Business & Economic article Links (October 2013)

1.

Title: The pre-acquisition evaluation of target firms and cross border acquisition performance
Authors: Ahammad, Mohammad Faisal and Glaister, Keith W.
Source: International Business Review; October 2013, Vol. 22, Issue 5, Pp. 894–904
Abstract: The paper investigates the impact of the pre-acquisition evaluation of target firms on the performance of cross border acquisitions using data from a sample of acquisitions made by UK firms. The findings provide reasonable support for organizational learning theory, suggesting that the more the acquiring firm learns about the target firm then the better will be the acquisition performance. Specifically, we find support for the hypothesis that thorough evaluation of the strategic and cultural fit positively influences cross border acquisition success. Further, the analysis reveals that detailed evaluation of the target firm's employee and business capability improves acquisition performance. The managerial implications of the findings and directions for future research are also discussed.
Note: http://dx.doi.org/10.1016/j.ibusrev.2013.01.001
Databases: ScienceDirect

2.

Title: Investment complementarities, coordination failure, and systemic bankruptcy
Authors: Li, Mei
Source: Oxford Economic Papers; October 2013, Vol. 65, Issue 4, Pp.767-788
Abstract: This paper studies systemic bankruptcy in an economy where: (i) investment complementarities exist; (ii) firms have heterogeneous information about investment returns; and (iii) firms need to finance their investments by borrowing from outside lenders. In a global game setup, I demonstrate that even a small uncertainty about economic fundamentals can be magnified through the uncertainty about other firms' investment decisions, and can lead to coordination failure, which may be manifested as systemic bankruptcy. Moreover, my model reveals that systemic bankruptcy tends to arise when economic fundamentals are in the intermediate range where coordination matters. High financial leverage of firms greatly increases the severity of systemic bankruptcy. Optimistic beliefs of firms and lenders can alleviate coordination failure, but can also increase the severity of systemic bankruptcy once it happens. High financing costs of lenders worsen coordination failure and increase the severity of systemic bankruptcy by increasing firms' debt burden.
Note: doi: 10.1093/oep/gps036
Database: Oxford Journals Online

3.

Title: Information asymmetry and international strategic alliances
Authors: Owen, Sian and Yawson, Alfred

Source: Journal of Banking & Finance; October 2013, Vol. 37, Issue 10, Pp. 3890–3903

Abstract: This paper examines how information asymmetry affects cross-border strategic alliance formation by US firms over the period 2000–2008. We construct a measure, information costs, based on both geographical distance and the proportion of worldwide GDP the partner's home country represents. Consistent with our expectations, we find an inverse association between information costs and cross-border strategic alliances. When considering the proportion of alliances formed with publicly quoted overseas partners, we find this is unaffected by the level of information costs but rather the level of stock market development, tax rate and general economic conditions. Information costs are, however, significantly negatively related to alliances with overseas private organizations. Our results offer clear support for the on-going importance of information asymmetry in corporate decision making.

Note: http://dx.doi.org/10.1016/j.jbankfin.2013.06.008

Database: ScienceDirect

4.

Title: The future of capitalism: a consideration of alternatives

Authors: Harcourt, Wendy

Source: Cambridge Journal of Economics; 2013. Advance Access. First published online: September 24, 2013

Abstract: The article reviews three entry points into a discussion of alternatives to today's neoliberal capitalism. The first examines the need for a green new deal from mostly UK-based think tanks positioning the household as central to the economy, posing new core values for the economy that respect the environment, the social economy as well as the possibilities offered by Web-based technologies for new economic and political community relations. The second entry point is a review of feminists' search for alternatives to mainstream economics and global development processes with calls for a transition to place-based socio-economic practices built on the ethics of care, gender justice, the centrality of social reproduction and community livelihoods. The last section examines the alternatives to global development and neoliberal capitalism emerging from Latin America examining Buen Vivir, intercultural pluriversal political and economic practices and lessons from Latin American indigenous women and decolonial feminist movements.

Note: doi: 10.1093/cje/bet048

Database: Oxford Journals Online

5.

Title: Regulation of Remuneration Policy in the Financial Sector – Evaluation of Recent Reforms in Europe

Authors: Shlomo, Jonathan Ben, Eggert, Wolfgang and Nguyen, Tristan

Source: Qualitative Research in Financial Markets; 2013, EarlyCite Article, Vol. 5, Issue 3.

