Business & Economic Article Links (April 2014)

1.

Title: Who saw it coming? The UK's great financial crisis
Authors: Hindmoor, Andrew and McConnell, Allan
Source: Journal of Public Policy; *FirstView* Article, Pp. 1-36
Abstract: Who foresaw the UK banking crisis? This paper addresses this issue through detailed empirical work on the content of the Chancellor of the Exchequer's speeches, Bank of England *Financial Stability Reports*, Financial Service Authority reports and speeches by Bank of England officials, editorials in the *Times* and *Financial Times*, bank annual reports and financial statements, credit rating reports, share price movements, Parliamentary questions, Treasury select committee reports and the output of academic economists. We find that few people inside or outside government recognised the existence of significant financial vulnerabilities in the financial system in the years prior to the collapse of Northern Rock in September 2007. We use the conceptual lenses of individual, institutional and paradigmatic pathologies to provide explanations for this failure to detect looming crisis conditions. We argue ultimately that regulators and commentators were blinded by faith in market forces and the risk-tempering properties of securitisation.
Note: DOI: http://dx.doi.org/10.1017/S0143814X1400004X
Database: Cambridge Journals Online

2.

Title: Governance, bureaucratic rents, and well-being differentials across US states
Authors: Luechinger, Simon, Schelker, Mark and Stutzer, Alois
Source: Oxford Economic Papers; Apr 2014, Vol. 66, Issue 2, Pp.443-464.
Abstract: We analyse the influence of institutional restrictions on bureaucratic rents. As a measure for these rents, we propose subjective well-being differentials between workers in the public administration and workers in other industries. Based on data for the US states, we estimate the extent to which institutional efforts to strengthen bureaucratic accountability affect differences in well-being. We find that well-being differences are smaller in states with high transparency, elected auditors, and legal deficit carryover restrictions. These findings are consistent with limited rent extraction under these institutional conditions. No or weak effects are found for performance audits and regulatory review.
Note: DOI: 10.1093/oep/gpt006
Database: Oxford Journals Online

3.

Title: From real estate to consumption: the role of credit markets in the USA
Authors: Márquez, E., et al.
Source: Applied Economics; Jun 2014, Vol. 46, Issue 18, Pp. 2178-2189
Abstract: The aim of this article is to test whether the credit market conditions affect the strength of transmission of real estate wealth effects on household consumption in the US economy. Although many different works have dealt with the analysis of the existence of a *real estate* wealth effect, most of them as a reaction to the dramatic increase of housing prices in several OECD countries, there are only few papers analysing whether the consumption response depends on the positive or negative sign of the wealth shock and, as far as we know, none of them takes the effects of credit market conditions on that asymmetric response into account. This article tries to fill the existing gap in the literature

on this matter. From an econometric perspective, we estimate the asymmetries in the consumption response within the momentum threshold autoregressive model (M-TAR) proposed by Enders and Siklos (2001), but following Stevans (2004), it is applied to a multivariate framework. The main results show that the credit market conditions play a significant role in the transmission of changes in real estate wealth to consumption. In addition, we find that there exists an asymmetric behaviour in the US aggregate consumption spending responses to real estate wealth and credit market shocks, which is only significant when a negative shock takes place.
Note: DOI**:**10.1080/00036846.2014.896986
Database: Taylor & Francis Online

4.

