an EWS framework. We use various measures of governance including banking supervision, deposit insurance, law and order, corruption, bureaucracy, and government stability. We also investigate the interaction effect between these variables and financial liberalization on the probability of systemic banking crises across different measures of liberalization and using both naive (all countries) and regional model specifications. Using the Financial Reform Index of Abiad et al. (2008) as a more comprehensive measure of financial liberalization, we find that most of the institutional and governance variables retained in this study have a positive and significant impact in terms of reducing the probability of systemic banking crisis despite any potential negative effects from financial liberalization. Our results also suggest that the types of institutional variables that may be most effective in mitigating the liberalization effect on crisis vary across countries/regions. However, the most significant variables are banking supervision, and, to a lesser extent, law and order and government stability.

Keywords: Systemic banking crises; Early warning systems; Banking governance and supervision; Financial liberalization; Multivariate Logit

The impact of financial crises on the finance-growth relationship: a European perspective
Hannes Ivan, WU Wirtschafts Universität Wien, Austria
Peter Haiss, WU Wirtschafts Universität Wien, Austria
*Bernhard Malheberg, WU Wirtschafts Universität Wien, Austria
Discussant: Stephanie Kleimeier, Maastricht University, Netherlands

The purpose of this paper is to investigate the link between financial crisis episodes and the disappearing impact of financial depth on economic growth. Former research by King and Levine (1993) and Rousseau and Wachtel (2009) is refined by focusing on the empirical analysis on a set of 30 European countries, including the 27 EU member states, as well as Turkey, Croatia and Switzerland and by employing more recent data from the period 1990-2008. In a second step, the authors introduce an aggregated finance variable into the model which accounts for credit, bond and stock markets. We observe a weakening effect of financial variables on growth which is persistent even when dummy variables are added to control for financial crises. One- and two-year lags on total financial intermediation indicators yield negative and significant coefficients in the overall sample. The development of European financial markets seems to have not only decoupled from the real sector but also exert an inverted impact on growth. We identify structural change and the procyclical nature of financial markets as potential adverse factors influencing the finance effect on growth.

Keywords: Systemic banking crises, Liberalization and Banking Governance

Session 3a, Synge: Banks, Globalisation & the Crisis
Chair: Terrence Hallahan, RMIT University, Australia

International Capital Flows and Credit Market Imperfections: a Tale of Two Frictions
*Filippo Taddei, Collegio Carlo Alberto, Italy
Alberto Martin, CREI & Universitat Pompeu Fabra, Spain
Discussant: Martin Grandes, Pontificia Universidad Católica Argentina, Argentina

The financial crisis of 2007-08 has underscored the importance of adverse selection in financial markets. This friction has been mostly neglected by macroeconomic models of financial frictions, however, which have focused almost exclusively on the effects of limited pledgeability. In this paper, we fill this gap by developing a standard growth model with adverse selection. Our main results are that, by fostering unproductive investment, adverse selection: (i) leads to an increase in the economy’s equilibrium interest rate, and; (ii) it generates a negative wedge between the marginal return to investment and the equilibrium interest rate. Under financial integration, we show how this translates into excessive capital inflows and endogenous cycles. We also explore how these results change when limited pledgeability is added to the model. We conclude that both frictions complement one another and argue that limited pledgeability exacerbates the effects of adverse selection.

Keywords: Limited Pledgeability, Adverse Selection, International Capital Flows, Credit Market Imperfections
This paper asks whether bonanzas (surges) in net capital inflows increase the probability of banking crises and whether this is necessarily through a lending boom mechanism. A fixed effects regression analysis indicates that a baseline bonanza, identified as a surge of one s.d. deviation from trend, increases the odds of a banking crisis by three times, even in the absence of a lending boom. Larger windfalls of capital (two s.d. bonanzas) increase those odds by seven times. The joint occurrence of a bonanza and a lending boom raises the odds even more. Decomposing flows in FDI, portfolio equity and debt indicates that bonanzas in all flows increase the probability of crises when the windfall takes place jointly with a lending boom; but only surges in portfolio-equity flows do so in the absence of a lending boom. Emerging economies exhibit greater odds of crises after a windfall of capital.

Keywords: Banking crises; Financial crises; Capital flows; Credit booms; Lending booms

International Capital Flows and Liquidity
*Dimtris Vargas, RSM Erasmus University, Netherlands
Mathijs van Dijk, RSM Erasmus University, Netherlands
Discussant: Julian Caballero, University of California, Santa Cruz, USA

We study whether international capital flows affect local market liquidity, and vice versa. We estimate vector autoregressions with monthly U.S. equity portfolio flows and local stock market liquidity and returns for 46 countries in six regions over 1995-2008. We find that flows to developed Europe and Asia/Pacific positively respond to local market liquidity, while U.S. market liquidity positively predicts flows to developed and emerging Europe and emerging Asia. Capital flows to various regions are thus responsive to home and host market liquidity. For developed America, Europe, Asia/Pacific, and emerging Asia, capital inflows are associated with an improvement in local market liquidity, which suggests that foreign investors tend to provide rather than consume liquidity on local markets. This effect is stronger for countries with greater transparency and less developed financial markets. Our analysis lends little support to the view that foreign investors destabilize local markets through an adverse impact on liquidity.

With or Without a Paradox: Diving into 40 years of World Capital Distribution
*Martin Grandes, Pontificia Universidad Católica Argentina, Argentina
Rodrigo Pérez Artica, Universidad Nacional del Sur and CONICET
Diego Dorcazbarro, Universidad Nacional del Sur and CONICET
Discussant: Dimitris Vargas, RSM Erasmus University, Netherlands

Using an updated dataset on world financial assets and liabilities and the Penn World Table, this paper builds an indicator which links world capital distribution with per capita income growth to address two questions regarding the widely known phenomenon of the paradox of capital: How could the distance of one country’s share in global flows to its optimum according to standard growth and trade theories be measured? How does the world capital distribution look like when broken down by flows type, regions and sub-periods over the latest era of financial globalization, i.e. 1970-2007? The paper main findings are that the paradox is predominantly driven by increasing inequality in foreign debt capital flows directed to developed countries and to a much lesser extent by foreign equity capital or FDI flows. Most of the rising inequality occurs during the 1980s and is accounted for OECD countries’ share in world capital flows and sustained long run growth, on the one hand, and Latin American and Middle East countries declining share and relatively worse economic growth performance, on the other.

Keywords: capital flows, economic growth, inequality, paradox, foreign capital

Session 3c, Swift: BRIC III
Chair: Edward Lin, National Taiwan University of Science & Technology, Taiwan

Volume Volatility in Dual Markets: Lessons from Chinese ADR
Malay Dey, USA
*Chaoyan Wang, University of York, UK
Discussant: Edward Lin, National Taiwan University of Science & Technology, Taiwan

We investigate the volume volatility relations of 14 Chinese ADRs and those of their underlying H-shares. Specifically we test whether a contemporaneous correlation or a lead-lag relation exists between volume and volatility for each ADR and its corresponding H-share. We perform Granger causality test to determine the direction of the lead lag relation, if it exists. Our results suggest that contemporaneous correlations are positive and statistically significant. We find significant bidirectional relation between volume and volatility in 10 out of 14 ADRs, but only 4 out of 14 underlying H-shares. We also find that there are different patterns in leverage effect on ‘bad news’ between two markets, as well as various magnitude of volatility persistence over time between two markets. Finally, we use a bivariate GARCH in which the conditional volatility for each ADR and its underlying H-share are jointly determined by volume and volatility in each market. The GARCH model fits the data well. Further, in addition to the conventional GARCH parameters, expected and unexpected volumes significantly affect both the variance and the covariance function.

An Analysis of the Chinese Stock Market during the Global Financial Crisis
*Su Qian Kong, Dublin Institute of Technology, Ireland
Lucia Morales, Dublin Institute of Technology, Ireland
Joseph Coughlan, Dublin Institute of Technology, Ireland
Discussant: Chaoyan Wang, University of York, UK

The recent global financial meltdown has strongly affected developed economies, which have seen how the collapse of some of their large financial institutions has negatively affected the performance of their stock markets. On the other hand the crisis seems to only have had some minor effects in emerging economies that appear to be quite unscathed by the financial turmoil. In particular, the Chinese economy is showing signs of great strength with a solid 10 per cent of GDP growth, which can be considered to be a key driving force of the world economic recovery. As a result, Chinese economic and political influence is becoming more relevant as time passes. Therefore, the aim of this paper is to investigate the relationship between the Chinese stock market, the U.S. stock market, and the linkages between these stock markets and one macroeconomic fundamental variable that is the Chinese overnight repo rate. This initial framework will help us to shed some light with regard to US stock market behaviour and its potential impact on the Chinese stock market and monetary policies during the global financial crisis. The main findings show evidence of cointegration in the long-run and short-run between the Shanghai Composite and the repo rate. Additionally, the causal analysis shows a unidirectional effect running from the SHC to repo rate to S&P500 to SHC during the pre-crisis period (April 2003 to September 2007). On the other hand, the causal effects changed their direction to S&P500 to SHC; S&P500 to repo rate; repo rate to SHC during the financial crisis (October 2007 to May 2010), which suggests the PBC can use its monetary policy to stabilize its stock market during the crisis period (for example during 2008-2009 the Chinese government intervened in its economy through a variety of stimulus packages). Even though Chinese monetary policy can influence US stock market in stable period, it has not affected the US stock market during the crisis period. Then, the results confirm that the US stock market has a predictive power over Chinese stock market for the whole sample period. Finally, the contagion analysis based on the Forbes and Rigobon (2002) methodology did not find evidence of contagion between the Chinese and US stock market. These results are confirmed after improving the test by adding an extra explanatory variable (repo rate). Consequently, our results indicate the existence of diversification opportunities among these markets.
We examine the relationship between firm performance and governance mechanisms, firm characteristics, and institutional factors of American Depository Receipts (ADRs) in the greater China region listed on the NYSE, AMEX and NASDAQ. We find that Chinese ADRs have the highest market-to-book value followed by those of Hong Kong and Taiwan. It appears that Chinese firms with the poorest external governance environment stand to benefit the most by successfully listed under the ADR programs. Listing in the US which adopts more stringent regulations and disclosure rules may signal the firms’ governance practices and thereby enhance their firm value. Among the governance mechanisms, CEO duality, institutional ownership, and insider ownership are positively related to firm valuation.

Keywords: Corporate governance; Chinese ADRs; CEO duality; Institutional ownership; Insider ownership.

Session 3d, Ul Chadhain:
International Integration III
Chair: Jennifer Berrill, Trinity College Dublin, Ireland

Large Capital Inflows and Stock Returns in a Thin Market
*Janusz Brzeszczynski, Heriot-Watt University, UK
Martin Bohl, Westfälische Wilhelms-Universität Münster, Germany
Dobromil Serwa, National Bank of Poland & Warsaw School of Economics, Poland
Discussant: Martha O’Hagan-Luff, Trinity College Dublin, Ireland

In this paper we investigate impact of institutional investors on stock market prices. We use unique database composed of data about capital transfers (in form of the aggregated pension contributions collected centrally from all employees in the entire Polish economy) from the public social security institute ZUS in Poland to the private pension funds (OPFs), which further invest this capital on the stock market. We distinguish between the effect of global factor from international markets and the local factor connected with the institutional demand related to the capital being accumulated from the pension contributions. Furthermore, we also analyze the impact of ZUS transfers on the returns of the Polish market WIG20 index from the perspective of four frequencies of data: quarterly, monthly, weekly and daily. Our results indicate that in the longer horizon, for monthly and quarterly data frequency, the global factor dominates over the impact of the local capital flows from ZUS and explains better the returns of the WIG20 index than the ZUS transfers. However, in the weekly and some (multi-)daily frequency models the transfers of capital from the ZUS to the OFE private pension funds are statistically significant and they are related to the subsequent changes of the WIG20 index. Even after controlling for other variables, we find robust evidence that stock prices react to the transfers of capital from ZUS but only within one week’s time and no such relationship exists in the longer term. The average time between the transfers of funds from ZUS to the OFE pension funds and the subsequent reaction of the stock prices is found to be 4 days. This result provides important evidence about the impact of pension funds as a group of large institutional investors on stock prices on a relatively thinly traded market and may have direct and very practical implications for the investment strategies of other stock market investors.

Keywords: Institutional Investors, Stock Market Returns, Pension Funds, Capital Flows.

Financial integration and business cycle synchronisation - Further evidence from panel data
Jonas Keil, Universität Duisburg Essen, Germany
Discussant: Janusz Brzeszczynski, Heriot-Watt University, UK

This paper empirically investigates the question how the international integration of financial markets affects synchronisation and co-movement of business cycles in a panel of European and other industrialised countries. Particular attention is paid to different dimensions of financial markets (banking markets, equity and portfolio investment markets) and institutional structures on financial markets. The results help to advance the understanding of the effects of financial markets on real macroeconomic developments which is important both for designing policy responses to the financial crisis and for policy issues regarding currency unions, such as questions of the feasibility of further Euro Area enlargements. At least in the recent decade, there has been a significant surge in international financial transactions and there has also been a period of increasing co-movement of national business cycles across many industrialised countries, for example in the Euro Area. Furthermore, the recent financial crisis has highlighted the important role of financial markets for the macroeconomy and international business cycle transmissions. However, many questions concerning the relation of financial markets and the macroeconomy remain unanswered. From a theoretical point of view, it is not completely clear whether countries with tight financial linkages should exhibit either a higher or a lower degree of output co-movement. While standard international macro models suggest a lower correlation of output by allowing countries synchronization of production structures and insurance against country- or industry-specific shocks via risk sharing, financial links between countries might also act as a transmission channel for cyclical shocks resulting in a higher degree of correlation. However, in the relevant empirical cross-country studies, financial integration as a possible determinant of cyclical synchronisation and co-movement has not received much attention so far. Only a few studies have addressed this topic and have reported either mixed results or evidence for a positive relation of financial integration and synchronisation. Most studies have essentially performed cross-sectional analyses: They have only used correlation coefficients as the indicator of cyclical co-movement which does not allow for observations at an annual frequency, and have only applied “between” estimation methods which do not explicitly take into account the time dimension of the panel.

Kalemli-Ozcan et al. (2010, ECB Working Paper No. 1221) have performed a first study applying a panel estimation method to this topic and found evidence for a negative effect conflicting with earlier empirical results.

