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Hot Articles in Business & Economics

➊ Free Access to the 2013 Nobel Laureates articles (Economic Sciences)

The Royal Swedish Academy of Sciences has decided to award **The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel** for 2013 to
Eugene F. Fama
University of Chicago, IL, USA
Lars Peter Hansen
University of Chicago, IL, USA
and
Robert J. Shiller
Yale University, New Haven, CT, USA
"for their empirical analysis of asset prices".

Eugene F. Fama, U.S. citizen. Born 1939 in Boston, MA, USA. Ph.D. 1964 from University of Chicago, IL, USA. Robert R. McCormick Distinguished Service Professor of Finance at University of Chicago, IL, USA.
www.chicagobooth.edu/faculty/directory/f/eugene-f-fama

1.

Tile: Size, value, and momentum in international stock returns
Authors: Fama, Eugene F. and French, Kenneth R.
Source: Journal of Financial Economics; September 2012, Volume 105, Issue 3, Pp. 457–472
Abstract: In the four regions (North America, Europe, Japan, and Asia Pacific) we examine, there are value premiums in average stock returns that, except for Japan, decrease with size. Except for Japan, there is return momentum everywhere, and spreads in average momentum returns also decrease from smaller to bigger stocks. We test whether empirical asset pricing models capture the value and momentum patterns in international average returns and whether asset pricing seems to be integrated across the four regions. Integrated pricing across regions does not get strong support in our tests. For three regions (North America, Europe, and Japan), local models that use local explanatory returns provide passable descriptions of local average returns for portfolios formed on size and value versus growth. Even local models are less successful in tests on portfolios formed on size and momentum.
Database: ScienceDirect

2.

Tile: Disagreement, tastes, and asset prices
Authors: Fama, Eugene F. and French, Kenneth R.
Source: Journal of Financial Economics; March 2007, Volume 83, Issue 3, Pp. 667–689
Abstract: Standard asset pricing models assume that: (i) there is complete agreement among investors about probability distributions of future payoffs on assets; and (ii) investors choose asset holdings based solely on anticipated payoffs; that is, investment assets are not also consumption goods. Both assumptions are unrealistic. We provide a simple framework for studying how disagreement and tastes for assets as consumption goods can affect asset prices.
Database: ScienceDirect

3.

Tile: Profitability, investment and average returns
Authors: Fama, Eugene F. and French, Kenneth R.
Source: Journal of Financial Economics; December 2006, Volume 82, Issue 3, Pp. 491–518
Abstract: Valuation theory says that expected stock returns are related to three variables: the book-to-market equity ratio (B_t/M_t), expected profitability, and expected investment. Given B_t/M_t and expected profitability, higher expected rates of investment imply lower expected returns. But controlling for the other two variables, more profitable firms have higher expected returns, as do firms with higher B_t/M_t. These predictions are confirmed in our tests.
Database: ScienceDirect

4.

Tile: Financing decisions: who issues stock?
Authors: Fama, Eugene F. and French, Kenneth R.
Source: Journal of Financial Economics; June 2005, Volume 76, Issue 3, Pp. 549–582
Abstract: Financing decisions seem to violate the central predictions of the pecking order model about how often and under what circumstances firms issue equity. Specifically, most firms issue or retire equity each year, and the issues are on average large and not typically done by firms under duress. We estimate that during 1973–2002, the year-by-year equity decisions of more than half of our sample firms violate the pecking order.
Database: ScienceDirect

5.

Tile: New lists: Fundamentals and survival rates
Authors: Fama, Eugene F. and French, Kenneth R.
Source: Journal of Financial Economics; August 2004, Volume 73, Issue 2, Pp. 229–269
Abstract: The class of firms that obtain public equity financing expands dramatically in the 1980s and 1990s. The number of new firms listed on major U.S. stock markets jumps from 156 per year for 1973–1979 to 549 per year for 1980–2001.

The characteristics of new lists also change. The cross section of profitability becomes progressively more left skewed, and growth becomes more right skewed. The result is a sharp decline in survival rates. We suggest that the changes in the characteristics of new lists are due to a decline in the cost of equity that allows weaker firms and firms with more distant expected payoffs to issue public equity.
Database: ScienceDirect

6.