Title: BUSINESS CYCLES AND FINANCIAL CRISES: THE ROLES OF CREDIT SUPPLY AND DEMAND SHOCKS
Authors: Nason, James M. and Tallman, Ellis W.
Source: Macroeconomic Dynamics; *FirstView* Article, Pp. 1-47
Abstract: This paper explores the hypothesis that the sources of economic and financial crises differ from those of non-crisis business cycle fluctuations. We employ Markov-switching Bayesian vector auto-regressions (MS-BVARs) to gather evidence about the hypothesis on a long annual U.S. sample running from 1890 to 2010. The sample covers several episodes useful for understanding U.S. economic and financial history, which generate variation in the data that aids in identifying credit supply and demand shocks. We identify these shocks within MS-BVARs by tying credit supply and demand movements to inside money and its inter-temporal price. The model space is limited to stochastic volatility (SV) in the errors of the MS-BVARs. Of the 15 MS-BVARs estimated, the data favor a MS-BVAR in which economic and financial crises and non-crisis business cycle regimes recur throughout the long annual sample. The best-fitting MS-BVAR also isolates SV regimes in which shocks to inside money dominate aggregate fluctuations.
Note: DOI: http://dx.doi.org/10.1017/S1365100513000631
Database: Cambridge Journals Online

5.

Title: A forensic analysis of global imbalance
Authors: Chinn, Menzie D., Eichengreen, Barry and Hiro Ito
Source: Oxford Economic Papers; Apr 2014, Vol. 66, Issue2, Pp. 465-490.
Abstract: We investigate whether the determinants of current account balances changed in the run-up to the 2009 financial crisis. Although changes in the budget balance appear to be an important factor for advanced current account deficit countries such as the USA, the effect of the 'saving glut variables', that is financial development and openness and legal development, has been relatively stable for emerging market countries, suggesting that those factors cannot explain the bulk of current account movements in recent years. We also find a structural break in current account behavior in 2006–8, in emerging market economies in particular, and attribute the anomalous behavior of precrisis current account balances to financial exuberance as opposed to the nature of the fiscal and monetary policy stance. Our projections suggest that absent drastic policy changes, the imbalances of the USA and China are unlikely to disappear.
Note: DOI: 10.1093/oep/gpt027
Database: Oxford Journals Online

6.

Title: Fiscal shocks and the real exchange rate: evidence from an outpost of textbook open-economy macroeconomics
Authors: Fielding, David
Source: Oxford Economic Papers; Apr 2014, Vol. 66, Issue 2, Pp. 491-515.
Abstract: Recent empirical research into the macroeconomic effects of fiscal policy shocks has generated a 'puzzle'. Both Keynesian and Real Business Cycle models predict that a fiscal expansion will lead to a real exchange rate appreciation. However, in almost all the individual countries that have been studied, positive shocks to government spending cause the real exchange rate to depreciate. Recent theoretical work suggests that this unexpected result might reflect incomplete international financial market integration. The country where the incomplete markets assumption is least plausible is New Zealand, because of its integration into the Australian financial system. We show that in New Zealand there is no puzzle, and the standard textbook result still holds. Our counter-factual results are consistent with the argument that the puzzle is to be explained by an absence of complete international financial market integration in most parts of the world.
Note: DOI: 10.1093/oep/gpt021
Database: Oxford Journals Online

7.

Title: Market efficiency of commodity futures in India
Authors: Inoue, Takeshi and Hamori, Shigeyuki
Source: Applied Economics Letters; May 2014, Vol. 21, Issue 8, Pp. 522-527
Abstract: This article aims to examine the market efficiency of the commodity futures market in India, which has been growing phenomenally over the last few years. We estimate the long-run equilibrium relationship between multi-commodity futures and spot prices and then test for weak-form market efficiency by applying both the dynamic ordinary least squares and fully modified ordinary least squares methods. The entire sample period is from 2 January 2006 to 31 March 2011. The results indicate that a cointegrating relationship exists between these indices and that the commodity futures market appears efficient during the more recent sub-sample period since July 2009 onwards.
Note: DOI:10.1080/13504851.2013.872751
Database: Taylor & Francis Online

8.

