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STICKY SELLING, GENERAL, AND ADMINISTRATIVE COST BEHAVIOR AND ITS CHANGES IN JAPAN

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ABSTRACT

This study examines whether Japanese firms' selling, general, and administrative costs are sticky. We also investigate the determinants of cost stickiness in Japan and test whether Japanese managers changed their cost behavior after the stock market collapse in 1990. We find that similar to US firms, Japanese firms also demonstrate sticky selling, general, and administrative cost behavior; however, the stickiness of selling, general, and administrative costs in Japan is less likely to be adjusted due to temporary changes in their performance. We also find that there is a significant decrease in the magnitude of stickiness in Japan after the asset bubble burst, showing that Japanese managers adjusted their cost behavior in the post-bubble era.

JEL: M40

KEYWORDS: Cost behavior, Japanese firms

INTRODUCTION

The traditional cost behavior hypothesis assumes that costs are proportional to activity levels; costs are described as fixed or variable relating to changes in activity volume and the relationship between costs and volume is symmetric for volume decreases and for volume increases (Noreen, 1991). However, using a US sample of firms, recent studies have found that selling, general, and administrative (SG&A) costs are sticky. In other words, the magnitude of changes in SG&A costs when revenues increase is higher than the magnitude when revenues decrease (Anderson, et al, 2003).

The phenomenon of sticky costs is consistent with the argument that managers tend to deliberately adjust resources in response to changes in volume. When sales decrease, managers may purposely postpone reductions to committed resources until they are more certain about the permanence of a decline in demand. They also tend to maintain unutilized resources to avoid personal consequences of expenditure reduction. In addition, there may be a time lag between the decision to reduce committed resources and the realization of the cost reduction (Anderson, et al, 2003).

In this study, we first examine whether Japanese firms have similar sticky cost behavior to their U.S. counterparts. By investigating whether costs change at the same rate when activity rises versus when they decrease, we are able to measure the stickiness of SG&A costs for Japanese firms. Secondly, we investigate the determinants of cost stickiness in Japan. Finally, we test whether Japanese managers changed their sticky cost behavior after the stock market collapse in 1990.

It is important to study the cost behavior of Japanese firms for a number of reasons. First, the Japanese capital market is important to understand since Japan is the second largest economy. To correctly understand the cost behavior of firms on this market can help investors interpret the financial reports and forecast their operating and stock performance accurately. Second, our results can be seen as an extension of US studies. If we fail to document the sticky cost behavior of Japanese firms, the generalization of US findings will be doubtful. Third, by documenting the distinct characteristics of sticky cost behavior of Japanese firms, we are adding value to the comparative studies of cost behavior

SURRENDER EFFECTS ON POLICY RESERVES: A SIMULATION ANALYSIS OF INVESTMENT GUARANTEE CONTRACTS

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ABSTRACT

The assumption of dynamic lapse behavior is path-dependence related to the performance of underlying assets. This causes the pricing and reserving of investment guarantee products to be more difficult to deal with. The lack of actual experience of such policyholders' behavior is also an essential problem when launching such guarantee products. The purpose of this paper is to attempt to measure the impact of dynamic surrender assumptions on policy reserves of investment guarantee contracts. We consider a single-premium version of a variable annuity, deducted periodically by a fixed percentage of policyholders' account as margin offset, with six-year deferred maturity benefit. This deferred maturity benefit is a kind of investment guarantee. Utilizing two dynamic policyholders' lapse formula suggested by American Academy of Actuaries and the Swiss Reinsurance company, the simulation results show markets condition assumptions have a tremendous effects upon the magnitude of reserves. This implies that it is a crucial part of risk management considerations for such products. Reserves adequacy testing is necessary when market condition shifts dramatically. The numerical implementation of the simulation results allow us to identify some comparative statistical properties and to identify the appropriate reserving routine of variable annuity with investment guarantee.