This paper builds on the study by Kalemli-Ozcan et al. (2010) and improves on it in several ways. One focus is the question of how to adequately measure financial integration. The relevant empirical cross-country studies differ in the concepts of de jure and de facto (effective) integration are discussed and an argument for analysing multiple dimensions of financial integration is made. Instead of relying only on a single indicator of financial integration, this paper exploits three rich panel datasets in a sample of 20 industrialised countries (Euro Area and additional countries) with bilateral observations on international financial transactions dating back up to three decades: Confidential data on bilateral banking transactions, data on bilateral foreign direct investment and data on bilateral portfolio investment. In this way, meaningful measures of effective financial integration can be calculated and used in the empirical analysis.

Furthermore, in addition to the synchronisation measures used by Kalemli-Ozcan et al. (2010), this paper introduces additional annually observable measure of business cycle co-movement which are based on a trend-cycle decomposition of GDP data and thus are more comparable to the cyclical measures used in other studies of the literature on business cycles.

Using this panel dataset, various specifications of the empirical model are estimated applying standard cross-sectional (“between”) estimation, as well as a fixed-effects panel (“within”) estimation. Also, the instrumental variable identification strategy of Kalemli-Ozcan et al. (2010) using a time-varying indicator exploiting increasing legal harmonization of financial market institutions in the EU is applied in order to identify the causal effect of financial integration and to tackle possible empirical problems such as simultaneity/reverse causation, omitted variables and measurement error.

First results show that the negative relation between financial integration and cyclical synchronisation reported by Kalemli-Ozcan et al. (2010) partially emerges when analysing several dimensions of financial integration, but it is not robust to all alternative synchronisation variables. Furthermore, it is shown that the emerging negative effect is mainly due to the inclusion of fixed effects accounting for common global conditions/shocks which have not been accounted for in earlier studies reporting a positive effect. Therefore, a tentative conclusion is that the negative relation (which is e.g. due to risk sharing) of financial integration on output correlation in general outweighs the positive one (e.g. cyclical spillovers via financial links) in normal (i.e. non-crisis) times. The strong international transmission of negative cyclical effects during the recent financial crisis thus can be regarded as a phenomenon which only occurs in times of crisis and not in times with “regular” macroeconomic conditions.

Further estimations in the final version of the paper will also address the question of whether there have been changes over time in the relation...
between integration and synchronisation by analysing shorter sub-periods of the sample and it will also focus on relevant sub-groups of the country sample such as the Euro Area countries.

Keywords: International business cycles, financial integration, panel data analysis.

The indirect international diversification benefits of investing in US based Multinationals
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Jenniffer Berrelli, Trinity College Dublin, Ireland
*Martha O’Hagan-Luff, Trinity College Dublin, Ireland
Discussant: Jonas Keil, Universität Duisburg Essen, Germany

This paper investigates if the home bias puzzle can be partially explained by indirect international diversification via investment in home based multinational firms in the US. Using firm level data on the Russell 1000 firms between 1994 and 2007, it tests if the addition of portfolios of international firms to portfolios of domestic firms offers diversification benefits. Rather than using a single measure to rank firms by internationalisation, this paper uses a novel approach combining three measures to take the level, dispersion and location of a firm’s foreign sales into account. This provides a more robust measure of internationalisation. Firms are classified on a dynamic basis, looking at the average level of internationalisation over three periods between 1994 and 2007. Mean-variance spanning and Sharpe ratio test results provide strong evidence that home based international diversification benefits exist in the US, providing a partial explanation for investors’ preferences for domestic equity investments.

Session 3e, 3106: Ratings Agencies
Chair: Manuel Lingo, WU Wirtschafts Universität Wien & Oesterreichische Nationalbank, Austria

Rating Shopping and Rating Inflation: Empirical Evidence from Israel
Inna Baklayar, Ben-Gurion University of the Negev, Israel
*Koresh Galli, Ben-Gurion University of the Negev, Israel
Discussant: Manuel Lingo, WU Wirtschafts Universität Wien & Oesterreichische Nationalbank, Austria

The collapse of structured bonds ratings during the 2007-2008 financial crisis brought to the attention the possibility of rating inflation due to rating shopping. Nevertheless, little empirical evidence has been provided for this phenomenon. The Israeli corporate credit rating market establishes a solid ground for investigating this matter. In this research we use data on corporate bonds ratings assigned by two local rating agencies affiliated to S&P and Moody’s during the years 2004-2009. We show that while one (Moody’s-Midroong) systematically assigned higher ratings; the other’s (S&P-Maalot) ratings were inflated due to rating shopping. These conclusions are based on several findings: preferences of selection bias in dual ratings, superior accounting features of firms rated by S&P-Maalot relative to firms similarly rated by Moody’s-Midroong; and higher tendency of S&P-Maalot single ratings to be downgraded.

Keywords: Corporate bonds, Credit ratings, Rating agencies, Rating shopping, Rating inflation.

The path to impairment: Are structured finance ratings perspicacious?
*Matthias Bodenstedt, University of Cambridge, UK
Daniel Rösch, Leibniz Universität Hannover, Germany
Harald Scheule, The University of Melbourne, Australia
Discussant: Koresh Galli, Ben-Gurion University of the Negev, Israel

The global financial crisis (GFC) has led to a general discussion of the accuracy and declining standards of credit rating agency ratings. Substantial criticism has been directed toward the securitization market, which has been identified as one of the main sources of the crisis. This study focuses on the ability of rating agencies to adjust their ratings prior to impairments of structured finance transactions. We develop a new measure that quantifies a rating agency’s performance in advance of defaults. Based on an empirical study of 13,679 impairment events between 2001 and 2008, we find that rating quality deteriorated during the GFC. Furthermore, we identify tranche-specific and macroeconomic factors that explain differences in rating agencies’ performance.

Keywords: Credit rating agencies, economic downturn, forecasting, global financial crisis, home equity loans, impairment risk, mortgage-backed security, structured finance rating

Re-Mapping Credit Ratings
*Manuel Lingo, WU Wirtschafts Universität Wien & Oesterreichische Nationalbank, Austria
Alexander Eisl, WU Wirtschafts Universität Wien, Austria
Hermann Elenbrandt, WU Wirtschafts Universität Wien, Austria
Discussant: Matthias Bodenstedt, University of Cambridge, UK

Rating agencies report ordinal ratings in discrete classes. We question the market’s implicit assumption that agencies define their classes on identical scales. To this end, we develop a non-parametric method to estimate the relation of rating scales for pairs of raters. This scale relation identifies for every rating class of one rater the extent to which it corresponds to any rating class of another, and hence enables a rating-class specific re-mapping of one agency’s ratings to another’s scale. Our method is based purely on ordinal co-ratings to obviate error-prone estimation of PDs and disputable assumptions involved, and exploits structure in the joint estimation of all rating classes’ relations from a pair of raters. We find convincing evidence against the hypothesis of identical scales for the three major rating agencies Fitch, Moody’s and Standard & Poor’s, provide the relations of their rating classes and illustrate the importance of correcting for scale relations in benchmarking and pricing.

Keywords: credit rating; rating agencies; rating scales; comparison of ratings.

Session 3f, 3126: Exchange Rate Effects
Chair: Michael Binder, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany

Dynamic relations between stock returns and exchange rate changes
*M. Can Inci, Bryant University, USA
Bong-Soo Lee, Florida State University, USA
Discussant: Michael Binder, Johann Wolfgang Goethe Universität Frankfurt am Main, Germany

We reexamine the relation between stock returns and exchange rate changes in five major European countries (France, Germany, Italy, Switzerland, and the U.K.), U.S., Canada, and Japan by taking into account the dynamic effects, including lagged changes of the variables and employing causal relations. We find that the lagged exchange rate movements have a significant impact on stock returns of European, North American, and Japanese multinational corporations. We also find significant evidence of Granger causality from exchange rate changes to stock returns and for the reverse direction from stock returns to exchange rate changes for most of the countries and industry sectors we consider. Further, we find that the dynamic relation is more significant and stronger in recent years and in recession periods than in early periods and in expansion periods. Implications of these findings are discussed.

Keywords: Exchange rate exposure; Granger causality; Forward premium puzzle.

Price Transmission and Effects of Exchange Rates on Domestic Commodity Prices vs Offshore and Currency Hedging
Nongnuch Tantisantiwong, University of Dundee, UK
Discussant: Can Inci, Bryant University, USA

The framework presents how trading in the foreign commodity futures and domestic forward foreign exchange markets can affect the optimal spot positions of domestic commodity producers and traders. It generalizes the models of Kawai and Zilcha (1986) and Komfan and Vlasea (1991) to allow both intermediate and final commodities to be traded in the international and futures markets, and the exporters/importers to face production shock, domestic factor costs and a random price. Applying mean variance expected utility, we find that a rise in exchange rate volatility can reduce both supply and demand for commodities and increase the domestic price elasticity of supply is greater than that of demand. Even though the forward foreign exchange market is unbiased, and there is no correlation between commodity prices and exchange rates, the exchange rate can affect domestic trading and prices through offshore hedging and international trade if the traders are interested in their profit in domestic currency. It illustrates how the world
On the Effects of Monetary Policy Shocks on Exchange Rates

Keywords: Monetary Policy, Exchange Rate Overshooting, Forward shocks.

Specified so as to capture simultaneous multi-country adjustments to results of this paper also suggest that the latter models should be Dollar. Furthermore, there is no persistent significant forward premium. Moreover, there is no delay in the overshooting of the United States), we find that U.S. Dollar effective and bilateral real exchange rates appreciate on impact after a contractionary U.S. monetary policy shock, and that there is no delay in the overshooting of the U.S. Dollar. These results are consistent with the real exchange rate effects of monetary policy shocks in sticky price macroeconomic models, though the results of this paper also suggest that the latter models should be specified so as to capture simultaneous multi-country adjustments to shocks.

Keywords: Monetary Policy, Exchange Rate Overshooting, Forward Premium, Global Vector Error Correction Model.

Session 3g, 3051: Corporate Finance
Chair: Leonidas Barmpopulos, University of St Andrews, UK

Information Arrival, Changes in R-square and Pricing Asymmetry of Corporate News

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*Yan Leung, City University of Hong Kong, Hong Kong
Wayne Yu, Hong Kong Polytechnic University, Hong Kong
Discussant: Leonidas Barmpopulos, University of St Andrews, UK

Past research on R-square focuses on the cross-sectional effects of R-square at level and the results are mixed. We argue that R-square change instead of R-square level can better capture how information is incorporated in stock prices. Based on Morck, Yeung and Yu (2000), we conjecture that, upon information arrival, R-square should decrease due to the increase of firm-level information from the announcements. We examine the changes in R-square and stock price synchronicity upon compliance disclosures of earnings and regulatory reprimanding disclosures of “Special Treatment” status in China. Employing various models to classify significantly positive and negative corporate announcements, the findings are consistent with our hypothesis. Moreover, the market is more reactive in pricing bad news than good news.

Keywords: R-square; Synchronicity; Earnings; Pricing efficiency

Why are Abnormal Returns after Insider Transactions Larger in Better Shareholder Protection Countries?

*Jana Fidrmuč, University of Warwick, UK
Adriana Korczak, University of Bristol, UK
Piotr Korczak, University of Bristol, UK
Discussant: Yan Leung, City University of Hong Kong, Hong Kong

Our analysis of some 100 thousand reported insiders’ purchases across 15 European countries and the US shows that abnormal stock returns after insiders’ purchases are positively correlated with shareholder protection against expropriation by corporate insiders. Our paper tests two possible explanations for this positive relationship. We find rather limited support for the substitution hypothesis. It conjectures that insiders substitute direct corporate rent extraction by insider trading profits in better shareholder protection countries. In contrast, the data seem to support the information content hypothesis that associates abnormal returns with stock value changes to outside investors. The main argument is that insider purchase transactions signal value improvements to outside investors and how much of this improvement is reflected in stock price adjustments depends on shareholder protection. As insiders are able to cheat less and so their actions are more transparent in better shareholder protection countries, markets adjust stock prices more in better shareholder protection countries.

Keywords: Shareholder protection, Insider trades, Rent extraction, Price informativeness

Determinants of Earnout as Optimal Payment Currency in Domestic versus Cross-Border Acquisitions and Bidders’ Gains

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Krishna Paudyal, University of Strathclyde, UK
Sudi Sudarsanam, Cranfield University, UK
Discussant: Jana Fidrmuč, University of Warwick, UK

We examine the wealth effects of a comprehensive sample of US bidders offering contingent payments, or earnouts, as consideration for their acquisitions of domestic and cross-border target firms. We construct a logistic model to predict the “optimal” use of earnouts by bidders of both domestic and cross-border target firms. While we confirm earlier studies highlighting that bidders earn similar gains from domestic and cross-border bids in the use earnouts, we contribute by showing that bidders making the “optimal” use of earnouts in both domestic and cross-border bids earn higher gains from cross-border bids than from domestic ones. This is consistent after controlling for the effect of several deal- and firm-specific features. Overall, we provide robust evidence that the use of earnouts in domestic and cross-border acquisitions is an effective payment mechanism that helps in significantly mitigating information asymmetry issues and valuation errors, while it enhances acquirers’ net value gains in the short-run.

Keywords: Earnouts, Announcement Bidder Gains, Domestic versus Cross-Border Acquisitions, Abnormal Returns, Method of Payment, Information Asymmetry, Valuation Errors.

Session 3h, 3071: Emerging Markets, Information & Trading
Chair: Yair E Orgler, Tel Aviv University, Israel

Emerging Market Microstructures, Financial Reforms and Informational Efficiency

Vaalmikki Arjoon, The University of Nottingham, UK
Discussant: Thomas Lagarde-Segot, EUROMED Marseille Ecole de Management, France

This paper analyses the effects of microstructures and financial reforms on time-varying informational efficiency in an emerging market setting. For this purpose, we use a multivariate panel regression framework. Our data comprises of firm level data from the Trinidad and Tobago Stock Exchange.

Our empirical results show that microstructures have an important role in influencing the time-varying efficiency of this emerging market, while financial reforms do not. We also consider heterogeneity at the firm level, finding that the microstructures of the banking firms listed in this market have a greater impact on market efficiency, in relation to the other listed firms.
Dynamic herding behavior in Pacific-Basin markets: Evidence and implications
Thomas Chang, Drexel University, USA
Jiandong Li, Central University of Finance & Economics, China
Lin Tan, California State Polytechnic University, Pomona, USA
*Edward Nelling, Drexel University & University of Pennsylvania, USA
Discussant: Vaalmikki Arjoon, The University of Nottingham, UK

This study examines investor herding behavior in Pacific-Basin equity markets. We find that herding is present in both rising and falling markets. Importantly, the level of herding is time-varying. We also find that herding is positively related to stock returns, but negatively related to market volatility. Herding estimates across markets are positively correlated, signifying co-movement of investor behavior in the region.