Tile: Disappearing dividends: changing firm characteristics or lower propensity to pay?
Authors: Fama, Eugene F. and French, Kenneth R.
Source: Journal of Financial Economics; April 2001, Volume 60, Issue 1, Pp. 3–43
Abstract: The proportion of firms paying cash dividends falls from 66.5% in 1978 to 20.8% in 1999, due in part to the changing characteristics of publicly traded firms. Fed by new listings, the population of publicly traded firms tilts increasingly toward small firms with low profitability and strong growth opportunities – characteristics typical of firms that have never paid dividends. More interesting, we also show that regardless of their characteristics, firms have become less likely to pay dividends. This lower propensity to pay is at least as important as changing characteristics in the declining incidence of dividend-paying firms.
Database: ScienceDirect

7.

Tile: Market efficiency, long-term returns, and behavioral finance
Authors: Fama, Eugene F.
Source: Journal of Financial Economics; 1 September 1998, Volume 49, Issue 3, Pp. 283–306
Abstract: Market efficiency survives the challenge from the literature on long-term return anomalies. Consistent with the market efficiency hypothesis that the anomalies are chance results, apparent overreaction to information is about as common as underreaction, and post-event continuation of pre-event abnormal returns is about as frequent as post-event reversal. Most important, consistent with the market efficiency prediction that apparent anomalies can be due to methodology, most long-term return anomalies tend to disappear with reasonable changes in technique.
Database: ScienceDirect

Lars Peter Hansen, U.S. citizen. Born 1952 in USA. Ph.D. 1978 from University of Minnesota, Minneapolis, MN, USA. David Rockefeller Distinguished Service Professor in Economics & Statistics at University of Chicago, IL, USA.
http://larspeterhansen.org

1.

Tile: Nonlinearity and temporal dependence
Authors: Chen, Xiaohong, Hansen, Lars Peter and Carrasco, Marine
Source: Journal of Econometrics; April 2010, Volume 155, Issue 2, Pp. 155–169

Abstract: Nonlinearities in the drift and diffusion coefficients influence temporal dependence in diffusion models. We study this link using three measures of temporal dependence: *ρ-mixing*, *β-mixing* and *α-mixing*. Stationary diffusions that are *ρ-mixing* have mixing coefficients that decay exponentially to zero. When they fail to be *ρ-mixing*, they are still *β-mixing* and *α-mixing*; but coefficient decay is slower than exponential. For such processes we find transformations of the Markov states that have finite variances but infinite spectral densities at frequency zero. The resulting spectral densities behave like those of stochastic processes with long memory. Finally we show how state dependent, Poisson sampling alters the temporal dependence.
Database: ScienceDirect

2.

Tile: Doubts or variability?
Authors: Barillas, Francisco, Hansen, Lars Peter and Sargent,Thomas J.
Source: Journal of Economic Theory; November 2009, Volume 144, Issue 6, Pp. 2388–2418
Abstract: Reinterpreting most of the market price of risk as a price of model uncertainty eradicates a link between asset prices and measures of the welfare costs of aggregate fluctuations that was proposed by Hansen, Sargent, and Tallarini [17], Tallarini [30], Alvarez and Jermann [1]. Prices of model uncertainty contain information about the benefits of removing model uncertainty, not the consumption fluctuations that Lucas [22] and [23] studied. A max–min expected utility theory lets us reinterpret Tallarini's risk-aversion parameter as measuring a representative consumer's doubts about the model specification. We use model detection instead of risk-aversion experiments to calibrate that parameter. Plausible values of detection error probabilities give prices of model uncertainty that approach the Hansen and Jagannathan [11] bounds. Fixed detection error probabilities give rise to virtually identical asset prices as well as virtually identical costs of model uncertainty for Tallarini's two models of consumption growth.
Database: ScienceDirect

3.