JEL: G22; C50

KEYWORDS: Policyholders' Behavior; Dynamic Lapse; Variable Annuity; Guaranteed Minimum Accumulation Benefit (GMAB)

INTRODUCTION

An accurate analysis of policyholder behavior is one of the main challenges in the business of investment guarantee products. Surrender behavior of policyholders, also called lapse, happens if the premium is not paid by a policyholder within a grace period. From a conventional viewpoint, there are several reasons why life insurance business actively seeks to encourage timely premium payment. First, surrendering policies makes the insurance companies unable to fully recover their initial acquisition expenditures. Second policyholders who have poor health tend to lapse less than the healthy ones. More voluntary termination of healthy policyholders worsens the adverse selection issue. Under such circumstances insurance companies receive more claims and incur more losses than expected. Third, insurance companies face a liquidity constraint due to early surrender. They are forced to adopt a short term investment strategy which generates lower returns to meet surrender demands. During the early 1980s, most U.S. life insurance companies suffered from disintermediation resulting from the negative cash flows and excessive surrenders. Focused on traditional insurance products, many previous researchers note that lapse rates have a substantial effect on life insurance prices (e.g., Albizzati and Geman, 1994).

This study uses investment guarantee products as example to describe the relationship between policy reserves and surrender behavior. Policy reserves which are the largest liability item on the balance sheet are critical to risk management and solvency of life insurance companies. The uncertainty in reserves arises from uncertain cash flow which are contingent upon factors like mortality, disability, and early

A NEW HEDGE FUND REPLICATION METHOD WITH THE DYNAMIC OPTIMAL PORTFOLIO

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ABSTRACT

This paper provides a new hedge fund replication method, which extends Kat and Palaro (2005) and Papageorgiou, Remillard and Hocquard (2008) to multiple trading assets with both long and short positions. The method generates a target payoff distribution by the cheapest dynamic portfolio. The work here extends the work of of Dybvig (1988) to a continuous-time framework and dynamic portfolio optimization where the dynamic trading strategy is derived analytically by applying Malliavin calculus. It is shown that cost minimization is equivalent to maximization of a certain class of von Neumann-Morgenstern utility functions. The method is applied to the replication of a CTA/Managed Futures Index in practice.

JEL: G11, G20, G23

KEYWORDS: Hedge Fund Replication, Dynamic Portfolio Optimization, Martingale Method, Malliavin Calculus

INTRODUCTION

Hedge fund replication products appeared in the financial markets recently. Investment banks and asset management companies launched the products one after another. Some of these institutions developed replication techniques collaborating with the pioneers in hedge fund research. Therefore, these products have gained increased attention. Hedge fund replication overcomes the following difficulties in hedge fund investing: high cost, low transparency, and low liquidity. The importance of transparency and liquidity was recognized after the subprime and Lehman shocks.

Existing methods of hedge fund replication can be categorized in three ways: rule-based, factor-based, and distribution replicating approaches. Our method is categorized as distribution replicating approach. The previous studies are Kat and Palaro (2005) and Papageorgiou *et al.* (2008). Kat and Palaro (2005) tried to replicate the return distribution of the target hedge fund and its dependence structure on an investor's existing portfolio through the dynamic trading of the portfolio (proxied by a portfolio of stock index and bond futures) and another asset. Papageorgiou *et al*. (2008) proposed an alternative way to perform Kat-Palaro's replication methodology by utilizing a hedging scheme of options in an incomplete market.

This article extends these previous works. The methods developed by the two earlier research papers use only one asset as a replication tool. Moreover, they can take only long positions. Therefore, the user of the methods should pay attention to asset choice. On the other hand, our new method allows multiple assets with both long and short positions for creating a replicating portfolio. When the investment universe is extended to multiple assets, a criterion that chooses a payoff should be introduced because there are infinitely many payoffs that have the same statistical properties as the target hedge fund. This paper proposes to choose the cheapest one. By extending the work of Dybvig (1988) to continuous-time framework, the cheapest payoff is obtained. Then, the dynamic trading strategy is derived analytically by applying Malliavin calculus. For replicating the marginal distribution of the target hedge fund return, it is shown that cost minimization is equivalent to maximization of a certain class of von Neumann-Morgenstern utility functions.

In the subprime and Lehman shocks, CTA/Managed Futures funds enjoyed high returns by controlling their exposures efficiently. (See figure 1.) This paper replicates CTA/Managed Futures Index. Other

DOES CORPORATE GOVERNANCE AFFECT INSTITUTIONAL OWNERSHIP AND SHARE REPURCHASE DECISIONS?