Keywords: Herding behavior, Stock return dispersion, Kalman filter, Nonlinearity, Pacific-Basin markets

Session 3j, 4047: Culture, Law & Finance
Chair: Wolfgang Breuer, RWTH Aachen University, Germany

Embedding Culture and Finance: divorce or a fresh start?
Charlie Reuter, ESCP Europe, France
Discussant: Wolfgang Breuer, RWTH Aachen University, Germany

We provide a perspective on the contradiction provided by a rising culture-interest, and, the lack of a successful culture-paradigm in financial research. We emphasize how “culture-research” and financial research rest on strikingly different epistemological roots. Culture is concerned with conditionality, conceptuality, ends (values), qualitative evidence, limited diversity, faves, and it is guided by understanding. Culture largely evades precise definition and measurement. Finance is established on deductive and instrumental rationality, on modeling, on measurement, on a-temporality, on an appeal for marginal analysis and it is oriented by quantitative prediction.

To overcome this tension we propose a conceptual tool to think about culture in financial research. Chiefly we distinguish between the types of actors being involved in financial phenomena and their expected behavioral and cognitive homogeneity. Then we recommend defining culture “backward”, from primo the mechanism relating it to the financial outcome, and segundo the homogeneity within the group regarding that mechanism.

This conceptual framework can be of use to culture-scholars across disciplines. In management, it exemplifies how the view of culture as “toolkits”, “layers” and “repertoires” can be intellectually powerful and empirically fruitful within a specific field of inquiry (finance). In finance, we contribute to the understanding of the tensions around “culture” and financial research.


Intra-National Cultural Influences on Household Financial Decision-Making: An Exploratory Study of the Netherlands
Michael Dowling, University of Central Lancashire, UK
Discussant: Charlie Reuter, ESCP Europe, France

Research into cultural influences on financial decision-making is increasingly delivering interesting and novel findings on how households make their financial decisions. This study utilizes a large population-representative survey of households in the Netherlands to investigate whether World Values Survey cultural dimensions are related to intra-national differences in household financial decision-making. The main findings are that subcultures characterised by secular and self-expression values display a greater tendency to invest in risky assets and to hold insurance policies. These findings are consistent with research in areas outside of finance and robust to checks for confounding factors.

Keywords: culture, financial decision-making, household finance, World Values Survey

National Culture and the Choice between Bank and Bond Financing
Ron Christian Antonczyk, RWTH Aachen University, Germany
Astrid Juliane Salzmann, RWTH Aachen University, Germany
Discussant: Michael Dowling, University of Central Lancashire, UK

We examine how cultural preferences impact the financing decision of firms. In particular, we hypothesize that firms in countries with a higher degree of long-term orientation tend to prefer bank finance, whereas firms in countries with a higher degree of short-term orientation tend to prefer bond finance. Based on a thorough theoretical investigation and an extensive empirical analysis using a large, worldwide dataset, we find strong support for our hypothesis on the role of culture in financial intermediation. The results are robust to controlling for other determinants of the choice of debt financing as well as alternative measures of culture.

Keywords: Agency Theory, Bank Loans, Bond Finance, Financial intermediation, National Culture

Session 3j, 4050A: Portfolios
Chair: Juan Ignacio Peña, Universidad Carlos III de Madrid, Spain

How Does Set-Up Decision Affect Mutual Fund Fees?
*Gunmar Lang, ZEW Centre for European Economic Research & Universität Stuttgart, Germany
Matthias Köhler, Deutsche Bundesbank, Germany
Discussant: Sergio Mayordomo, CNMV Comisión Nacional del Mercado de Valores, Spain

This paper employs a new empirical approach for identifying the influence of determinants on the location decision of investment companies to start up mutual funds. Our key innovation is to scrutinize the impact of the domiciliation decision results on investors fund price. We model the decision of a mutual fund company to set up a fund abroad by a logistic model and include fund-categorical-, fund-, firm- and country specific variables. We find that the number of countries a fund is sold to, is consistently increases the likelihood of going abroad. There are indications that demand is still somewhat important. While UCIT funds are likely to be domiciled in financial centers, UCIF funds do not prompt a company to go abroad in general. Fund specific structures, such as umbrella or custodian do not matter in the domiciliation decision. We also find some evidence for fund companies’ taxes to matter. Lastly, startup time is a important factors. There are also indications that local networks of administrator and transfer agents lead companies to domicile in such a favorable fund cluster environment. Simultaneously, we analyze the same determinants from the logistic regression regarding their influence on fund fees. Potential location advantages do not seem to give rise to lower fees. Previous studies found that Luxembourg funds are significantly more expensive. However, we find that round trips that are only sold from Luxembourg back to the market are not significantly more expensive and attribute these additional costs to stem from other factors. As expected, economies of scale, in form of fund and fund company size, and institutional funds lead to lower fees. While general country variables are not significant, we find that fund industry age leads to lower fees. As a consequence of a required separation of fund assets to an independent custodian, customers have to pay higher fees. There is little indication that low fund company taxes are transferred to customers, while shorter start up-times do manifest in less fees being paid.

Keywords: Mutual Funds, Financial Regulation
Portfolio Choice with Indivisible and Illiquid Housing Assets: The Case of Spain
Sergio Mayordomo, CNMV Comisión Nacional del Mercado de Valores, Spain
*Maria Rodriguez Moreno, Universidad Carlos III de Madrid, Spain
Juan Ignacio Peña, Universidad Carlos III de Madrid, Spain
Discussant: Gunnar Lang, ZEW Centre for European Economic Research & Universität Stuttgart, Germany

This paper presents a procedure for computing the theoretically optimal portfolio under the assumption that housing is an indivisible, illiquid asset that restricts the process of portfolio choice. The analysis also includes the financial constraints households may face when they apply for external funding. The set of financial assets that constitute a household’s portfolios are bank time deposits, stocks, mortgage, and housing. This study compares the theoretically optimal portfolio for Spanish households with their actual choices using a unique data set, the Bank of Spain’s EFF survey. At an aggregate level, households under-invest in stocks and deposits in comparison with the optimal portfolio; in the case of mortgages, the optimal and actual portfolios weights are more closely related. At a more disaggregated level, some additional differences emerge that can be explained by demographic, educational, and income characteristics.

Keywords: Portfolio choice, Households, Indivisible illiquid assets, Financial constraints, Under-investment, Over-investment.

Parallel Sessions 4
Tuesday, 14 June 2011, 0930-1100

Session 4a, Synge: Banks & Bailouts
Chair: Edward Kane, Boston College, USA

Communicating Bailout Policy and Risk Taking in the Banking Industry
Jakob Bosma, University of Groningen, Netherlands
Discussant: Edward Kane, Boston College, USA

This paper considers the effects of imperfectly communicated information about whether a regulator initiates a bailout program for financially distressed banks. The theoretical framework allows for determining whether, and to what extent, it is optimal for a regulator to be imprecise in communicating its bank bailout strategy. Banks do not only rely on their prediction of the regulator’s action, but also on their beliefs about other banks’ predictions to infer the regulator’s strategy. Results indicate that the regulator may substitute higher capital adequacy requirements for being less precise in communicating whether to initiate a bailout program to maintain risk-taking by banks.

Key words: bank bailout support, noisy communication, regulation, risk taking

‘Too Systemically Important to Fail’ in Banking
*Philip Molyneux, Bangor University, UK
Klaus Schaeck, Bangor University, UK
Discussant: Jakob Bosma, University of Groningen, Netherlands

The recent financial turmoil and bailouts of a large number of banks in the U.S. and Europe have raised substantial policy concerns regarding banks that are considered “too-systemically-important-to-fail” (TSITF). In this paper, we exploit a sample of bank mergers and acquisitions (M&As) between 1997 and 2008 in nine EU economies and use an innovative framework derived from the frontier literature to capture safety net subsidies and evaluate their ramifications for systemic risk. We focus on three closely related phenomena: First, we use frontier methods to extract information on whether banks deliberately pay premiums for being considered TSITF. Our findings suggest that banks tend to pay higher merger premiums to gain safety net subsidy benefits. Second, we incorporate the computed safety net subsidies derived from the frontier methods in a logit model to assess whether they affect the probability of a bank being rescued during the recent crisis. We find that safety net benefits derived from M&A activity have a significantly positive association with the bailout probability. Third, we do not find that gaining safety net subsidies leads to TSITF bank’s increased interdependence on its peer banks. From a policy perspective, the findings indeed help understand how banks exploit national safety nets and increase instability in the financial system.

Safety-Net Benefits Conferred on Difficult-to-fail-and-Unwind Banks in the US and EU Before and During the Great Recession
Santiago Carbo, University of Grenada, Spain
*Edward Kane, Boston College, USA
Francisco Rodriguez, University of Grenada, Spain
Discussant: Philip Molyneux, Bangor University, UK

In this paper we model and estimate ex ante safety-net benefits at a sample of large banks in US and Europe during 2003-2008. Our results suggest that difficult-to-fail and unwind (DFU) banks enjoyed substantially higher ex ante benefits than other institutions. Safety-net benefits prove significantly larger for DFU firms in Europe and bailout decisions less driven by asset size than in the US. We also find that a proxy for regulatory capture helps to explain bailout decisions in Europe. A policy implication of our findings is that authorities could better contain safety-net benefits if they refrained from their information systems on measuring volatility as well as capital.

Keywords: safety net, too big to fail policy, difficult-to-fail banks, financial crisis

Systemic risk diagnostics: coincident indicators and early warning signals
*Bernd Schwaab, European Central Bank, Germany
Siem Jan Koopman, Vrije Universiteit Amsterdam & Tinbergen Institute, Netherlands
Andre Lucas, Vrije Universiteit Amsterdam, Tinbergen Institute & Duisenberg School of Finance, Netherlands
Discussant: Maria Rodriguez Moreno, Universidad Carlos III de Madrid, Spain

A macro-prudential policy maker can manage risks to financial stability only if current and future risks can be reliably assessed. We propose a novel framework to assess financial system risk. Using a dynamic factor framework based on state-space methods, we model latent macro-financial and credit risk components for a large data set comprising the U.S., the EU-27 area, and the rest of the world. Controlling for global, region-specific, and industry effects, we construct coincident measures (‘thermometers’) and forward looking indicators of financial distress and the likelihood of financial melt-down. We find that credit risk conditions can significantly and persistently de-couple from macro-financial fundamentals. Such decoupling can serve as an early warning signal for macro-prudential policy.

Keywords: financial crisis; systemic risk; credit portfolio models; frailty-correlated defaults; state space methods.

Systemic Tail Risk
*Maarten van Dordt, De Nederlandsche Bank, Netherlands
Chen Zhou, De Nederlandsche Bank & RSM Erasmus University, Netherlands
Discussant: Bernd Schwaab, European Central Bank, Germany

Extreme losses are the major concern in risk management. The dependence between financial assets and the market portfolio changes under extremely adverse market conditions. Hence, the systematic tail risk of an asset may differ from its regular systematic risk. We develop a measure of systematic tail risk, the tail regression beta, defined by an asset’s sensitivity to large negative market shocks, and establish the estimation methodology. We compare it to regular systematic risk measures: the market beta and the downside beta. Furthermore, the tail regression beta is a useful instrument in both portfolio risk management and systemic risk management. We demonstrate its applications in the analysis of Value-at-Risk (VaR) and Conditional Value-at-Risk (CoVaR).

Keywords: Tail regression beta, systematic risk, downside risk, Extreme Value Theory, tail dependence.

Session 4b, Emmet: Systemic Risk
Chair: Mikael Bask, Uppsala University, Sweden

Systemic Tail Risk
*Edward Kane, Boston College, USA
Chen Zhou, De Nederlandsche Bank & RSM Erasmus University, Netherlands
Discussant: Andre Lucas, Vrije Universiteit Amsterdam, Tinbergen Institute & Duisenberg School of Finance, Netherlands

Keywords: Value Theory, tail dependence.
Multifactor consumption based asset pricing models using the US stock market as a reference: evidence from a panel of developed economies.

*John Hunter, Brunel University, UK
Feng Wu, Santander, UK
Discussant: Theodoros Spyridis, Technological Education Institute of Kavala, Greece

In this paper we extend the time series analysis to the panel framework to test the C-CAPM driven by wealth references for developed countries. Specifically, we focus on a linearised form of the Consumption-based CAPM in a pooled cross section panel model with two-way error components. The empirical findings of our two-factor model with various specifications all indicate that there is significant unobserved heterogeneity captured by cross-country fixed effects when consumption growth is treated as a common factor, of which the average risk aversion coefficient is 4.285. However, the cross-sectional impact of home consumption growth varies dramatically over the countries, where unobserved heterogeneity of risk aversion can also be addressed by random effects.

Keywords: Consumption based asset pricing model, Generated Regressor, Multi-factor Model, Panel Estimation, Random Effects

Session 4c, Swift: International Finance & the Macroeconomy
Chair: John Hunter, Brunel University, UK

Exchange Rates, Macroeconomic Fundamentals and Risk Aversion

Ricardo Laborda, Ibercaja, Spain
*Jose Olmo, Centro Universitario de la Defensa Zaragoza, Spain
Discussant: John Hunter, Brunel University, UK

This paper studies exchange rate determination as a result of the interaction between financial and macroeconomic variables in an open economy of risk-averse investors. We show that under absence of arbitrage opportunities the short-run exchange rate reacts to restore equilibrium in international bond markets. The key factors determining its value are the forward exchange rate, the underlying risk premium in money markets and market expectations on the long run exchange rate. The application of this model to determine the exchange rate as a function of monetary and real output variables reveals the importance of the risk premium for setting monetary policy. We find that a relative increase/decrease in the risk premium between foreign and domestic money markets decreases/increases the influence of monetary policy for shifting real output. These findings gain relevance in the current economic context where the effect of quantitative easing policies is controversial.

Keywords: Foreign exchange markets, International bond markets, Uncovered interest parity condition

The Effect of World and Domestic Economic Factors on European Stock Markets: An Empirical Analysis between 2001 and 2010

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Željko Šević, Glasgow Caledonian University, UK
Nikolaos Theriou, Technological Education Institute of Kavala, Greece
Discussant: Jose Olmo, Centro Universitario de la Defensa Zaragoza, Spain

The present paper examines the relationship between the returns of fourteen stock markets with domestic and world economic factors during the period between 2001 and 2010. The economic factors were determined with the application of principal components analysis (PCA) followed by a number of multivariate linear regressions so as to examine the relationship between the variables of the analysis. The results of PCA showed that most of the domestic economic variables included in the study were significant in the construction of the components used later in the regression tests. Moreover, the selected world variables seemed to be of even greater significance, such as the world industrial production and the world inflation rate, and this result was more evident during the regression tests. The regression results that used as independent variables the principal components of PCA in order to explain the share price returns of the markets showed that while in some cases the components from the country-specific variables were significant, the two world components were significant for all the markets. This result is directly related to market integration and to the power of international economic forces that lead the markets.