Title: Net foreign assets and real exchange rates revisited
Authors: Bleaney, Michael and Tian, Mo
Source: Oxford Economic Papers; 2014. Advance Access. First published online: March 13, 2014
Abstract: Theory suggests a significant positive relationship in long-run equilibrium between the net foreign assets (NFA) of a country and its real exchange rate. Empirical tests have ignored two issues: the large variation in cross-country trade/GDP ratios, which is likely to induce substantial cross-country differences in coefficients when net foreign assets are scaled by GDP, and the reverse causality associated with valuation effects. A real exchange rate appreciation reduces the absolute value of NFA denominated in foreign currency relative to domestic GDP, because of the sizeable component of non-tradable goods in domestic GDP. This endogeneity biases the test results. New tests are implemented that address these issues. The valuation effect bias is found to be significant. The new tests nevertheless still support the existence of a long-run positive relationship between NFA and real exchange rates.

Note: DOI: 10.1093/oep/gpu014
Database: Oxford Journals Online

9.

Title: Does Military Spending Really Matter for Economic Growth in China and G7 Countries: The Roles of Dependency and Heterogeneity
Authors: Chang, Tsangyao, et al.
Source: Defence and Peace Economics; Mar 2014, Vol. 25, Issue 2, Pp. 177-191
Abstract: This study revisits the causal linkages between military spending and economic growth in China and G7 countries (i.e. Canada, France, Germany, Italy, Japan, the UK, and the USA) by focusing country-specific analysis for the period 1988–2010. The panel causality analysis, which accounts for both cross-country dependency and heterogeneity across countries, is employed in this study. Our results find evidence of the neutrality hypothesis for Italy, France, and Germany, the military spending–growth detriment hypothesis for both Canada and the UK, and one-way Granger causality running from economic growth to military spending for China. Furthermore, we find a feedback between military spending and economic growth in both Japan and the USA. Thus, our results do not support that one size fits all.
Note: DOI:10.1080/10242694.2013.763460
Database: Taylor & Francis Online

10.

Title: Military expenditure and economic development in China: an empirical inquiry
Authors: Fumitaka Furuoka, et al.
Source: Defence and Peace Economics; 2014. Advance Access. Published online: 24 Mar 2014
Abstract: Increases in military spending have a big impact on the socioeconomic conditions in any country. However, there is no consensus as to whether the rising military expenditure is beneficial or detrimental to economic growth. The present study chose China as a case study to empirically examine a complex relationship between military expenditure and economic development. The findings from the Johansen cointegration test indicated that there existed a long-run relationship between China's military spending and economic growth. Furthermore, the Granger causality test detected a unidirectional causality from economic development to military expenditure. These results were further confirmed by the findings from the impulse response function. This means that China represents an example of a developing economy where the size of military expenditure expands in the process of economic transformation.
Note: DOI:10.1080/10242694.2014.898383
Database: Taylor & Francis Online

11.

Title: Net foreign assets and real exchange rates revisited
Authors: Bleaney, Michael and Tian, Mo
Source: Oxford Economic Papers; 2014. Advance Access. First published online: March 13, 2014
Abstract: Theory suggests a significant positive relationship in long-run equilibrium between the net foreign assets (NFA) of a country and its real exchange rate. Empirical tests have ignored two issues: the large variation in cross-country trade/GDP ratios, which is likely to induce substantial cross-country differences in coefficients when net foreign assets are

scaled by GDP, and the reverse causality associated with valuation effects. A real exchange rate appreciation reduces the absolute value of NFA denominated in foreign currency relative to domestic GDP, because of the sizeable component of non-tradable goods in domestic GDP. This endogeneity biases the test results. New tests are implemented that address these issues. The valuation effect bias is found to be significant. The new tests nevertheless still support the existence of a long-run positive relationship between NFA and real exchange rates.
Note: DOI: 10.1093/oep/gpu014
Database: Oxford Journals Online

12.