Tile: Recursive robust estimation and control without commitment
Authors: Hansen, Lars Peter and Sargent,Thomas J.
Source: Journal of Economic Theory; September 2007, Volume 136, Issue 1, Pp. 1–27
Abstract: In a Markov decision problem with hidden state variables, a posterior distribution serves as a state variable and Bayes' law under an approximating model gives its law of motion. A decision maker expresses fear that his model is misspecified by surrounding it with a set of alternatives that are nearby when measured by their expected log likelihood ratios (entropies). Martingales represent alternative models. A decision maker constructs a sequence of robust decision rules by pretending that a sequence of minimizing players choose increments to martingales and distortions to the prior over the hidden state. A risk sensitivity operator induces robustness to perturbations of the approximating model

conditioned on the hidden state. Another risk sensitivity operator induces robustness to the prior distribution over the hidden state. We use these operators to extend the approach of Hansen and Sargent [Discounted linear exponential quadratic Gaussian control, IEEE Trans. Automat. Control 40(5) (1995) 968–971] to problems that contain hidden states.
Database: ScienceDirect

4.

Tile: Robust estimation and control under commitment
Authors: Hansen, Lars Peter and Sargent,Thomas J.
Source: Journal of Economic Theory; October 2005, Volume 124, Issue 2, Pp. 258–301
Abstract: In a Markov decision problem with hidden state variables, a decision maker expresses fear that his model is misspecified by surrounding it with a set of alternatives that are nearby as measured by their expected log likelihood ratios (entropies). Sets of martingales represent alternative models. Within a two-player zero-sum game under commitment, a minimizing player chooses a martingale at time 0. Probability distributions that solve distorted filtering problems serve as state variables, much like the posterior in problems without concerns about misspecification. We state conditions under which an equilibrium of the zero-sum game with commitment has a recursive representation that can be cast in terms of two risk-sensitivity operators. We apply our results to a linear quadratic example that makes contact with findings of T. Başar and P. Bernhard [H^{∞}-Optimal Control and Related Minimax Design Problems, second ed., Birkhauser, Basel, 1995] and P. Whittle [Risk-sensitive Optimal Control, Wiley, New York, 1990].
Database: ScienceDirect

5.

Tile: Robust control of forward-looking models
Authors: Hansen, Lars Peter and Sargent,Thomas J.
Source: Journal of Monetary Economics; April 2003, Volume 50, Issue 3, Pp. 581–604
Abstract: This paper shows how to formulate and compute robust Ramsey (aka Stackelberg) plans for linear models with forward-looking private agents. The leader and the followers share a common approximating model and both have preferences for robust decision rules because both doubt the model. Since their preferences differ, the leader's and followers' decision rules are fragile to different misspecifications of the approximating model. We define a Stackelberg equilibrium with robust decision makers in which the leader and follower have different worst-case models despite sharing a common approximating model. To compute a Stackelberg equilibrium we formulate a Bellman equation that is associated with an artificial single-agent robust control problem. The artificial Bellman equation contains a description of implementability constraints that include Euler equations that describe the worst-case analysis of the followers. As an example, the paper analyzes a model of a monopoly facing a competitive fringe.
Database: ScienceDirect

6.

Tile: Spectral methods for identifying scalar diffusions
Authors: Hansen, Lars Peter, Scheinkman, José Alexandre and Touzi, Nizar
Source: Journal of Econometrics; September 1998, Volume 86, Issue 1, Pp. 1–32
Abstract: This paper shows how to identify nonparametrically scalar stationary diffusions from discrete-time data. The local evolution of the diffusion is characterized by a drift and diffusion coefficient along with the specification of boundary behavior. We recover this local evolution from two objects that can be inferred directly from discrete-time data: the stationary density and a conveniently chosen eigenvalue–eigenfunction pair of the conditional expectation operator over a unit interval of time. This construction also lends itself to a spectral characterization of the over-identifying restrictions implied by a scalar diffusion model of a discrete-time Markov process.
Database: ScienceDirect

Robert J. Shiller, U.S. citizen. Born 1946 in Detroit, MI, USA. Ph.D. 1972 from Massachusetts Institute of Technology (MIT), Boston, MA, USA. Sterling Professor of Economics at Yale University, New Haven, CT, USA.
www.econ.yale.edu/~shiller

1.