Keywords: economic factors, stock markets, principal components analysis, regression analysis

Session 4d, UI Chadhain: International Integration IV
Chair: Ron Ratti, University of Western Sydney, Australia

An Equilibrium Model of ‘Global Imbalances’ Revisited

Finn Marten Körner, Carl von Ossietzky Universität Oldenburg, Germany
Discussant: Vincent Duquicquet, Université Paris Nord, France

‘Global imbalances’ are almost universally regarded as a disequilibrium phenomenon. Even if one were happy to join into the choir of a global imbalances equilibrium model as modelled by Caballero, Farhi, and Gourinchas (2008), their model only considers exchange rates and FDI in separate extensions. The need to incorporate both real world phenomena into one coherent model is overwhelming. The joint model in the present paper shows that the analytical solution is neither as straightforward as in the separate models nor can the previous results from calibrated simulation be confirmed without restriction. Global imbalances in the light of both FDI and exchange rates produce dynamically inconsistent outcomes in a large number of cases. The equilibrium model does more often than not produce disequilibria.

Keywords: global imbalances, equilibrium model, foreign direct investment, exchange rates, international macro-finance

The dynamics of European frontier emerging stock markets conomovement: a wavelet approach

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*Vanja Pijlak, University of Vaasa, Finland
Tim Rothovius, University of Vaasa, Finland
Discussant: Finn Marten Korner, Carl von Ossietzky Universität Oldenburg, Germany

We examine the co-movement of the European frontier emerging stock markets with the US and developed markets in Europe applying wavelet coherence. We find that the strength of the co-movement varies considerably across the frontier markets, at different frequencies (time horizons), and over time. Co-movement is relatively weaker for the frontier markets in Central and South-Eastern Europe than in the Baltic region. Of the markets, Slovakia in particular shows low dependence, whereas Lithuania seems to be the most dependent market. Co-movement is stronger at lower frequencies (longer horizons) and increases during the turbulent time of the global financial crisis.

Keywords: Frontier emerging market, Co-movement of stock returns, Wavelets
Financial integration and stabilization in a Monetary Union without or with bank rationing

*Vincent Duwicquet, Université Paris Nord, France
Jacques Mazer, Université Paris Nord, France
Discussant: Vanja Pijik, University of Vassaa, Finland

In a monetary union, like the euro zone, adjustments facing asymmetric evolutions are more difficult due to fixed intra-European exchange rates, as it is illustrated by the actual crisis of Southern European economies. Well integrated capital markets, with portfolio diversification and intra-zone credit, would constitute a powerful adjustment mechanism, examined in detail by the “international risk sharing” approach. Its results are used by advocates of a liberal economic policy in the EU to promote deeper financial integration without having to develop a federal budget. However, the theoretical basis and the econometric methodology used can be both criticised.

A different approach is adopted in this paper, based on a “stock-flow consistent” model of a monetary union with two countries along the lines of Godley and Lavoie (2007). Alternative versions of the model are considered, with or without foreign financial assets, intra-zone credit and intra-zone capital income transfers, with or without credit rationing. Several results can be underlined. Holding foreign assets has a stabilising role, but the capital income stabilising coefficient seems smaller than the one obtained by the “risk sharing” approach. By contrast, intra-zone credit seems to have no specific stabilization effects. There is no increase of the stabilization coefficient to expect from the development of intra-zone credit. This is true without credit rationing, but also in case of global credit rationing from the banks of the two countries. The only case of stabilization appears in the case of credit rationing in the small country, partially compensated by credit from the rest of the Union. The role played by rising interest rates is also discussed. Results are used to enlighten the actual European crisis.

Session 4e, 3106: Modelling
Chair: Florian Resch, Oesterreichische Nationalbank, Austria

Solution and Simulation of Large Stock Flow Consistent Monetary Production Models via the Gauss Seidel Algorithm

Stephen Kinsella, University of Limerick, Ireland
Discussant: Florian Resch, Oesterreichische Nationalbank, Austria

This paper builds and solves a stock flow consistent model in the tradition of Godley and Lavoie (2007). The goal of this paper is to develop a benchmark model that is both through and flexible enough to be applied to modern industrialized economies to aid monetary and fiscal policy decisions. The main difficulty with stock-flow consistent models is the complexity of the models and their solutions. To reduce the complexity of the solution of each model, an algorithm is developed using the Gauss-Seidel method. This algorithm is successful in solving the expansive linear system of equations representing our economy. Given our choice of parameters, our benchmark model achieves a steady state with an inflation rate of 2%, whilst maintaining full employment. The algorithm will allow even more expensive and complex stock flow consistent models to be created.

Keywords: Gauss-Seidel Algorithm, Macroeconomic Modeling.

An Empirical Study of the World Price of Sustainability

Yuchao Xiao, Monash University, Australia
Robert Faff, University of Queensland, Australia
*Philip Gharghori, Monash University, Australia
Darren Lee, University of Queensland, Australia
Discussant: Stephen Kinsella, University of Limerick, Ireland

The core goal of this study is to empirically investigate whether there is a “world price” of corporate sustainability. This is assessed in the context of standard asset pricing models – in particular, by asking whether a risk premium attaches to a sustainability factor after controlling for the Fama-French factors. Both time series and cross-sectional tests are formulated and applied. The results show that (1) global Fama-French factors have strong power to explain global equity returns and (2) sustainability investments have no significant impact on global equity returns. The absence of a significant relationship between sustainability and returns implies that investors are free to implement sustainability mandates without fear of breaching their fiduciary duties from realising negative returns due to incorporating a sustainability investment process.

Key Words: Sustainability, Corporate Social Performance, Global Equities, World Price, Fama-French model

Consistent Joint Testing of Calibration Quality in the Presence of Default Dependence

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Manuel Lingo, WU Wirtschafts Universität Wien & Oesterreichische Nationalbank, Austria
*Florian Resch, Oesterreichische Nationalbank, Austria
Discussant: Philipp Gharghori, Monash University, Australia

Testing calibration quality by means of backtesting is an integral part in the validation of credit rating systems. Against this background this paper provides a comprehensive overview of existing testing procedures for whole rating systems. Currently employed methods lack the ability to consistently apply an assumed dependence structure in the calibration, application and validation. We provide a general framework for testing rating systems under any assumed dependence structure. Using this framework, we develop two novel tests, one relying on the squared Mahalanobis distance and one based on the Sterne test. Performing a scenario analysis using rating data of Moody’s, we are able to demonstrate that our new procedures allow for a more accurate analysis of rating systems than existing procedures.

Keywords: Rating System, Validation, Calibration Quality.

Session 4f, 3126: No Session

Session 4g, 3051: Exchange Rates
Chair: Gerald P. Dwyer, Federal Reserve Bank of Atlanta, USA

The Effect of Capital Controls on Exchange Rate Risk

*Roald Versteeg, University of London Birkbeck, UK
Stefan Straetmans, Maastricht University, Netherlands
Discussant: Gerald P Dwyer, Federal Reserve Bank of Atlanta, USA

Many countries try to smooth their exchange rate movements by means of capital controls or otherwise. By the use of statistical extreme value analysis, we investigate if capital controls succeed in lowering foreign exchange rate (favors volatility). We define foreign volatility as the risk of extreme depreciations. For a sample of developed and emerging markets we find that capital controls are not effective in reducing this extreme depreciation risk. On the contrary, extreme depreciation risk is almost twice as high compared to an exchange rate regime without capital controls.

Keywords: Capital controls, Exchange Rates, Extreme Value Theory, Exchange rate risk, Extreme quantities.

Asymmetric Foreign Exchange Exposure and Foreign Currency Denominated Debt: International Evidence

*Sung Bae, Bowling Green State University, USA
Taek Ho Kwon, Chungnam National University, South Korea
Discussant: Roald Versteeg, University of London Birkbeck, UK

We examine measurement and determinants of asymmetric foreign exchange exposure with a focus on the role of firms’ usage of foreign-currency denominated debt. Employing a large sample of Korean manufacturing firms during 1998-2005, we find significant asymmetries in foreign exchange exposure for Korean firms. We also find that Korean firms with dollar-denominated debt exhibit substantially lower asymmetries in foreign exchange exposure than Korean firms without such debt. Most interestingly, the regression results show that both a firm’s export ratio and dollar-denominated debt ratio are significantly related to the firm’s asymmetric foreign exchange exposure but in the opposite direction. Consistent with the foreign currency denominated debt effect hypothesis, these results provide strong evidence that increased asymmetries in foreign exchange exposure resulting from exporting activities can be effectively reduced by the usage of dollar-denominated debt. Our results offer a broadly-applicable implication that firms with high asymmetric foreign exchange exposure can effectively manage their foreign exchange risk from operating activities by selectively using exporting and foreign currency denominated debt financing.
How strong is the global integration of emerging market regions? An empirical assessment
Duc Khuong Nguyen, IESC Paris School of Management, France
Discussant: Mark Cummins, University of Limerick, Ireland

In recent years, various emerging market regions have actively taken part in the movements of globalization and world market integration. However, the process of financial integration appears to vary over time and differs significantly across emerging market regions. This paper attempts to evaluate the time-varying integration of emerging markets from a regional perspective (Asia, Latin America, Middle East, and Southeast Europe) based on a conditional version of the International Capital Asset Pricing Model (ICAPM) with DCC-GARCH parameters that allows for dynamic changes in the degree of market integration, global market risk premium, regional exchange-rate risk premium, and local market risk premium. Overall, our findings reveal several interesting facts. First, the time-varying degree of integration of four emerging regions, satisfactorily explained by the regional level of trade openness and the term premium of US interest rates, has recently tended to increase, but these markets still remain substantially segmented from the world market. Second, the local market risk premium is found to explain more than 50% of the total risk premium for emerging market returns. Finally, we show that conditional correlations usually underestimate and overstate the measure of time-varying market integration. The empirical results of this study have some important implications for both global investors and policymakers with respect to dedicated portfolio investments in emerging markets and policy adjustments.

Keywords: time-varying integration, emerging markets, ICAPM, risk premium, DCC-GARCH

Global financial crisis and microstructure destabilization in ASEAN countries
Céline Gimet, Université de Lyon 2, GATE & CNRS, France
*Thomas Lagoarde-Ségot, EUROMED Marseille École de Management, France
Discussant: Khald Guessmi, Université Paris Ouest, France

A Unified Analysis of Emissions and Energy Market Interactions across the EU
*Mark Cummins, University of Limerick, Ireland
Patrick O’Shea, University of Limerick, Ireland
Kieran Lyons, University of Limerick, Ireland
Discussant: Thomas Lagoarde-Ségot, EUROMED Marseille École de Management, France

Insights are offered into the interactions of EUA and CER emissions prices with key energy markets across the EU. A wide range of regional gas and power markets, in addition to global oil markets, are considered. Power prices are broken down by base, peak and off-peak to account for regional differences in generation. Significant interactions are shown to exist in Phase II of the EU ETS. NBP and Zeebrugge gas markets are shown to Granger cause both EUA and CER prices. Furthermore, it is shown that the Polish, German, Italian, Dutch and Austrian power markets exert a causal effect on EUA and CER markets through base and peak prices in particular. Rationalising these observations, Poland and Germany are shown to be heavily dependent on coal for power generation, whereas Italy, the Netherlands and Austria are significantly dependent on a mix of coal, oil and gas.

Keywords: Emissions markets; EUAs; CERs; energy markets; Granger causality.

Session 4h, 3071: Integration & Trading
Chair: Mark Cummins, University of Limerick, Ireland

Do Precious Metals Still Shine Amidst Financial Crises?
*David McDonagh, Dublin Institute of Technology, Ireland
Lucia Morales, Dublin Institute of Technology, Ireland
Discussant: Patrick Stephan, Westfälische Wilhelms-Universität Münster, Germany

This paper investigates whether the performance of precious metals to diversify investment portfolios and to hedge against the downside of business cycles is altered when under stress of financial crises. This study is based on the analysis of daily data for US$/Troy ounce for gold, US$/Troy ounce for silver, the London Free Market Platinum price in US$/Troy ounce, the London Free Market Palladium price in US$/Troy ounce as well as for the S&P500 composite index as a proxy variable. The data sample spans from 1995 to 2010 and is divided into sub-periods to accommodate for pre-crisis and crisis periods for both the Asian Crisis and the Global Financial Crisis. This study encompasses numerous methodologies for structural breaks, cointegration, causality and volatility analysis. The main findings show no evidence with regard to the existence of long-run relationships between the series under analysis, although there was one case of short-run relationships during the Asian Crisis between palladium with gold and the S&P500 index. In addition, the analysis show that short-run causal relationships were missed between tranquil and crisis periods, but notable cases that spanned both crises were between gold and the S&P500 and gold and silver. Another interesting result is related to volatilities patterns that generally became erratic during the crises, in particular the Global Financial Crisis. Overall, it was found that precious metals, in certain combinations, are viable diversification instruments for investors, and that gold does indeed merit its name as a safe haven from financial crises.

Is There a Speculative Bubble in the Price of Gold?
Jedrzej Białkowski, University of Canterbury, New Zealand
Martin Bohl, Westfälische Wilhelms-Universität Münster, Germany
*Patrick Stephan, Westfälische Wilhelms-Universität Münster, Germany
Tomasz Wisniewski, University of Leicester, UK
Discussant: Brian Lucey, Trinity College Dublin, Ireland

Motivated by the current gold price boom, we investigate whether the rapidly growing investment activities have triggered a new asset price bubble. We draw on the convenience yield model and use commodity dividends to derive gold’s fundamental value. Based on the deviations of...
the actual gold price from its fundamental value, we apply a Markov regime-switching Augmented Dickey-Fuller test to detect ex post and identify ex ante speculative gold price bubbles. The empirical evidence is favorable for a fundamentally justified price level even during the current period of a drastically rising gold price.

