ABSTRACTS

1. AN EXPLORATION OF MEASURES TO ASSESS A BANK’S CREDIT LOSS EXPERIENCE

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ABSTRACT

Data related to the credit loss experience (CLE) of financial institutions are widely used for a variety of research, yet the literature typically omits a discussion on the construction and selection of suitable CLE proxies. Based on a comprehensive dataset of potential CLE proxies retrieved from original financial reports of 32 Australasian banks (1980 – 2005), this article analyses properties and interactions of potential proxies through time. It is found that some commonly used proxies correlate rather poorly and bad debt provisioning is only partially matched by subsequent write-offs. The results highlight the need for caution in the use of historical credit loss data proxies commonly used by researchers.

Keywords: Banking, Credit Risk, Loan Loss Provisions, Australia, New Zealand

2. REAL INTEREST RATE INTERDEPENDENCE AMONG THE G7 NATIONS: DOES REAL INTEREST PARITY HOLD?

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ABSTRACT

We evaluate the extent of real interest rate interdependence among three month treasury bill rates of the G7. Monthly data over the period 1970(1) to 2003(12) is subjected to recursive estimation of a cointegrating equation. The evidence suggests a high degree of interdependence between the G7 interest rates with the degree of integration increasing over the sample period. Tests for parameter constancy highlight the disruptive effects of the first oil price shock although the impacts on financial markets of the September 11 and the attack occurrence of the Asian crisis have limited impacts. The evidence for the presence of a leading nation among the G7 is inconclusive although Germany and the US are the prime leadership contenders. The high degree of interdependence between the G7 financial markets suggests that capital between the G7 is highly mobile.

Keywords: integration, real interest parity, beta constancy, strong exogeneity

3. OPTIMALITY OF A RETIREMENT LUMP SUM CONVERSION STRATEGY

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ABSTRACT

A lump sum conversion strategy – ‘ORARIS’ (Optimal Risk-Averse Retirement Income Stream) - which effectively involves splitting a retirement lump sum into two parts, one part for purchase of a guaranteed term-certain indexed annuity at a yield at or about the central bank’s cash rate, the other for ‘set and forget’ investment in a national stockmarket index fund over the guaranteed income years, is shown to be optimal under the classic mean-variance criterion of Markowitz portfolio theory. The scheme depends upon the expectation of redeeming the entire original capital in real terms in the
market portfolio over a period of about twelve years, and repeating the strategy. It provides protection against inflation risk by indexation and against longevity risk through the expected reinstatement of the original real lump sum.

In addition to indexed annuity payments, ORARIS provides an ongoing source of emergency capital available to the retiree via the market index fund in the event of unforeseen financial stress, in contrast to commercial capital replacement products which only provide a lump sum access at end-of-term. With an estimated 50 trillion USD in funds of accumulation type in OECD countries, the existence of an optimal strategy has profound implications for all stakeholders in the investment and retirement industries. Implementation of the ORARIS strategy is demonstrated in detail within the Australian retirement market context, but some discussion on its potential implementation in other OECD markets is provided.

**Keywords:** Efficient Portfolios, Employment Termination Lump Sum, Optimal Lump Sum Conversion, Retirement Income Stream, Longevity Risk, Inflation Risk

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4. **EMPIRICAL TEST OF THE LONG-RUN FISHER EFFECT: AN APPLICATION OF THE ARDL BOUNDS TECHNIQUE TO SAUDI ARABIA**

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**ABSTRACT**

We tested the ‘Fisher Effect’ about the long run relation between the nominal interest rates and the expected inflation rates. We tried to advance the field by (i) applying a recent time-series technique called ‘Auto-Regressive Distributed Lag’ (ARDL) and (ii) testing the traditional closed-economy Fisher hypothesis and an augmented Fisher hypothesis by incorporating the foreign interest rate and/or nominal effective exchange rate variable in the context of a small open developing economy, such as, Saudi Arabia. The stability of the functions was also tested by CUSUM and CUSUMSQ. Our findings tend to suggest: (i) consistent with the Fisher hypothesis, the nominal interest rates and the expected inflation rate (generated by ARIMA) have a long-run relationship (ii) consistent with the international Fisher hypothesis, these domestic variables have a long run relationship with the international variables (iii) finally, in the closed-economy context, it is the nominal interest rate that contains information to predict the future inflation (rather than the other way round). But in the open economy context, the effective exchange rate is the driver and the two domestic Fisher-hypothesis variables (i.e., the interest rate and the expected inflation rate) bear the burden of short-run adjustment to bring about the long term equilibrium.