Abstract: With recent reforms in European law regarding remuneration policy, a substantial step towards a focus on long-term success in business policy has been

carried out. However, some regulation criteria such as measuring success and their methodology have to be revised. The evaluation of the national laws detected many conformities but also some differences e.g. how to uncover non-transparency and assure disclosure. Some of our demands such as how to deal with manipulation and timing of the stocks have not been targeted at all. As our analysis shows, due to different regulations in different European countries there is a possibility for regulation arbitrage. Additionally, the new remuneration laws are primarily principle based so that there is room for interpretation. In our opinion, an efficient regulation of remuneration policy should be directed at ensuring that remuneration policies and practices are aligned with effective risk management. The financial authorities should therefore closely observe market developments in this perspective and take countermeasures if necessary.
Database: Emerald Management

6.

Title: Financial Structure and Economic Development: A Reassessment
Authors: Cull, Robert, Demirgüç-Kunt, Asli and Lin, Justin Yifu
Source: World Bank Economic Review; 2013, Vol. 27 Issue 3, Pp. 470-475
Abstract: While the literature on the effects of financial development is large, relatively few studies have examined whether and how financial structure—the mix of financial institutions and the services that they offer—matters for economic growth and inequality. Moreover, the literature has been largely silent about whether the relationships between financial structure and firm outcomes (performance and access to finance) change as a country develops. The group of papers published in this special section helps to fill those gaps in the literature. The four that appear here were part of a larger conference on "Financial Structure and Economic Development" that took place at the World Bank on June 16, 2011. Further information on the issue of financial structure in development can be found in other papers presented at the conference and available in World Bank Working Papers (Lin, Sun, and Jiang, 2009; Beck, Demirgüç-Kunt, and Singer, 2011; Kpodar and Singh, 2011).[1]
The first of the papers in this issue by Asli Demirgüç-Kunt, Erik Feyen, and Ross Levine, uses quantile regressions to assess the relationship between economic and financial development at each percentile of the distribution of economic development. Thus, the quantile regressions provide information on how the associations between economic development and both bank and securities market development change as countries grow richer.
The main results are that as economies develop (1) both banks and markets become larger relative to the size of the overall economy; (2) the association between an increase in bank development and an increase in economic output becomes smaller; and (3) the association between an increase in securities market development and an increase in economic output becomes larger.
The quantile regressions suggest that financial structure changes—becoming more market-oriented—as economies develop. This is consistent with theoretical arguments that economic development increases the demand for the …
Note: doi: 10.1093/wber/lht006
From: Symposium on Financial Structure and Development

Database: Oxford Journals Online

7.

Title: The Evolving Importance of Banks and Securities Markets
Authors: Demirgüç-Kunt, Asli, Feyen, Erik and Levine, Ross
Source: World Bank Economic Review; 2013, Vol. 27 Issue 3, Pp. 476-490.
Abstract: The roles of banks and securities markets evolve during the process of economic development. As countries develop economically, (1) the size of both banks and securities markets increases relative to the size of the economy, (2) the association between an increase in economic output and an increase in bank development becomes smaller, and (3) the association between an increase in economic output and an increase in securities market development becomes larger. These findings are consistent with theories predicting that as economies develop, the services provided by securities markets become more important for economic activity, whereas those provided by banks become less important.
Note: doi: 10.1093/wber/lhs022
From: Symposium on Financial Structure and Development
Database: Oxford Journals Online

8.

Title: Notes on Financial System Development and Political Intervention
Authors: Song, Fenghua and Thakor, Anjan
Source: World Bank Economic Review; 2013, Vol. 27 Issue 3, Pp. 491-513.
Abstract: We study the impact of political intervention on a financial system that consists of banks and financial markets and develops over time. In this financial system, banks and markets exhibit three forms of interaction: they compete, they complement each other, and they co-evolve. Co-evolution is generated by two new ingredients of financial system architecture relative to the existing theories: securitization and risk-sensitive bank capital. We show that securitization propagates banking advances to the financial market, permitting market evolution to be driven by bank evolution, and market advances are transmitted to banks through bank capital. We then examine how politicians determine the nature of political intervention designed to expand credit availability. We find that political intervention in banking exhibits a U-shaped pattern, where it is most notable in the early stage of financial system development (through bank capital subsidy in exchange for state ownership of banks) and in the advanced stage (through direct lending regulation). Despite expanding credit access, political intervention results in an increase in financial system risk and does not contribute to financial system evolution. Numerous policy implications are drawn out.
Note: doi: 10.1093/wber/lhs011
From: Symposium on Financial Structure and Development
Database: Oxford Journals Online

9.