Keywords: Gold Price, Speculative Bubble, Convenience Yield, Markov Regime-Switching ADF Test

Session 4j, 4050A: Exposure & Value
Chair: Sandra Dow, Monterey Institute of International Studies, USA

Interest rate sensitivity of European firms
*Frédéric Délèze, Hanken School of Economics, Finland
Timo Korkeamaki, Hanken School of Economics, Finland
Discussant: Sandra Dow, Monterey Institute of International Studies, USA

Financial managers are concerned about interest rate risk, but their ability to hedge interest rate risk depends on the markets available for such hedging. The introduction of the euro has increased the size of European markets for fixed income securities and their derivatives significantly. This has increased European firms’ ability to manage their interest rate risk both by matching the maturity structure of their assets and liabilities, and by use of derivatives. We find that the number of firms exhibiting negative exposure to interest rates has decreased from pre-euro to post-euro period. We further find that firms’ sensitivity to interest rates is driven by the depth of their local bond markets, and by whether they have issued publicly traded debt. Our findings are robust to controlling for traditional hedging arguments.

Keywords: Interest rate risk, Euro, Risk management

The Management of Foreign Exchange Exposures
Göran Bergendahl, Göteborg University, Sweden
*Stefan Sjögren, Göteborg University, Sweden
Discussant: Frédéric Délèze, Hanken School of Economics, Finland

This study focuses on how different firms handle the risks of economic losses caused by changes in currency exchange rates. It aims at investigating principles and procedures used in the foreign exchange management of multi-national corporations (MNCs). The study has a qualitative, longitudinal approach based on personal interviews at three occasions: 1985, 1996, and in 2008. We find that foreign exchange exposure management has become a more centralised activity. This centralisation is driven by the introduction of new administrative systems, the introduction of new legislation (IFRS), earlier “shocks” from speculative behaviour, and a higher focus on shareholder value. Swedish firms use their choice of currency as a competitive advantage offering product characteristics (standardized or customised) affect the hedging argument for hedging is that they do it better than their shareholders. The product characteristics (standardized or customised) affect the hedging procedures.

Keywords: Interest rate risk, Euro, Risk management

Hedging Strategies of Non-Financial Firms under Different Economic Conditions: Evidence from Canada
Wendy Rotenberg, University of Toronto, Canada
Discussant: Stefan Sjögren, Göteborg University, Sweden

Prior research suggests the potential importance of current economic conditions for corporate hedging, but there is limited direct evidence supporting this relationship. This study examines financial and operational hedging strategies of the same sample of Canadian nonfinancial firms in different economic environments. The results suggest that approximately one third of sample firms do adjust their short term financial hedging strategies when economic conditions change. Also, short and long term financial hedging with derivatives and foreign debt financing appear to be complementary while financial hedging overall serves as a substitute for operational hedging. Consequences of hedging are also evident, with lower equity beta for firms with more intensive financial hedging programs and also for operationally diverse firms, when economic conditions are volatile.

Keywords: Hedging, Derivatives, Geographical Diversification, Risk Management

Greenhouse Gas Emissions Mitigation and Firm Value: A Study of Large European and North American Firms
Raj Aggarwal, University of Akron, USA
*Sandra Dow, Monterey Institute of International Studies, USA
Discussant: Wendy Rotenberg, University of Toronto, Canada

There is strong public pressure globally to mitigate GHG emissions even though regulatory requirements for GHG mitigation vary greatly among countries. However, research on the influence of GHG emissions mitigation on firm value has been inconclusive. This paper contributes by examining the impact of GHG emissions on firm value for a sample of over 600 large firms from the US, Canada, and Europe. We find that GHG emissions have a negative influence on firm value. However, we cannot document that GHG emission mitigation actions add to firm value. The value maximizing nature of such actions seems to be moderated by the nature and quality of corporate governance in a firm perhaps especially as absent any industry-wide regulatory requirements there is no direct link between such GHG mitigating actions and shareholder wealth maximization.

Keywords: Corporate Governance, Climate Change, Environmental Impact, Strategic Decisions

Session 5a, Syng: Bank Capital
Chair: Philip Molyneux, Bangor University, UK

Preparing for Basel IV – Why Liquidity Risks Still Present a Challenge to Regulators in Prudential Supervision (II)
Marianne Ojo, Oxford Brooks University, UK
Discussant: Nikolaos Papanikolaou, Université du Luxembourg & NYU, Luxembourg & USA

Whilst the predecessor (Part I) to this paper addresses criticisms and challenges which have arisen in response to recent Basel Committee’s initiatives aimed at addressing capital and liquidity standards, the present paper highlights further measures which are being introduced by the Basel Committee to address such criticisms and challenges.

As well as presenting and drawing attention to proposals which could serve as means of addressing challenges presented by liquidity risks, Part I of the paper concludes with the result that market based regulation is an essential and vital tool in the Basel Committee’s efforts to address some of the challenges presented by liquidity risks. The present paper highlights the Basel Committee’s acknowledgement of this conclusion. Furthermore, it draws attention to other areas which are considered to constitute fertile substrates for purposes of future research.

This paper will also illustrate why the potential of banking regulations and disclosure requirements to impact risk taking levels is not only dependent on certain factors such as the dissemination of information to appropriate recipients, appropriate volume of disseminated information, when to disseminate such information, but also on other factors such as ownership structures and effective corporate governance measures aimed fostering monitoring, supervision and accountability.

Key Words: liquidity risks, systemic risks, capital, standards, Basel III, moral hazard, disclosure, information, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR)
Leverage and risk in US commercial banking in the light of the current financial crisis
*Nikolaos Papanikolaou, Université du Luxembourg & NYU, Luxembourg & USA
Christian Wolff, Université du Luxembourg, Luxembourg
Discussant: Marianne Ojo, Oxford Brookes University, UK

In this paper we study the relationship between leverage and risk in commercial banking market. We employ a panel data set that consists of the biggest US commercial banks and extends from 2002 to 2010 thus covering both the years before the outbreak of the recent financial crisis as well as those followed. We make clear distinctions among different leverage types like on- and off-balance sheet leverage as well as long-term leverage, which have never been made in the crisis literature. Our findings provide evidence that excessive leverage, both explicit and hidden off-the-balance sheet of banks, rendered large institutions vulnerable to financial shocks thus contributing to the fragility of the whole banking industry. In contrast, we report a negative link between long-term leverage with bank fragility before the crisis, which implies that short-term securitized debt has been one of the key factors responsible for the serious liquidity shortages that were revealed after 2007 when the crisis erupted. We also demonstrate that banks which concentrate on traditional banking activities typically carry less risk exposure than those that are involved with modern financial instruments. Overall, our results provide a better understanding of the role of leverage in destabilizing the whole system whereas at the same time contribute to the current discussion on the resilience of the banking sector through the strengthening of the existing regulatory framework.

Keywords: financial crisis; risk; leverage; commercial banking

Session 5b, Emmet: Tail Risks & Skewness
Chair: Stefan Straetmans, Maastricht University, Netherlands

Portfolio selection with commodities under conditional dependence and skew preferences
*Carlos Gonzalez-Pedraz, Universidad Carlos III de Madrid, Spain
Manuel Moreno, University of Castilla-La Mancha, Spain
Juan Ignacio Peña, Universidad Carlos III de Madrid, Spain
Discussant: Stefan Straetmans, Maastricht University, Netherlands

This paper addresses the portfolio selection problem when commodities are included in the investment opportunities set. We model the joint assets’ distribution within a flexible multivariate setting including conditional multivariate copulas with time-varying parameters. We allow for conditional means, variances, skewness, and extreme outcomes both in the dependence structure and in the marginal distributions. We generalize the investor’s standard mean-variance preferences allowing for skew preferences. The empirical application is based on S&P 500 index and two commodities: crude oil and gold, using weekly data from June 1990 to September 2010. The results are compared with respect to the standard Markowitz portfolio allocation both in-sample and out-of-sample. We find significant economic differences between the standard and the generalized approach in the optimal portfolio’s structure and performance.

Keywords: Portfolio selection, commodities futures, conditional copulas, and skew preferences.

The Cross-Section of Tail Risks in Stock Returns
*Kyle Moore, Erasmus Universiteit Rotterdam, Netherlands
Pengfei Sun, Tinbergen Institute & Erasmus Universiteit Rotterdam, Netherlands
Casper de Vries, Erasmus Universiteit Rotterdam, Netherlands
Chen Zhou, Erasmus Universiteit Rotterdam, Netherlands
Discussant: Carlos Gonzalez-Pedraz, Universidad Carlos III de Madrid, Spain

This paper analyzes the tail risks in the equity market at a firm level and further identifies drivers for such tail risks. Following the Arbitrage Pricing Theory we provide theoretical reasoning that the shapes of the left tail distributions of equity returns are indistinguishable whereas the scales should vary across firms according to their risk taking behaviors. Empirical study on 291 US firms supports the theoretical finding and further identifies firm level determinants that drive the scale differences, namely firm size and earnings yield, measured by market capitalization and earnings-price ratio respectively.

Long-Term Asset Tail Risks in Developed and Emerging Markets
*Stefan Straetmans, Maastricht University, Netherlands
Bertrand Candeler, Maastricht University, Netherlands
Discussant: Kyle Moore, Erasmus Universiteit Rotterdam, Netherlands

The tail of financial returns is typically governed by a power law (i.e., “fat tails”). However, the constancy of the so-called tail index which dictates the tail decay has been hardly investigated. We study the finite sample properties of some recently proposed endogenous tests for structural change in. Given that the finite sample critical values strongly depend on the tail parameters of the return distribution we use a bootstrapped version of the structural change test. Our empirical application spans a wide variety of long-term developed and emerging financial asset returns. Somewhat surprisingly, the tail behavior of emerging stock markets is not more strongly inclined to structural change than their developed counterparts. Emerging currencies, on the contrary, are more prone to shifts in the tail behavior than developed currencies. Our results suggest that extreme value theory (EVT) applications in risk management or in assessing the changing propensity to financial crises can safely assume stationary tail behavior over long time spans provided one considers portfolios that solely consist of stocks or bonds. However, our break results also indicate it is advisable to use shorter estimation windows when applying EVT methods to emerging currency portfolios.

Session 5c, Swift: Commodities & Finance
Chair: Dirk Baur, University of Technology, Sydney, Australia

Do Natural Resource Revenues Hinder Financial Development? The Role of Political Institutions
*Sambit Bhattacharyya, University of Oxford, UK
Roland Hodler, Study Center Gerensere, Switzerland
Discussant: Dirk Baur, University of Technology, Sydney, Australia

We theoretically and empirically examine the relationship between natural resource revenues and financial development. In the theoretical part, we present a politico-economic model in which contract enforcement is low and decreasing in resource revenues when political institutions are poor, but high otherwise. As poor contract enforcement leads to low financial development, the model predicts that resource revenues hinder financial development in countries with poor political institutions, but not in countries with comparatively better political institutions. We test our theoretical predictions systematically using panel data covering the period 1970 to 2005 and 133 countries. Our estimates confirm our theoretical predictions. Our main results hold when we control country fixed effects, time varying common shocks, income and various additional covariates. They are also robust to alternative estimation techniques, various alternative measures of financial development and political institutions, as well as across different samples and data frequencies. We present further evidence using panel data covering the period 1870 to 1940 and 31 countries.

Key words: Natural resources; political institutions; financial development

Cointegration and structural breaks in commodity markets: some evidence from spot and futures prices
Lucia Baldi, Università degli Studi di Milano, Italy
Massimo Peri, Università degli Studi di Milano, Italy
Discussant: Sambit Bhattacharyya, University of Oxford, UK

This paper investigates the long-run relationship between spot and futures prices for corn and soybeans, for the period January 2004 - September 2010. We apply cointegration methodology in the presence of potentially unknown structural breaks in the commodities prices and we then study the causality relationships between spot and futures prices within each specific sub-period identified, with the aim to analyze where changes in spot and futures price originate and how they spread. Empirical estimates highlight the following evidence: i) breaks relate to events that have significantly affected the supply and demand of corn and soybeans for food and energy purposes; ii) sub-periods consequently identified express different dynamics in the causal relationship between spot and futures prices and support the idea that many factors contributed to the 2007-2008 food price increase.

Keywords: commodity, futures markets, price discovery, cointegration, structural breaks
The Financialization of Commodities, Contagion and Synchronization
Dirk Baur, University of Technology, Sydney, Australia
Discussant: Daniela Vandone, Università degli Studi di Milano, Italy

The financialization of commodities may change the co-movement with other assets such as stocks and bonds, reduce the benefits of diversification and increase systemic risks. This paper uses three measures of co-movement to provide a detailed picture of co-movement changes possibly associated with financialization. The empirical analysis covering data from 1990 to 2010 shows that co-movements of commodities with other asset classes fluctuated around their long-run average and only increased during the Global Financial Crisis and its aftermath. The results suggest that contagion was the main driver of this effect and that financialization increased the probability of contagion. The findings also suggest that crises synchronize cycles.

Keywords: financialization, commodities, contagion, correlation, coexistence, gold

Session 5d, Ui Chadhain:
International Integration V
Chair: Aleksandar Sević, Trinity College Dublin, Ireland

Building Legal Indexes to explain Recovery Rates: An Analysis of the French and UK Bankruptcy Codes
John Armour, Oxford University, UK
*Régis Blazy, Université de Strasbourg, France
Ninhar Ngiam, Luxembourg School of Finance, Luxembourg
Discussant: Ronald Ratti, University of Western Sydney, Australia

The main aim of this paper is to find the legal characteristics that impact on the recovery rates. Previous studies (LSSV, Doing Business Report, World Bank) have usefully used a set of legal indexes to rank the bankruptcy law prevalent within the country. But they fail to identify the characteristics of bankruptcy procedures that create more recoveries. We give here elements of answer by taking into consideration two countries that are good representatives of the two main legal systems prevailing in Europe: France (Civil Law) and United Kingdom (Common Law). To enable this, we built original legal indexes comprising of 158 binary questions that highlight ten major dimensions of corporate bankruptcy procedures: (1) accessibility, (2) exclusivity, (3) bankruptcy costs, (4) production of information, (5) protection of the debtor’s assets, (6) protection of claims, (7) coordination of creditors, (8) decision power, (9) sanction of faulty that highlight ten major dimensions of corporate bankruptcy procedures:

Keywords: bankruptcy laws, recovery rates, legal indexes.

Equity Investment, Dividend Imputation and Foreign Taxation
Anil Mishra, University of Western Sydney, Australia
*Ronald Ratti, University of Western Sydney, Australia
Discussant: Régis Blazy, Université de Strasbourg, France

The relationship between cross border taxation and free float home bias is examined. This explicitly recognizes that insider shares are unavailable to foreigners. Other important explanations for home bias – information asymmetry, behavioural and governance issues – are controlled when examining the impact of cross border tax variables. In our sample of countries about half (three-quarters) withhold taxes on realized capital gains (dividends) of foreign investors and about half of the mature economies provide imputation of taxes paid on dividend income by domestic corporations. A tax credit variable for foreign taxes paid is constructed and found to be statistically significant in reducing home bias. A foreign tax rate too high to be fully offset by tax credits is found to significantly increase home bias. Dividend imputation is a statistically significant impediment to cross border equity flows. The benefit of investor familiarity with foreign opportunities for reducing home bias is found to be mitigated by higher potential for foreign taxation of capital gains.