**Keywords:** Fisher Effect, Bounds Test, ARDL

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5. **PRICES IN THE LEONTIEF INPUT-OUTPUT MODEL WITH SOME GLOBAL MACROECONOMIC IMPLICATIONS**

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**ABSTRACT**

This paper examines price determination by using income distribution (profits and wages) under a condition of economic interdependence among economic sectors. Various philosophers and economists from Ibn Khaldun, Cantillon, Quesnay, Ricardo, Marx, and Veblen to Leontief and Sraffa have made significant contributions explaining interdependence qualitatively and quantitatively. Instead of using the standard neoclassical economic theory of price determination, this paper utilizes the Leontief input-output model whose components are the technological coefficient matrix, money wages, and the return on
invested capital to explain the process of price determination in various economic sectors. The paper also analyzes several significant global macroeconomic implications related to inflation and the business cycle.

**Keywords:** Interdependence, Inflation, Stagflation, Innovation, Power, Recession, Ibn Khaldun, Cantillon, Marx, Veblen, Mitchell, Schumpeter, Robinson, Sraffa, Galbraith, and Leontief

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6. **THE IMPACT OF HEDGING ON FIRM VALUE: EVIDENCE FROM BRAZIL**

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**ABSTRACT**

This paper examines the impact of company’s hedging activities on firm value for a sample of non-financial Brazilian companies from 1996 to 2005. The results show that hedging activities do increase the firm value. The result is robust with respect to the period and the econometric method adopted in the analysis.

**Keywords:** Hedging, Foreign Currency, Derivatives, Firm Value, Emerging Markets, Brazil

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7. **AN EMPIRICAL ASSESSMENT OF EXTERNAL DEBT ON ECONOMIC GROWTH: THE CASE OF AFRICA IN A PANEL VAR**

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**ABSTRACT**

This paper investigates the impact of external debt on the economic growth for the case of a sample of 25 African nations over the period 1980-2003. Using a panel vector autoregressive framework to account for endogeneity issues and feedback effects, results suggest that external debt have negatively been associated with African economies and a bi-causality relationship between public debt and economic development exist. Moreover evidence of the debt overhang effect is found and debt negatively impacts on human capital.

**Keywords:** External Debt, Growth, Panel VAR, Africa

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8. **MEASUREMENT OF THE POWER OF GLOBAL EQUITY DIVERSIFICATION**

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**ABSTRACT**

The benefits of global equity diversification are measured from the benefits of domestic portfolios in various countries. Worldwide, the risk reduction benefits continue or even increase. The benefits show an extensive variability across countries and over time. In the long term, the average risk reduction is about 68 percent and the average risk-adjusted return is four times greater than that of the average domestic market portfolio. The global equity portfolio with the highest risk reduction benefits may not necessarily be the largest portfolio that contains many developed and emerging markets. Currently, the net offsetting effect against the rising correlation is coming from the declining cross market volatility.
in the markets. The net impact of globalization on the risk reduction benefits of global equity diversification is uncertain and will depend on the joint effects of correlation and portfolio size, as well as on the direct and indirect effects of market volatility on the country-specific and global systematic risk components of the global portfolio.

**Keywords:** Global Equity Diversification; International Correlation and Market Volatility; Developed and Emerging Markets

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**9. DIVIDEND POLICY IN THE ABSENCE OF TAXES**

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**ABSTRACT**

We examine dividend policy in a unique environment, Oman, where (1) firms distribute almost 100% of their profits in dividends, (2) firms are highly levered mainly through bank loans, and (3) there are no income nor capital gains taxes. We find that there are some common factors that determine dividend policy of both financial and non-financial firms and there are some factors that affect only non-financial firms. In particular, the common factors are profitability, size, and business risk. Government ownership, leverage, and age have a significant impact on the dividend policy of non-financial firms but no effect on financial firms. Our results also show that agency costs are not a critical driver of dividend policy of Omani firms. We also find that the factors that influence the probability to pay dividends are the same factors that drive the amount of dividends paid for both financial and non-financial firms.

**Keywords:** dividends, taxes, agency theory

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**10. WHAT EXPLAINS STOCK MARKET REACTIONS TO PROPOSALS TO INCREASE THE AUTHORIZED COMMON STOCK?**

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**ABSTRACT**

Announcements of a proposal to increase the authorized common stock by the board of directors are relevant information that has a major impact on stock price. Despite the extensive research on the impact of new equity issue announcements on stock price performance, a major gap in the literature has been a paucity of studies that have examined the implications of the announcement of the proposal to increase the authorized common stock. Based on the sample of 156 announcements in Thailand, the event study method results show that the announcements of a proposal to increase the authorized common stock convey relevant information to the market. Using multiple regression analyses to test whether firm characteristics affect the short-term abnormal returns surrounding the announcements, I find no evidence to support the effect of financial leverage on the abnormal returns.

**Keywords:** Abnormal Return, Common Stock, Event Studies, Thailand