Title: Financial Development: Structure and Dynamics

Authors: de la Torre, Augusto, Feyen, Erik and Ize, Alain
Source: World Bank Economic Review; 2013, Vol. 27 Issue 3, Pp. 514-541.
Abstract: This paper analyzes the process of financial development over the last three to four decades from the perspective of the fundamental frictions (agency and collective) to which economic agents were exposed. A comprehensive statistical benchmarking analysis showed that financial development followed regular dynamics that can be largely explained by the underlying frictions. In particular, the sequencing, returns to scale, and shape of the developmental paths for various types of financial activities—including public debt, banking, insurance, asset management, and capital markets—broadly matched benchmark predictions. Reflecting financial innovation and the dynamic interaction between financial and economic development, financial development paths were also found to be strongly dependent on initial conditions. At the same time, policy differences, including the failure to improve the quality of the enabling environment and prevent financial crashes (the dark side of finance), were found to explain a sizable share of the deviations of individual country paths from the benchmarks.
Note: doi: 10.1093/wber/lht005
From: Symposium on Financial Structure and Development
Database: Oxford Journals Online

10.

Title: Job Growth and Finance: Are Some Financial Institutions Better Suited to the Early Stages of Development than Others?
Authors: Cull, Robert and Xu, L. Colin
Source: World Bank Economic Review; 2013, Vol. 27 Issue 3, Pp. 542-572.
Abstract: Evidence based on firm-level data from 89 countries with updated country-level data on financial structure suggests that in low-income countries, labor growth is more rapid in countries with a higher level of private credit/GDP. This positive relationship with private credit is especially pronounced in industries that depend heavily on external finance. The results, which are robust to multiple estimation approaches, are consistent with the predictions of new structural economics. In high-income countries, labor growth rates increase with the level of stock market capitalization, consistent with predictions from new structural economics. However, the association disappears when stock market development is treated as an endogenous explanatory variable using instrumental variable regressions. There is no evidence that small-scale firms in low-income countries benefit the most from the development of the private credit market. Rather, the labor growth rates of larger firms increase to a greater extent than others with the level of private credit market development, a finding consistent with the perspective from historical political economy that banking systems in low-income countries serve the interests of the elite rather than providing broad-based access to financial services.
Note: doi: 10.1093/wber/lhs050
From: Symposium on Financial Structure and Development
Database: Oxford Journals Online

11.

Title: Microfinance and the challenge of financial inclusion for development
Authors: Ghosh, Jayati
Source: Cambridge Journal of Economics; 2013. Advance Access. First published online: September 12, 2013
Abstract: This article provides a review of the recent literature on microfinance in developing countries and a critical assessment of its effectiveness. It examines the experience of India, which has one of the largest microfinance sectors in the world, and particularly the unfolding of the microfinance crisis in Andhra Pradesh. It concludes that microfinance cannot be seen as a silver bullet for development and that profit-oriented microfinance institutions are problematic. To fulfil even some of its progressive goals, it must be regulated and subsidised, and other strategies for viable financial inclusion of the poor and of small producers must be more actively pursued.
Note: doi: 10.1093/cje/bet042
Database: Oxford Journals Online

12.

Title: Testing the trilemma: exchange rate regimes, capital mobility, and monetary independence
Authors: Bleaney, Michael, Lee, Hock-Ann and Lloyd, Timothy
Source: Oxford Economic Papers; October 2013, Vol. 65, Issue 4, Pp. 876-897
Abstract: Previous research on the incompatibility of a pegged exchange rate, capital mobility, and monetary independence (the open-economy trilemma), based on the degree to which domestic interest rates follow foreign rates, has produced mixed results. Despite its centrality to other areas of investigation, such as currency crises, the role of the credibility of the peg has hitherto been ignored. Fluctuations in perceived devaluation probabilities will move domestic interest rates, given foreign interest rates, even if countries have no genuine monetary independence. Using data for 126 countries from 1990, it is shown that countries on credible pegs without capital controls follow foreign interest rates closely, and that the hypothesis of complete lack of monetary independence cannot be rejected in this case. Our findings are robust to alternative measures of credibility (inflation differentials; types of peg), and to different ways of classifying exchange rate regimes and identifying capital controls.
Note: doi: 10.1093/oep/gps038
Database: Oxford Journals Online

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