Keywords: float home bias; dividend imputation; cross border taxation.

Session 5e, 3106: Contagion & Crises
Chair: Mark Griffiths, Miami University, USA

Actual and Potential Market Risks during the Stock Market Turmoil 2007-2008
*Mikael Bask, Uppsala University, Sweden
Anna Widerberg, Göteborg University, Sweden
Discussant: Mark Griffiths, Miami University, USA

Abstract: The aim of this paper is to demonstrate how the change in actual and potential market risks in the Dow Jones Industrial Average (DJIA) during the two-year period 2007-2008 can be analyzed with the help of (λ_t, σ_t^2) analysis. In the empirical analysis, the average of the Lyapunov exponents for the dynamic system generating DJIA returns is used as the stability measure, λ, whereas the squared DJIA return is used as the variability measure, σ^2. The main findings are as follows: (i) the potential market risk in the DJIA did not fluctuate that much during 2007, with the exceptions of early fall and near the end of the year; (ii) the potential market risk fluctuated a lot during 2008, especially in early August and in the middle of September; and (iii) the actual market risk in the DJIA was considerably higher near the end of 2008, especially in October, compared with the rest of the period.

Keywords: Financial Crisis; Lyapunov Exponents; Market Risk; Stability; Volatility.

Is there life in the old dogs yet? Making break-tests work on financial contagion
*Bartosz Gebka, Newcastle University, UK
Michail Karagiozou, Aston University, UK
Discussant: Mikael Bask, Uppsala University, Sweden

Many tests of financial contagion require a definition of the dates separating calm from crisis periods. We propose to use a battery of break search procedures for individual time series to objectively identify potential break dates which correctly identify the timing of changes in cross-country transmission mechanisms. Application of break search procedures breathes new life into the established contagion tests, allowing for an objective, data-driven timing of crisis periods.

Keywords: Breaks in time series, financial contagion.
The two main explanations for the crisis in the commercial paper (CP) market are credit concerns and liquidity issues. The CP market is not homogeneous in terms of credit quality, maturities and types of issues. We find that lower credit-quality CP suffered more during the crisis. Additionally, we find little evidence that Fed liquidity facilities reduced the impact of the crisis, but that when the Fed became a lender in the CP market, the crisis pressures were dramatically reduced. We conclude that the crisis in the money markets is related more to increases in credit risk. Liquidity is a secondary issue.

Session 5f, 3126: No Session

Session 5g, 3051: Mergers & Privatization
Chair: Arnold Cowan, Eventus & Iowa State University, USA

Privatization and Globalization: An Empirical Analysis
Narjess Boubakri, American University of Sharjah, UAE
Jean-Claude Cosset, HEC Montréal, Canada
Pascale Valery, HEC Montréal, Canada
Discusant: Jens Hagendorff, The University of Edinburgh, UK

This paper examines the link between globalization measured by foreign direct investment (FDI) and foreign portfolio investment (FPI) and privatization of state-owned enterprises in a multi-country sample that focuses on developing countries. We hypothesize that privatization has had an effect on FDI/FPI as the process of fostering private sector participation was often accompanied by liberalization reforms, and by allocating to foreign investors substantial shares in newly privatized firms. Similarly, we expect FDI/FPI to foster privatization efforts as new capital inflows, technology and managerial skills that accompany FDI/FPI make the environment more prone to competition, and provide governments with a good environment to privatize inefficient firms that need to be turned around. This relation is assessed in two ways, first in a dynamic panel using a generalized method of moments approach, and further investigated through panel causality tests. Our results provide support for our conjectures and lead to several policy implications for governments that may use privatization to attract foreign investment.

The Safety and Soundness Effects of Bank M&A in the EU
Jens Hagendorff, The University of Edinburgh, UK
Maria J Nieto, Banco de España, Spain
Larry Wall, Federal Reserve Bank of Atlanta, USA
Discusant: Arnold Cowan, Eventus & Iowa State University, USA

This paper studies the impact of European bank mergers and acquisitions (M&A) on changes in key safety and soundness measures of both targets and acquirers. Our focus is on the short term impact after completion of the deal. We find a consistent, strong tendency towards post-merger mean reversion for the target’s capitalization and liquidity over the same time period. We also find that European bank mergers strengthen target capitalizations at the expense of the acquirer’s capitalization. However, supervisory practices have a positive impact on merger-related changes in bank profitability and capitalization for both acquiring and target banks. Our results do not preclude other effects on capitalization, liquidity and profitability in the medium and long term as a result of managerial changes in strategy.

Keywords: banks, mergers, premiums, Europe

The Other Side of Privatization: Acquirer Performance
Ginka Borisova, Iowa State University, USA
Arnold Cowan, Eventus & Iowa State University, USA
Discusant: Pascale Valery, HEC Montréal, Canada

Relatively little is known about how asset sales by the state affect the acquirers of state-owned enterprises (SOEs). Using an event study approach, we investigate the returns to acquirers from a comprehensive sample of asset sale privatization announcements in 123 countries around the world over 1984-2009. Overall, we find positive abnormal returns to acquirers of privatized firms; returns are greater when the acquirer is located in the same country as the target and when the sale occurs in a developing nation. Abnormal returns are also higher when the acquirer itself is not a former SOE. In the cross-border case, we also find larger acquirer returns when the transaction occurs in a civil law nation but the acquirer is from a common law country. Buyers of bail-out firms now being returned to private ownership gain considerably more compared to buyers in other state divestitures. Our results suggest that the market favors acquirers from environments associated with better corporate governance and access to capital, as well as acquirers that benefit from divesting governments driven by broad political goals rather than sale revenue maximization.

Keywords: Government, Privatization, Asset Sales, Corporate Governance, Bailouts

Session 5h, 3071: CDS I
Chair: Robert Veermeulen, De Nederlandsche Bank, Netherlands

Reduced-Form Evidence of Levy-Driven Dynamics in Credit Default Swap Prices
Gareth Moloney, University of Limerick, Ireland
Bernard Murphy, University of Limerick, Ireland
Discusant: Jiri Svec, The University of Sydney, Australia

In this paper we examine the fit of a number of Levy-driven reduced form models to market credit default swap (CDS) prices. First, we perform a stable distribution fitting of historical CDS prices to confirm the non-Gaussian nature of the CDS data generation process. We then compare the relative “goodness of fit” of the various models and construct time-series of the implied model parameters to see if they intuitively accord with the price dynamics observed during the height of the 2008-09 crisis in global credit markets. With a view to facilitating the execution of possible arbitrage trading across equity option and CDS markets, we develop both a MATLAB based GUI and Excel front-end which offers the end-user the ability to visually compare the fit of each model to market. The set-up of the GUI also makes it relatively straightforward to add additional models for comparison purposes.

Capital Structure Arbitrage: An Analysis of the Australian CDS Market
Jiri Svec, The University of Sydney, Australia
Nicholas Reeves, The University of Sydney, Australia
Discusant: Bernard Murphy, University of Limerick, Ireland

This study investigates the ability of the CreditGrades model to estimate Credit Default Swap (CDS) spreads by comparing the difference between model and market spreads using a number of volatility inputs. We then develop a convergence style capital structure arbitrage trading strategy and test its profitability in the Australian CDS market. We conclude that model performance in the earlier stages of the sample period is consistent with previous literature, yet model and market spreads diverge considerably throughout the more volatile periods of the sample. The use of a forward-looking option implied volatility inputs in the model results in poor fit compared to using long-term historical volatility inputs. They are, however, more correlated with medium term changes in market spreads and are significantly more profitable within the trading strategy. While trades using all volatility inputs are highly risky at both the individual obligator and the iTraxx Australia index level, those based on implied volatility are found to be highly profitable, on average, after transaction costs are taken into account. The strategy is significantly less risky when positions are combined into an equally weighted index of arbitrage trades. Financial firms, with which structural models have traditional struggled, are included in the sample by way of a model calibration procedure, and their inclusion does not decrease the accuracy of the model, nor the profitability of the trading strategy.

Discussant: Arnold Cowan, Eventus & Iowa State University, USA

Keywords: Eventus, Risk Management, Capital Structure Arbitrage, Credit Default Swap, CDS, Australia

Chair: Robert Vermeulen, De Nederlandsche Bank, Netherlands

Discussant: Bartosz Gebka, Newcastle University, UK

No Session
The Information Content of Ratings: An Analysis of Australian CDS Spreads
*Maurice Peat, The University of Sydney, Australia
Jue Wang, The University of Sydney, Australia
Jiri Svec, The University of Sydney, Australia
Discussant: Robert Vermeulen, De Nederlandsche Bank, Netherlands

We examine the information content of Australian credit rating announcements by measuring the abnormal changes in CDS spreads. It is argued that CDS spreads provide a direct view of credit quality and thus should impound information quickly when a reference entity receives new credit-related information via a ratings event. Using event study methods, we show that in the Australian market, new information on credit quality contained in ratings is transmitted into spreads rapidly. Negative credit watch placements elicit statistically significant market reaction while there is no further reaction to subsequent downgrades suggesting that they are already anticipated by the market. Conversely, upgrades are associated with a small decrease in CDS spreads whereas positive credit watches have no impact on spreads.

Session 5i, 4047: Volatility
Chair: Can Inci, Bryant University, USA

Volatility patterns of CDS, bond and stock markets before and during the financial crisis: Evidence from major financial institutions
Angsar Belke, Universität Duisburg Essen, DIW Berlin & IZA Bonn, Germany
*Christian Gokus, Universität Duisburg Essen, Germany
Discussant: Viviana Fernandez, Pontificia Universidad Catolica de Chile, Chile

This study is motivated by the development of credit-related instruments and signals of stock price movements of large banks during the recent financial crisis. What is common to most of the empirical studies in this field is that they concentrate on modeling the conditional mean. However, financial time series exhibit certain stylized features such as volatility clustering. But very few studies dealing with credit default swaps account for the characteristics of the variances. Our aim is to address this issue and to gain insights on the volatility patterns of CDS spreads, bond yield spreads and stock prices. A generalized autoregressive conditional heteroskedasticity (GARCH) model is applied to the data of four large US banks over the period ranging from January 01, 2006, to December 31, 2009. More specifically, a multivariate GARCH approach fits the data very well and also accounts for the dependency structure of the variables under consideration. With the commonly known shortcomings of credit ratings, the demand for market-based indicators has risen as they can help to assess the creditworthiness of debtors more reliably. The obtained findings suggest that volatility takes a significant higher level in times of crisis. This is particularly evident in the variances of stock returns and CDS spread changes. Furthermore, correlations and covariances are time-varying and also increased in absolute values after the outbreak of the crisis, indicating stronger dependency among the examined variables. Specific events which have a huge impact on the financial markets as a whole (e.g., the collapse of Lehman Brothers) are also visible in the (co)variances and correlations as strong movements in the respective series.

Stock volatility and pension funds’ holdings in an individual capitalization-based system
Viviana Fernandez, Pontificia Universidad Catolica de Chile, Chile
Discussant: Christian Gokus, Universität Duisburg Essen, Germany

The aim of this article is to discuss the empirical relation between volatility and pension fund holdings in Chile, a pioneer of an individual capitalization-based pension system. Specifically, we test for the feedback effect between pension funds and stock return volatility by means of Granger causality and Arelleano-Bond regressions for a dynamic panel. Discussion of this topic has been provided for the United States and other economies from the mid 1990’s onwards (e.g., Sias 1996; Del Guercio 1996; Eakins, Stansell, and Wertheim 1997; Faugère and Shawky 2003; Biray 2005, Nagel 2005). To this end, we gathered data on pension fund holdings for 42 firms which actively traded on the Santiago Stock Exchange between December 2002 and July 2008. Such holdings were computed based on information gathered by the Superintendence of Pension Funds on multi-funds A, B, C, and D, established in Chile in September 2003. Our estimation shows that there are feedback effects in both directions. Specifically, our results show that an increase in pension funds’ stock holdings translates into a mild effect on stock return volatility. Conversely, an increase in return volatility would lead to a decrease in pension funds’ holdings. This finding would be indicative of pension funds’ preference for safer stocks, as previously reported by Faugère and Shawky (2003) for a market decline. This finding is supported by correlating pension funds’ stock holding with firm characteristics, such as beta.

Keywords: pension funds, stock return volatility

Session 5j, 4050A: Equity Investments
Chair: Camilo Mondragon-Velez, International Finance Corporation – World Bank Group, USA

Short Selling and Stock Returns: Evidence from the UK
Aziz Jaafar, Bangor University, UK
*Achar Mohamad, Bangor University, UK
Lynn Hodgkinson, Bangor University, UK
Jo Wells, Bangor University, UK
Discussant: Anuk Serechetapongse, Cornell University, USA

This paper examines the information content of short interest by investigating whether firms that experience significant daily increases in short interest subsequently experience negative abnormal returns. Using UK daily short interest data for the period September 2003 to April 2010, we find a significant negative cumulative average abnormal return of 1.48 percent for valuation short stocks for the first fifteen days post-publication of short interest data. This result suggests that short interest has informational content consistent with the Diamond and Verrecchia (1987) hypothesis.

Key words: Short Interest, Short Selling, Stock Returns, Abnormal Returns

Revisiting the Stealth Trading Hypothesis
*David Abad, Universidad de Alicante, Spain
Roberto Pascual, Universitat de les Illes Balears, Spain
Discussant: Stuart McLeay, The University of Sydney, Australia

The stealth trading hypothesis (STH) states that informed traders concentrate their trades on medium sizes to conceal their information. In this paper, we question several methodological aspects of previous studies to provide new insights. We show that the STH cannot be rejected under alternative definitions of the trade-size cutoffs, after we control for bid-ask bounce, time between trades, and prevailing spread and depth. When we extract the friction-related component in price changes, we cannot reject the STH for some subsets of medium-sized trades, but we show that most of the disproportionally large role in the cumulative price change previously attributed to medium-sized trades dissipates.

Keywords: Stealth trading, trade size, trade frictions, electronic order-driven markets, trade duration, order aggressiveness, bid-ask spread, price formation, market microstructure.