Title: Mitigating financial fragility with Continuous Workout Mortgages
Authors: Shiller, Robert J., et al.
Source: Journal of Economic Behavior & Organization; January 2013, Volume 85, Pp. 269–285
Absteract: This paper models Continuous Workout Mortgages (CWMs) in an economic environment with refinancings and prepayments. CWMs are home loans whose balance and payments are indexed using a market-observable house price index of the pertaining locality. Our main results include: (a) explicit modelling of repayment and interest-only CWMs; (b) closed form formula for mortgage payment and mortgage balance of a repayment CWM; (c) a closed form formula for the actuarially fair mortgage rate of an interest-only CWM. For repayment CWMs we extend our analysis to include two negotiable parameters: adjustable "workout proportion" and adjustable "workout threshold." These results are of importance as they not only help in the understanding of the mechanics of CWMs and estimating key contract parameters, but they also provide insight on how to enhance the resilience of the financial architecture and mitigate systemic risk.
Database: ScienceDirect

❷ Hot Articles in Business & Economics

1.

Title: Avoiding a Global Carbon Crisis: Learning from the Financial Crisis
Authors: Shrivastava, Paul and Busch, Timo

Source: Thunderbird International Business Review; November/December 2013, Volume 55, Issue 6, Pp. 647–658,

Abstract: The global financial crisis originated in the subprime mortgage market in the United States in 2008 and its effects spread to all of the world's major financial markets. Only governmental programs and subsidies have prevented an outright crash of the world economy. What can the financial crisis teach us about the impending carbon crisis? What is needed to move the global economy toward sustainability, using renewable energy regimes, and low carbon consumption and production? This paper provides a nontechnological response to these questions by highlighting six key sociocultural lessons and suggesting two key recommendations in how to overcome the current carbon lock-in. Firms should establish proactive climate strategies. Policymakers can facilitate this by developing farsighted governance mechanisms and setting the right incentives and boundary conditions. We conclude that a mix of both is required to prevent the global carbon crisis from becoming a reality. © 2013 Wiley Periodicals, Inc.

Note: Special Issue: Climate Change Strategy. DOI: 10.1002/tie.21581

Database: Wiley Online Library

2.

Title: THE FINANCIAL CHARACTERISTICS OF LARGE AND SMALL FIRMS BEFORE AND AFTER THE 2008 STOCK MARKET CRASH

Authors: Folkinshteyn, Daniel and Meric, Gulser

Source: The International Journal of Business and Finance Research; 2014, Vol. 8, Issue 1, Pp. 1-16

Abstract: The financial crisis of 2008, and the associated bear market lasting from October 2007 to March 2009, has had a significant impact on a broad cross section of firms in the global economy. Of particular interest to us in this study is the effect of this time period on the financial characteristics of firms, with extra focus on debt-related ratios. Using a large sample of U.S. firms from the COMPUSTAT database, we find that firms, on average, come out of the financial crisis with less insolvency and bankruptcy risk, more efficient asset utilization, and more attractive market valuations. [PUBLICATION ABSTRACT]

Databases: ABI/INFORM Complete

3.

Title: Earnings Forecast Optimism For U.S. Vs. Non-U.S. Firms

Authors: Salerno, David and Jeppson, Nathan

Source: International Business & Economics Research Journal; November 2013, Vol. 12, Issue 11, Pp. 1491-1501

Abstract: This study examines whether financial analysts are more optimistic in their earnings forecasts for non-U.S. firms than they are for U.S. firms. Several areas of research motivate this examination. First, research shows that global economic influences, such as economic downturns and the desire to increase the international content of portfolios, encourage investors to seek out international investment opportunities in new markets. Second, literature also reveals that emerging markets provide superior growth potential; however, analyzing such firms could introduce

task complexity which research finds to be associated with lower forecast accuracy. Finally, research shows that financial analysts cover firms of which they have a favorable opinion. Therefore, because of this literature, it is reasonable to expect that analysts make more optimistic forecasts (over-estimate errors) of the earnings potential of the non-U.S. firms that they choose to follow vs. U.S. firms. Using a summary level measurement of forecast optimism, the authors find that analysts' forecasts are more optimistic for non-U.S. firms over both short and long-term horizons. In analyst-level tests, it was found that individual analysts produce more optimistic forecasts for non-U.S. firms in relation to their peers in the long-term; however, that optimism is reduced under short horizons. As portfolios become more internationally diversified, the result of this study will be useful to investors seeking analyst guidance about international investment opportunities. [ABSTRACT FROM AUTHOR]
Databases: Business Source Complete

4.