Title: Information leakages and the costs of merging in Europe
Authors: Madura, Jeff, et al.
Source: Applied Financial Economics; Apr 2014, Vol. 24, Issue 8, Pp. 515-532
Abstract: Based on a comprehensive sample of European mergers over the 1997–2011 period, we find that information leakages experienced by target firms are conditioned on the investor protection characteristics in the target’s country. Specifically, information leakages are smaller for targets in European countries that experienced a greater improvement in rule of law and political stability. We also investigate whether and how bidders respond to information leakages experienced by targets that they are pursuing. We find no evidence that bidders reduce their bids of targets that experience abnormally large stock price run-ups. This implies that bidders incur a portion of the cost of informed trading that occurs before the merger bid is announced. Based on our results, it can be stated that regulatory actions that could reduce the level of informed trading in European countries may allow for a more active and efficient market for corporate control.
Note: DOI:10.1080/09603107.2014.884699
Database: Taylor & Francis Online

13.

Title: The link between societal motivation and new venture performance: evidence from entrepreneurs in Japan
Authors: Alcantara, Lailani L. and Kshetri, Nir
Source: Journal of Small Business & Entrepreneurship. Advance Access. Published online: 20 Mar 2014
Abstract: Although there has been an increase in the popularity of social entrepreneurship, previous studies have paid little attention to for-profit entrepreneurs’ motive of making a contribution to the society, that is, societal motivation. In this study, we focus on societal motivation and analyze its link with for-profit ventures’ outcomes, such as likelihood of novelty, external financing, size, and sales. Using samples of Japanese entrepreneurs, we find support for our hypotheses that new ventures established by for-profit entrepreneurs with societal motivation are more novel and that these ventures achieve larger size and sales compared to the ventures of other for-profit entrepreneurs who lack such motivation. However, our findings also indicate that the ventures of for-profit entrepreneurs with societal motivation receive less external financing compared to those with merely economic motivation.
Note: DOI:10.1080/08276331.2014.892311
Database: Taylor & Francis Online

14.

Title: Political Parties and Social Policy Responses to Global Economic Crises: Constrained Partisanship in Mature Welfare States
Authors: STARKE, PETER, et al.
Source: Journal of Social Policy; April 2014, Vol. 43 Issue 2, Pp. 225-246
Abstract: Based on empirical findings from a comparative study on welfare state responses to the four major economic shocks (the 1970s oil shocks, the early 1990s recession, the 2008 financial crisis) in four OECD countries, this article demonstrates that, in contrast to conventional wisdom, policy responses to global economic crises vary significantly across countries. What explains the cross-national and within-case variation in responses to crises? We discuss several potential causes of this pattern and argue that political parties and the party composition of governments can play a key role in shaping crisis responses, albeit in ways that go beyond traditional partisan theory. We show that the partisan conflict and the impact of parties are conditioned by existing welfare state configurations. In less generous welfare states, the party composition of governments plays a decisive role in shaping the direction of social policy change. By contrast, in more generous welfare states, i.e., those with highly developed automatic stabilisers, the overall direction of policy change is regularly not subject to debate. Political conflict in these welfare states rather concerns the extent to which expansion or retrenchment is necessary. Therefore, a clear-cut partisan impact can often not be shown.
Note: DOI: http://dx.doi.org/10.1017/S0047279413000986
Database: Cambridge Journals Online

15.

Title: The retailer's role in the reconstruction of areas affected by the Great East Japan Earthquake: how can retailers make their social contribution coexist with their pursuit of profit?
Authors: Kato, Tsukasa
Source: Journal of Global Scholars of Marketing Science: Bridging Asia and the World; Apr 2014, Vol. 24, Issue 2, Pp. 189-205
Abstract: Although national and local government played a major role in supplying relief goods to victims immediately after the Great East Japan Earthquake, private companies, such as manufacturers, retailers, transportation traders, etc., also played important roles. Especially for retailers – though they were also victims of the disaster – offering refuge and supplying food, water, and a stable supply of necessary goods to affected people was an important part of the recovery process in affected areas. In spite of these important roles played by retailers, there is little research that analyzes these activities from the position of distribution and marketing.
Note: Special Issue: Disaster Avoidance/Recovery Marketing.
DOI:10.1080/21639159.2014.883867
Database: Taylor & Francis Online

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