Equity Prices and Equity Flows: Testing Theory of the Information-Efficiency Tradeoff
Razin Assaf, Cornell University, USA
*Anuk Serechetapongse, Cornell University, USA
Discussant: David Abad, Universidad de Alicante, Spain

The paper tests three hypotheses concerning foreign equity investment in the presence of liquidity risk. First, the FDI-to-FPI price differential is negatively related to liquidity risk (the “Price Discount Hypothesis”). The idea is that market participants do not know whether the FDI investor liquidates a firm because of an idiosyncratic liquidity shock, or because, as an informed investor, the firm is hit by a productivity shock. Second, the FDI-to-FPI composition of foreign equity investment skews towards FPI, if investors are expected to experience liquidity shortage in the future (the “Asset-Composition Hypothesis”). The idea is that because direct investments are more costly to liquidate, due to the price discount, the more severe is the expected liquidity shock, the smaller is the FDI-to-FPI ratio. Third, the FDI-to-FPI composition of foreign equity flows skews towards FDI, if there are feed-back effects in both directions. Specifically, our results show that an increase in FDI investor’s holdings translates into a mild effect on FDI flow returns. Conversely, an increase in FDI flow returns would lead to a decrease in FDI investor’s holdings. This finding would be indicative of FDI investor’s preference for safer stocks, as previously reported by Faugère and Shawky (2003) for a market decline. This finding is supported by correlating FDI investor’s stock holding with firm characteristics, such as beta.

Keywords: FDI, FPI, price discount, liquidity risk, information content, information efficiency.
investors. Such an increase reinforces the information externality, thereby lowering the FDI-to-FPI price discount, creating further incentives for investors to choose FDI.

The paper brings these hypotheses to country level data consisting of a large set of developed and developing countries over the period 1970 to 2004. The evidence gives strong support to the hypotheses. To test the hypotheses, we apply also a dynamic panel model to examine the variation of FPI relative to FDI for source and host countries from 1985 to 2004. Country-wide sales of external assets are used as a proxy for liquidity problems. We estimate the determinants of liquidity problems, and then test the effect of expected liquidity problems on stock prices, the ratio of FPI to FDI and gross flows of FPI and FDI. We find strong support for the hypotheses: greater expected liquidity problems increase the price discount, have a significant positive effect on gross flows of FPI, negative effect on gross flows of FPI, and positive effect on the ratio between FPI and FDI.

Parallel Sessions 6
Tuesday, 14 June 2011, 1600-1730

Session 6a, Synge: Banking II
Chair: Stefanie Kleimeier, Maastricht University, The Netherlands

Why Do Banks Ask for Collateral in SME lending?
*Régis Blazy, Université de Strasbourg, France
Laurent Weill, Université de Strasbourg, France
Discusssant: Rama Seth, Indian Institute of Management Calcutta, India

Following the massive use of collateral in SME lending, this paper aims at testing empirically the three major theoretical reasons for using collateral: reduction of loan loss in the event of default, adverse selection, and moral hazard. We use a unique dataset of 735 bank loans granted to French distressed SMEs, which contains full information on the type and value of collateral, and the cause of firm default. We observe that collateral contributes to reduce loan loss in the event of default, with differences among types of collaterals in terms of the recovered value for a given initial value. However we tend to show that collateral does not solve adverse selection problems, as there is a positive relationship between collateral and risk premium, nor moral hazard, as secured loans are not associated with a lower probability of moral hazard behavior. These findings are observed for all types of collateral. Therefore, our work suggests that information asymmetries are not of prime importance in the decision of the bank to secure loans to SMEs. The reduction of the loan loss and the observed-risk hypothesis may explain the use of collateral.

Keywords: Collateral, SME, lending.

An Investigation into the Relationship between the Multinationality of Banks and their Cost of Equity
*Philip Beattie, Trinity College Dublin, Ireland
Jennifer Berrill, Trinity College Dublin, Ireland
Aleksandar Šević, Trinity College Dublin, Ireland
Discusssant: Régis Blazy, Université de Strasbourg, France

With multinational banks comprising a crucial and highly relevant feature of today’s globalized economy, the extant literature has thus far been unable to provide overwhelming clear evidence as to the existence and direction of a strong cause-effect relationship between the degree of internationalisation the reward equity investors expect on bank stocks. This paper examines the relationship between international diversification and its implications for the cost of equity capital based on a novel data set containing 150 of the world’s top banking institutions ranked by Tier 1 capital. We provide a unique and more robust measure of bank multinationality than has appeared in the literature to date. We also provide estimates of the inflation-adjusted cost of equity for banks over the period 2000-2009 using a single-factor capital asset pricing model (CAPM). Our results point towards the problems relating to the estimation of expected shareholder returns using the CAPM and shed light on the risk aspect of bank global diversification. The policy implications of our analysis are discussed.

Lending Activities of Foreign Banks during Three US Recessions
Anoop Rai, Hofstra University, USA
*Rama Seth, Indian Institute of Management Calcutta, India
Suni/Mohanthy, University of St Thomas, USA
Discusssant: Harald Sander, Cologne University of Applied Sciences & Maastricht University, Germany

We examine the lending behavior of foreign banks in the US during three recessions, 1991, 2001 and 2008. Using a sample of foreign banks paired against a control group of domestic banks, we find foreign branches increased their lending relative to domestic banks during the 1991 recession. During the 2001 recession, the roles reversed and foreign branches reduced their lending while domestic banks increased them. Bank lending behavior began to converge in the 2008 recession; foreign branches increased their lending more than domestic banks one year into the recession but all banks decreased them in the second year of the recession. For all three recessions, foreign subsidiaries lending behavior was similar to domestic banks than foreign branches. We explain the countercyclical lending behavior within the context of the 1991 FISSEA Act and other legislations that attempted to weaken equal treatment of foreign banks in favor of reciprocity by foreign countries.

Session 6b, Emmet: Corporate Control
Chair: Maxwell Stevenson, The University of Sydney, Australia

Employee-Governed Firm and Capital Structure
*Matjaž Črnigoj, Institute for Economic Research, Slovenia
Dušan Mramor, University of Ljubljana, Slovenia
Discusssant: Maxwell Stevenson, The University of Sydney, Australia

Assuming a new corporate governance paradigm that puts employees in the firms’ governance structures, as well as understanding their objective functions, we investigate the capital structure implications of having employees in control. We argue that employee governed firms face a limited supply of debt and that they have lower demand for debt compared to firms governed by shareholders. Examining the capital structure decisions of firms from 12 European countries, we provide strong empirical evidence that employee-governed firms operate with lower leverage compared to firms governed by other stakeholders. We documented significant negative correlation of leverage to employees’ entrenched, while we observed weaker effect of employees’ ownership rights. In contrast to the expectations, we found that a firm’s leverage is generally negatively associated with ownership concentration and the effectiveness of monitoring. Besides, we found that employee-governed firms tend to be less levered at the same amount of earnings volatility than firms governed by other stakeholders, meanwhile the results do not support the hypothesis that employee-governed firms rely on internal sources to a larger extent and have to pledge more collateral than firms governed by other stakeholders.

Risk Management, Corporate Governance, and Bank Holding Company Performance in the Financial Crisis
Subramanian Iyer, Oklahoma State University, USA
Takeshi Nishikawa, St John’s University, USA
Ramesh Rao, Oklahoma State University, USA
*William Simpson, Oklahoma State University, USA
Discusssant: Matjaž Črnigoj, Institute for Economic Research, Slovenia

The purpose of this empirical investigation is to explore the influence of corporate risk management and corporate governance on the performance of U. S. bank holding companies (BHCs) during the financial crisis. The analysis is intended to add insight into the causes and policy implications of the worst financial crisis in the U. S. in generations. We hypothesize that poor risk management and certain corporate governance characteristics resulted in poor performance by major U. S. BHCs. Our analysis is based on a panel of quarterly observations for approximately 400 U. S. BHC’s from the third quarter of 2007 until the second quarter of 2009. We estimate regression models with firm level fixed effects and time period fixed effects. We find evidence that the presence of a chief risk officer and the tenure of the chief risk officer are associated with lower loan losses and higher profitability. Our results suggest that higher ownership by officers and directors is associated with lower loan losses and higher return on assets. We find that higher equity compensation for managers is associated with higher mortgage loan losses and higher profitability. The evidence suggests that a higher proportion of independent directors on the board is associated with lower unrealized losses on asset-backed securities and lower financial leverage.
Takeover Prediction Using Forecast Combinations
Bruno Dore Rodrigues, The University of Sydney, Australia
*Maxwell Stevenson, The University of Sydney, Australia
Discussant: William Simpson, Oklahoma State University, USA

The ability to identify likely takeover targets at an early stage could provide an investor with valuable information to profit from investing in potential target firms. In this paper we contribute to the takeover forecasting literature by suggesting the combination of probability forecasts as an alternative method to improve forecast accuracy in takeover prediction and to, therefore, realize improved economic return in portfolios made up from predicted targets. Forecasts from several non-linear forecasting models, such as logistic and neural network models and combinations of them, are used to explore the methodology that better reduces the out-of-sample misclassification error. We draw two general conclusions from our results. First, the combination methods outperform the single models and should be used to improve the prediction accuracy of takeover targets. Second, we demonstrate that an investment in portfolios of the combined predicted targets results in significant abnormal returns being made by an investor in the order of up to four times the market benchmark return, and in a portfolio of manageable size.

Keywords: takeover prediction, forecast combination, accuracy, economic value

Session 6c, Swift: Cross Listings
Chair: Graham Partington, The University of Sydney, Australia

What Makes the Bonding Stick? A Natural Experiment Involving the Supreme Court and Cross-Listed Firms
*Amir Licht, IDC Interdisciplinary Center Herzliya, Israel
Xi Li, Boston College, USA
Jordan Siegel, Harvard University, USA
Discussant: Graham Partington, The University of Sydney, Australia

Using a natural experiment to overcome the empirical challenges facing the debate over the bonding hypothesis, we analyze markets’ reaction to a sudden radical change in the world of U.S.-listed foreign firms. In March 2010, the U.S. Supreme Court signaled its intention to geographically limit the reach of the U.S. antifraud regime. The Court thus excluded the overwhelming majority of investors in U.S.-listed foreign firms from the protection of the U.S. civil liability regime and cast at least partial limitations on the SEC’s regulatory authority. This event nonetheless was met with positive abnormal returns of U.S.-listed foreign firms all over the world. These abnormal returns are actually higher the greater the percentage of a firm’s capital listed on non-U.S.-exchanges. We find no evidence that markets’ reaction to this event related to the corporate governance and legal environment of foreign issuers’ home country. These results challenge the legal bonding hypothesis while suggesting that the U.S. regime of civil liability as currently designed may not have been seen as a source of economic value for outside investors.

Keywords: cross-listing, corporate governance, civil liability, bonding

Cross-listing Across European Markets and Accruals Management
*Stuart McLeay, The University of Sydney, Australia
Christina Dargenidou, University of Exeter, UK
Atz Iaafar, Bangor University, UK
Discussant: Amir Licht, IDC Interdisciplinary Center Herzliya, Israel

The present study investigates whether there is a significant association between the cross-listing decision in European markets and the exercise of managerial discretion in financial reporting in terms of discretionary working capital accruals. The empirical evidence establishes that cross-listing across European markets has a significant effect on earnings management, with firms becoming subject to significantly different circumstances in terms of scrutiny by analysts and investors, compared with those firms that are listed only in their own jurisdiction.

Cross-listing and the US Real Estate Bubble: Evidence from NYSE Real Estate Companies
*Theodoris Stamatiou, University of Piraeus, Greece
Gikas Hardouvelis, University of Piraeus, Greece
Discussant: Ambrogio Cesa-Bianchi, Università Cattolica del Sacro Cuore, Italy

The recent financial crisis and the ensuing global recession and slow recovery showed how movements in the housing market can be important impuluses to business fluctuations and corroborated the crucial role played by developing countries in the world economy. This paper investigates (1) to what extent housing cycles are country specific or driven by global factors and (2) the effects of housing shocks on real output. Empirical evidence based on dynamic correlations and factor analysis shows that a significant portion of the variation in house price inflation can be explained by global and regional factors. Motivated by these results, I estimate a Global VAR model—which implicitly takes into account unobserved global factors—augmented with house prices, with quarterly data from 1979(1) to 2009(4) for all major advanced (AEs) and emerging economies (EMs) of the world. In AEs, the global impulse response functions to negative US and global housing shocks are associated with a large drop of output, the impact of the latter being larger and more long-lasting than the former. The drop in economic activity is somewhat similar to the one observed during the global crisis. Among EMs, responses are heterogeneous. In particular, the impulse responses show that BRICS are not affected by either US nor global housing shocks, supporting the view that nowadays, “when the US sneezes, not everyone gets cold”.

Keywords: Global housing cycle, GVAR, Conditional factor analysis

Hedge Funds and the US Real Estate Bubble: Evidence from NYSE Real Estate Companies
*Theodoros Stamatiou, University of Piraeus, Greece
Discussant: Ambrogio Cesa-Bianchi, Università Cattolica del Sacro Cuore, Italy

The recent US Real Estate Bubble had consequences not only for the real economy but for the stock market as well. Real Estate Investment Trusts’ (REITs) prices reached levels which could not be supported by their fundamentals until mid-2007. Using this observation as a starting point we assume that hedge fund managers are rational investors and we examine their holdings behavior in the REITs sector of the NYSE. Our working assumption is based on the DeLong et al [11] and Abreu & Brunnermeier [1] argument that rational investors under certain conditions may not always short a bubble but instead ride it so as to gain from the price rise. Using data on hedge fund managers’ holdings from the 13F filing database provided by Thomson Financial we find that hedge funds were overloaded with REITs stocks prior to the price peak of the sector but their positions were placed in such a way that they gained from this strategy. Moreover, non-specialized hedge fund managers outperformed specialized ones.

Keywords: Hedge Funds, 13f filing, Rational Investors, Bubble, Real Estate, REITs
With bail-outs there is no bad news: market reactions to house price releases
*Peter N Posch, Universität Ulm, Germany
Gunter Löffler, Universität Ulm, Germany
Discussant: Theodoros Stamatiou, University of Piraeus, Greece

The rise and subsequent collapse of US house prices was one of the factors underlying the recent financial crisis. One could expect that the crisis brought increased attention to the housing market and thus led to more negative market reactions to negative house price news. We find the opposite to be true: from September 2008 on, bad news from the housing market are associated with rising US stock prices, and vice versa. The likely explanation, for which we provide cross-sectional evidence, is that falling house prices increased the market’s trust in a government bailout, thereby increasing market valuations.

Keywords: Financial crisis, announcement effects, house prices, bailout.