Title: When fairtrade contracts for some are profitable for others
Authors: Chambolle, Claire and Poret, Sylvaine
Source: European Review of Agricultural Economics; December 2013, Vol. 40, Issue 5, Pp. 835-871.
Abstract: We analyse a vertical chain with perfectly competitive farmers who offer raw products on a spot market to manufacturers who resell the finished goods to a distributor. Absent Fairtrade, the entire raw product is sold on the spot market. A Fairtrade organisation can offer to part of farmers a contract consisting of a guaranteed minimum price and a direct relationship with a distributor. A snowball effect arises when farmers who are not involved in Fairtrade benefit from a higher spot price. This article highlights several mechanisms, either linked to the demand or the market structure, that may explain this snowball effect.
Note: doi: 10.1093/erae/jbs039
Databases: Oxford Journals Online

5.

Title: Class structure and economic inequality
Authors: Wolff, Edward N. and Zacharias, Ajit
Source: Cambridge Journal of Economics; November 2013, Vol. 37, Issue 6, Pp. 1381-1406.
Abstract: Existing empirical schemas of class structure do not specify the capitalist class in an adequate manner. We propose a schema in which the specification of capitalist households is based on wealth thresholds. Individuals in non-capitalist households are assigned class locations based on their position in the social labour process. The schema is designed to address the question of the relationship between class structure and overall economic inequality in the United States. Although the major portion of inequality occurs within classes, inter-class inequality, especially the large gaps between capitalist households and everyone else, contributed substantially to the rise in overall inequality.
Note: doi: 10.1093/cje/bet026

Databases: Oxford Journals Online

6.

Title: What Drives the Global "Land Rush"?
Authors: Arezki, Rabah, Deininger, Klaus and Selod, Harris
Source: World Bank Economic Review; 2013. Advance Access. First published online: October 21, 2013
Abstract: We review evidence regarding the size and evolution of the "land rush" in the wake of the 2007–8 boom in agricultural commodity prices, and we study the determinants of foreign land acquisition for large-scale agricultural investment. The use of data on bilateral investment relationships to estimate gravity models of transnational land-intensive investments confirms the central role of agro-ecological potential as a pull factor. However, this finding contrasts the standard literature insofar as the quality of the destination country's business climate is insignificant, and weak tenure security is associated with increased interest for investors to acquire land in the country. Policy implications are discussed.
Note: doi: 10.1093/wber/lht034
Databases: Oxford Journals Online

7.

Title: The determinants of bank CDS spreads: evidence from the financial crisis
Authors: Chiaramonte, Laura and Casu, Barbara
Source: The European Journal of Finance; 2013 Volume 19, Issue 9, Pp. 861-887.
Published online: 24 Oct 2013
Abstract: Based on a sample of mid-tier and top-tier internationally active banks with 5-year senior CDS, this paper investigates the determinants of credit default swaps (CDS) spreads and whether CDS spreads can be considered a good proxy of bank performance. The analysis encompasses three time periods: a pre-crisis period (1 January 2005–30 June 2007), a crisis period (1 July 2007–31 March 2009) and a post-crisis period (1 April 2009–30 June 2011) and focuses exclusively on bank-specific balance sheet ratios. The results of the empirical analysis indicate that bank CDS spreads, both in the pre-crisis period, but especially in the crisis period, reflect the risk captured by bank balance sheet ratios. We find that the determinants of bank CDS spreads vary strongly across time, as economic and financial conditions vary. TIER 1 ratio and leverage appear insignificant in all of the three periods considered, while liquidity indicators become significant only during the crisis and post crisis period.
Note: Special Issue: 2nd Emerging Scholars in Banking & Finance Conference: Further contemporary issues in financial institutions and markets
DOI:10.1080/1351847X.2011.636832
Databases: Taylor & Francis Online

8.