Session 6e, 3106: Contagion
Chair: Marcello Pericoli, Banca d’Italia, Italy

International Transmission of Bank and Corporate Distress
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Dale Gray, IMF International Monetary Fund, USA
Papa N’Diaye, IMF International Monetary Fund, USA
Hiroko Oura, IMF International Monetary Fund, USA
*Natalia Tamirisa, IMF International Monetary Fund, USA
Discussant: Emidio Coccoza, Banca d’Italia, Italy

The paper evaluates how increases in banks’ and nonfinancial corporates’ default risk are transmitted in the global economy, using in a vector autoregression model for 30 advanced and emerging economies for the period from January 1996 to December 2008. The results point to two-way causality between bank and corporate distress and to significant global macroeconomic and financial spillovers from either type of distress when it originates in a systemic economy. Corporate distress in advanced economies has a larger impact on economic growth in emerging economies than bank distress in advanced economies has. In contrast, activity in advanced economies is more vulnerable to bank distress than to corporate distress.

Keywords: bank, corporate, distress, GVAR, financial, international, spillovers

Testing for East-West Contagion in the European Banking Sector during the Financial Crisis
Paolo Piselli, Banca d’Italia, Italy
*Emidio Coccoza, Banca d’Italia, Italy
Discussant: Natalia Tamirisa, IMF International Monetary Fund, USA

The paper evaluates how increases in banks’ and nonfinancial corporates’ default risk are transmitted in the global economy, using in a vector autoregression model for 30 advanced and emerging economies for the period from January 1996 to December 2008. The results point to two-way causality between bank and corporate distress and to significant global macroeconomic and financial spillovers from either type of distress when it originates in a systemic economy. Corporate distress in advanced economies has a larger impact on economic growth in emerging economies than bank distress in advanced economies has. In contrast, activity in advanced economies is more vulnerable to bank distress than to corporate distress.

Keywords: Financial crisis, announcement effects, house prices, bailout.

Session 6f, 3106: Contagion
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International Transmission of Bank and Corporate Distress
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Discussant: Emidio Coccoza, Banca d’Italia, Italy

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Keywords: bank, corporate, distress, GVAR, financial, international, spillovers

Testing for East-West Contagion in the European Banking Sector during the Financial Crisis
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Discussant: Natalia Tamirisa, IMF International Monetary Fund, USA

Large and growing international financial linkages between East and West have altered the nature of the stability risks faced by European banking systems, increasing susceptibility to contagion. This paper aims to identify potential risks of cross-border contagion using a sample of large Western and Eastern European banks. We assume that contagion risk is associated with extreme co-movements in a market-based measure of bank soundness, controlling for common underlying factors. We also find evidence that contagion risk across European banks heightened significantly during the recent crisis. Contagion among Western European banks with the highest market share in Eastern Europe and from this group to Eastern European banks shows the largest increase in our sample. We find also evidence of contagion spreading from Eastern European banks, but this effect seems to reflect a broader phenomenon of contagion from emerging markets to banks in advanced countries exposed to these markets. Finally, our findings offer only mixed evidence of the existence of a direct ownership channel in the transmission of contagion.

Keywords: Banking contagion, Distance to default, Testing hypothesis, Logit model.

Session 6f, 3126: No Session

Session 6g, 3051: Money
Chair: Stephen Kinsella, University of Limerick, Ireland

Long-run Money Demand in OECD Countries: Cross-Member Cointegration
Frauke Dobnik, Universität Duisburg Essen, Germany
Discussant: Lars Winkelmann, Freie Universität Berlin, Germany

This paper examines the long-run demand function for 11 OECD countries from 1983 to 2006 using panel data and including wealth. The distinction between common factors and idiosyncratic components using principal component analysis allows to detect cross-member cointegration and to distinguish between international and national developments as drivers of the long-run relation between money and its determinants. Indeed, cointegration between the common factors of the underlying variables, i.e. cross member cointegration, indicates that the long-run relationship is mainly driven by international stochastic trends. Furthermore, it is found that the impact of income on money demand is positive, while it is negative for the interest rate and the stock prices. The estimated (semi-)elasticities of money are larger for the common factors than for the original variables, except the income elasticity. Finally, the results of a panel-based error-correction model suggest that money demand converges to an international cross-member equilibrium relation of the common factors.

Keywords: Money demand, wealth effects, panel unit roots, vector error-correction models

A commodity-based SI currency numeraire: isolation of commodity prices from currency exchange rate volatility
Ian McFarlane, The University of Reading, UK
Discussant: Frauke Dobnik, Universität Duisburg Essen, Germany

The abandonment of the Gold Standard in 1973 caused difficulties in valuation of currencies, among which exchange rate volatility is a particular and costly inconvenience. Currency exchange rates are set in some cases by market forces (floating rates) and in others by management policies ( pegs, crawling pegs, baskets). The paper summarises some of the proposals that have been put forward for using a commodity-based numeraire, some specifically aimed at improving price stability.

In this paper it is shown that a commodity-based numeraire can be defined entirely with Système International (SI) units. An illustration of the concept is given, with calculation of real purchasing power using baskets of food goods and energy goods that represent actual consumption of resources at subsistence level, using world consumption data for the period 1999-2009. A key advantage of a numeraire defined with SI units is that derived variables are mutually consistent and non-volatile.

Keywords: Commodity, Currency, Econometrics, Subsistence, Volatility

The Norges Bank’s key rate projections and the news element of monetary policy: a wavelet based jump detection approach
Lars Winkelmann, Freie Universität Berlin, Germany
Discussant: Ian McFarlane, The University of Reading, UK

This paper investigates the information content of the Norges Bank’s key rate projections. Wavelet spectrum estimates provide the basis for estimating jump probabilities of short- and long-term interest rates on monetary policy announcement days before and after the introduction of key rate projections. The behavior of short-term interest rates reveals that key rate projections have only little effects on market’s forecasting ability of current target rate changes. In contrast, longer-term interest rates indicate that the announcement of key rate projections has significantly reduced market participants’ revisions of the expected future policy path. Therefore, the announcement of key rate projections further improves central bank communication.

Keywords: Central bank communication, interest rate projections, wavelets, jump probabilities.
Session 6h, 3071: CDS II
Chair: Maurice Peat, The University of Sydney, Australia

A Case for Europe: the Relationship between Sovereign CDS and Stock Indexes.
Maria Coronado, Universidad Pontificia Comillas de Madrid, Spain
*Teresa Corzo, Universidad Pontificia Comillas de Madrid, Spain
Laura Lazzano, Universidad Pontificia Comillas de Madrid, Spain
Discussant: Maurice Peat, The University of Sydney, Australia

In 2010 we witnessed a major European Sovereign Debt crisis. By examining the links between sovereign CDS and stock indexes during the period 2007-2010, for eight European countries, this paper studies the lead-lag relationships of the two markets using a Vector Autoregressive model and a Panel data model. We find that the stock market plays a leading role during the sample period, but when 2010 is isolated we find a change in this relationship. A key role of the CDS markets incorporating new information emerges. This increasing role of the sovereign CDS is stronger for countries with high risk spread.

Keywords: sovereign credit risk, sovereign credit derivatives, stock markets, lead-lag relationships.

Are All Credit Default Swap Databases Equal?
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Juan Ignacio Peña, Universidad Carlos III de Madrid, Spain
Eduardo S Schwatz, UCLA, USA
Discussant: Teresa Corzo, Universidad Pontificia Comillas de Madrid, Spain

The presence of different prices in different databases for the same securities can impair the comparability of research efforts and seriously damage the management decisions based upon such research. In this study we compare the six major sources of corporate Credit Default Swap prices: GPI, Fenchs, Reuters EOD, CMA, Markit and JP Morgan, using the most liquid single name 5-year CDS of the components of the leading market indexes, iTraxx (European firms) and CDX (US firms) for the period from 2004 to 2010. We find systematic differences between the data sets implying that deviations from the common trend among prices in the different databases are not purely random but are explained by idiosyncratic factors as well as liquidity, global risk and other trading factors. The lower is the amount of transaction prices available the higher is the deviation among databases. Our results suggest that the CMA database quotes lead the price discovery process in comparison with the quotes provided by other databases. Several robustness tests confirm these results.

Keywords: Credit Default Swap prices; Databases; Liquidity

Transmission of the Financial and Sovereign Debt Crises to the EMU: Stock Prices, CDS Spreads and Exchange Rates
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*Robert Vermeulen, De Nederlandsche Bank, Netherlands
Discussant: Sergio Mayordomo, CNMV Comisión Nacional del Mercado de Valores, Spain

This paper tests for the transmission of the 2007-2010 financial and sovereign debt crises to fifteen EMU countries. We use daily data from 2003 to 2010 on country financial and non-financial stock market indexes. First, we find strong evidence of crisis transmission to European non-financials from US non-financials, whereas the increase in dependence of European financials on US financials is rather limited. Second, in order to test how the sovereign debt crisis affected stock market developments we split the crisis in pre- and post-Lehman sub periods. Results show that financials become significantly more dependent on changes in Greek CDS spreads after Lehman’s collapse, compared to the pre-Lehman sub period. However, this increase is not present for non-financials. Third, before the crisis euro appreciations are associated with European stock market decreases, whereas during the crisis this is reversed. Finally, the reversal in the relationship between the euro-dollar exchange rate and stock prices seems to have been triggered by Lehman’s collapse.

Keywords: financial crisis, euro exchange rate, EMU, equity markets, sovereign debt

Session 6i, 4047: Sentiment
Chair: Frank McGroarty, University of Southampton, UK

The Value Relevance of Sentiment
*Peter Dunne, Central Bank of Ireland, Ireland
John Forker, University of Bath, UK
Andrey Zholtos, Queen's University Belfast, UK
Discussant: Frank McGroarty, University of Southampton, UK

To gain a better understanding about how investor sentiment contributes to stock market booms and crashes, we apply a fully ex ante valuation model in which an index of investor sentiment is included in a novel way, with other fundamentals, to explain value. Implied earnings growth based on fundamentals is compared with that obtained when sentiment is added. This produces an index of “the valuation effects of sentiment” that can be assessed with statistical significance. The index is easy to construct, precise, timely, robust and can improve our understanding of what leads to bubbles and crashes and to inform policy.

Keywords: bubbles, fundamental valuation, sentiment, early warning indicators.

Textual sentiment analysis in finance: A survey of methods and models
Colm Kearney, Trinity College Dublin, Ireland
*Sha Liu, Trinity College Dublin, Ireland
Discussant: Peter Dunne, Central Bank of Ireland, Ireland

The study of sentiment in qualitative information has implications for both the efficient market hypothesis and the behavioural finance. It provides an alternative perspective to test market efficiency over and above quantitative information, and may help explain the “anomalies” in the market. In this paper, we survey the text-based sentiment analysis literature, compare the information sources, content analysis methods, and financial models that have been used. We then summarize the essential findings of the relations between textual sentiment and future firm performance or stock market. We believe that text-based sentiment should be systematically priced because it captures hard-to-quantify aspects of material information. We also suggest the promising directions for future research.

Keywords: sentiment analysis, text-based sentiment, corporate disclosures, media, news and information, market efficiency

Market Reaction Around Quarterly Earnings Announcements: The Case of Market Sectors and Impact of Sentiment
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Charles Dapaah-Sakkwin, University of Southampton, UK
Discussant: Sha Liu, Trinity College Dublin, Ireland

In an effort to understand the whole asset valuation process, a key question that needs to be addressed is the extent to which quarterly corporate announcements influences the prices of the underlying assets. Given the sheer weight of the question coupled with the far reaching implications it carries for equity valuation, fundamental analysis, forecasting, debt rating, standard setting and security regulation (Kama (2009)), it is not surprising that there has been a huge body of literature devoted to the study of the impact of corporate news on stock returns. The consensus in the literature points to a very strong relationship between revenue and earns surprise and abnormal returns contemporaneous with the earnings announcement and carries on for a period after that, a phenomenon commonly known as post earnings announcement drift (PEAD). This is clearly in contradiction to the Efficient Market Hypothesis, which suggests that the market assimilates new information instantly; as such it should not be possible to make abnormal returns after the initial jump following the news announcement. The aim of this paper is to document evidence to assist researchers and professionals alike to better understand the asset valuation process.

Keywords: sentiment analysis, asset valuation, accounting ratios
Do equity values embed or ignore the issuance of asset-backed securities?
Simon Wolfe, University of Southampton, UK
Discussant: Sergey Gelman, Higher School of Economics, Russian Federation

We examine the reaction of equity values to the announcement and issuance of asset-backed securities by listed UK banks over the period 1996-2008, using an event study methodology. Our results indicate neither abnormal returns nor abnormal trading volumes for the banks’ shareholders on or around the announcement date. However, significant positive abnormal returns exist on the issuing day of the securities. This result is confirmed by the significant cumulative average abnormal return present for the event window following the issuing date. Furthermore, average abnormal trading volumes were found on the day immediately following the issue date. Our results suggest that equity market values are sensitive to securitization activity by financial intermediaries even though this activity is somewhat opaque in the UK.

Keywords: asset-backed securitization, wealth effects, banking, event study.

Bounding Security Prices in Incomplete Markets. Does Stochastic Volatility Matter?
*Manuel Moreno, University of Castilla-La Mancha, Spain
Naroa Marroquin-Martinez, University of the Basque Country, Spain
Discussant: Simon Wolfe, University of Southampton, UK

We extend and generalize some results on bounding security prices under two stochastic volatility models that provide closed-form expressions for option prices. In detail, we compute analytical expressions for benchmark and standard good-deal bounds. For both models, our findings show that our benchmark results generate much tighter bounds. A deep analysis of the properties of bounds involving a sensitivity analysis and derivation of Greeks is also presented. These results provide strong practical applications taking into account the relevance of pricing and hedging strategies for traders, financial institutions, and risk managers.

Key words: Incomplete Markets, Stochastic Volatility Model, CIR Process, Ornstein-Uhlenbeck Process, Good-deal Bounds.

Option pricing on target stock under multiple decision reversions
*Sergey Gelman, Higher School of Economics, Russian Federation
Bernd Wilfling, Westfälische Wilhelms-Universität Münster, Germany
Discussant: Manuel Moreno, University of Castilla-La Mancha, Spain

This paper models the dynamics of the target stock price in pending merger and acquisition deals. It explicitly accounts for the possibility of multiple takeover negotiation breakdowns and resumptions. Furthermore, we develop an arbitrage-free framework for pricing European options on the target stock, and suggest ways of estimating the parameters from real data.

Keywords: mergers and acquisitions, option pricing, uncertainty, jump diffusions.
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