Title: Democratizing for peace? The effect of democratization on civil conflicts
Authors: Sunde, Uwe and Cervellati, Matteo

Source: Oxford Economic Papers; 2013, Advance Access. First published online: November 4, 2013

Abstract: This paper provides an empirical investigation of the effect of democratization on the risk of civil conflicts. Results for the countries democratizing during the Third Wave suggest that democratization has a negative overall effect on conflicts. Democratization does not affect conflicts for territories, but significantly reduces internal civil conflict over the control of the government. The effect sets in after democratization and appears to be persistent. The democratization scenario in terms of violence during the transition has an effect on subsequent conflict for government. Countries with a violent transition to democracy experience shorter spells of peace than countries with a peaceful transition to democracy. Similar findings emerge for the occurrence of coups.

Note: doi: 10.1093/oep/gpt031

Databases: Oxford Journals Online

9.

Title: Identity and the hybridity of modern finance: how a specifically modern concept of the self underlies the modern ownership of property, trusts and finance

Authors: Kim, Jongchul

Source: Cambridge Journal of Economics; 2013, Advance Access, First published online: October 15, 2013.

Abstract: Postmodern thinker A. N. Whitehead argued that the idea of the identity of the self is one of the significant mistakes made by modern philosophy. From this postmodern perspective, this article examines how this mistaken concept underlies the modern ownership schemes of property, trusts and finance. It argues that exploiting the hybridity of money and credit explains the development of modern ownership from property to trusts and modern finance, and that, in the process of exploiting this hybridity, property owners struggle to endure and secure their identities permanently. This article also analyses unethical aspects of the hybridity of modern finance, as well as its systemic vulnerability, which contributed to the financial crisis of 2008. The essay concludes with a brief discussion of a general reform principle for the financial sector.

Note: doi: 10.1093/cje/bet050

Databases: Oxford Journals Online

10.

Title: The relationship between financial liberalization and stock market volatility: the mediating role of financial crises

Authors: Ben Rejeb, Aymen and Boughrara, Adel

Source: Journal of Economic Policy Reform, Published online: 23 Oct 2013

Abstract: This paper aims at comparing the effects of financial liberalization on emerging stock markets' volatility at normal times to the ones in periods of financial crises. To this purpose, a treatment effects model for 13 emerging economies is estimated over January 1986 to December 2008. Three types of financial crises is estimated are considered, i.e. banking, currency and twin crises. It has been found that financial liberalization does not lead to excessive volatility in emerging markets

and that volatility decreases gradually along with financial liberalization effect on the probability of crises. Moreover, volatility reduction has been found to depend necessarily on several internal characteristics.
Note: DOI: 10.1080/17487870.2013.827967
Databases: Taylor & Francis Online

11.

Title: Risk Management Challenges after the Financial Crisis
Authors: Mertzanis, Charilaos
Source: Economic Notes; November 2013, Volume 42, Issue 3, Pp. 285–320
Abstract: The recent financial crisis highlighted the need for risk measures that deal adequately with extreme events. In the modern complex financial world, risk measures can only be effective if they take into consideration the endogeneity of risk. Endogenous risk is an inherent characteristic of the modern financial system. The crisis has also highlighted the considerable changes in investors' attitude towards risk under changing market conditions. These developments have cast doubt on the role of traditional elements of risk management theory: prices, probabilities and preferences. The paper presents a non-technical summary of the main challenges for effective risk management in the modern complex financial world.
Note: DOI: 10.1111/j.1468-0300.2013.12011.x
Database: Wiley Online Library

12.

Title: Economic Growth and Equality of Opportunity
Authors: Peragine, Vito, Palmisano, Flaviana and Brunori, Paolo
Source: World Bank Economic Review; 2013, Advance Access, First published online: October 14, 2013.
Abstract: In this paper, we argue that a better understanding of the relationship between inequality and economic growth can be obtained by shifting the analysis from the space of final achievements to the space of opportunities. To this end, we introduce a formal framework based on the concept of the Opportunity Growth Incidence Curve. This framework can be used to evaluate the income dynamics of specific groups of the population and to infer the role of growth in the evolution of inequality of opportunity over time. We show the relevance of the introduced framework by providing two empirical analyses, one for Italy and the other for Brazil. These analyses show the distributional impact of the recent growth experienced by Brazil and the recent crisis suffered by Italy from both the income inequality and opportunity inequality perspectives.
Note: doi: 10.1093/wber/lht030
Databases: Oxford Journals Online

Selected by Ploenchan Akvanich,
Research Support Service,
Chulalongkorn University