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ABSTRACT

This study investigates the relevance among corporate governance mechanism, institutional ownership and share repurchase decisions. Examining 220 exchange-listed companies in Taiwan during 2004 to 2006, the main findings are as follows. First, corporate governance mechanisms affect share repurchase decisions as well as institutional investor ownership. Next, the ownership of institutional investor depends on the interaction between corporate governance mechanisms and share repurchase decisions. Additionally, the share repurchase decision is influenced by interaction between corporate governance mechanisms and ownership of institutional investors. Finally, when the company size is incorporated as a control variable, the adjusted R-square for the multiple regression is improved.

JEL: G32; G34

KEYWORDS: Corporate governance, institutional ownership, share repurchase

INTRODUCTION

This study investigates whether corporate governance can affect institutional ownership and share repurchase. On July 2000, share repurchase was allowed in Taiwan stock market[1]. There were 385 exchange-listed companies declaring the implementation of share repurchase for a total of 1366 cases from 2000 to 2006. The amounts of share repurchase have increased each year; this indicates share purchase is an important financial decisions[2]. To strengthen the transparency of information and establish the direction of corporate governance, "the code of best practice for corporate governance" was established on May 2002; this leads to investors' attention on corporate governance[3].

Relatively fewer studies examine the relationship among corporate governance, institutional ownership, and share repurchase. Since share repurchase involves the interests of shareholders and stakeholders, it should be accompanied with adequate corporate governance mechanisms for mitigating their conflict. In addition, because institutional investors usually have more information and professional knowledge, they could play an important role in supervision, and would hold those stocks with well corporate governance mechanism. Therefore this study attempts to investigate a rarely discussed issue: the associations among corporate governance, share repurchase, and ownership of institutional investors.

Based on the mentioned motivations, this study will suggests four hypotheses to be verified in Section 3. This paper is organized as follows. Section 2 briefly discusses the relevant literature. Section 3 states the four hypotheses and the description of the related variables. Subsequently, the multiple regression results for these hypotheses are exhibited in Section 4. Finally, conclusions are presented in Section 5.

LITERATURE REVIEW

Numerous researchers have discussed the issue of share repurchase. Some concentrate mainly on the motivation and market reaction for share repurchases. For example, Jensen (1986) proposed reducing idle funds through share repurchase can decrease company agency cost. Ikenberry et al. (1995) found that under-pricing is the most important motivation for share repurchase; also, the declaration of share

A ROADBLOCK TO US ADOPTION OF IFRS IS LIFO INVENTORY VALUATION

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ABSTRACT

A roadblock exists between International Financial Reporting Standards, (IFRS) and United States Generally Accepted Accounting Standards, (US GAAP) in the area of acceptable methods of inventory valuation. IFRS recognizes the First In First Out Method, FIFO, and the Weighted Average Method of Inventory Valuation as acceptable methods of inventory valuation. It does not recognize or allow the Last In First Out Method of Inventory Valuation, LIFO, as currently used in the United States. Canceling LIFO would require most large US companies to pay excessive amounts of additional income tax to the Internal Revenue Service, IRS. In order for the United States to adopt IFRS Accounting Standards, the elimination of LIFO would have to occur.

JEL: M41, M48

KEYWORDS: IFRS, LIFO, FIFO, Inventory Valuation, LIFO Conformity Requirement

INTRODUCTION

In 2006 the International Accounting Standards Board, (IASB) created the following objectives as stated in its International Financial Reporting Standards, (IFRS):

> *To develop in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in various capital markets of the world and other users of information to make economic decisions (Alexander-Archer, 2008).*

It is apparent that acceptance by the US Securities and Exchange Commission to allow financial reporting of foreign registrants for US listings has been a crucial element in the IASB's acceptance as the global accounting standard setter. The IASB and the Financial Accounting Standards Board, (FASB) have, as a result, worked on convergence with an ultimate goal of a single set of standards and a conceptual framework common to both bodies (Alexander & Archer, 2008).

On November 21, 2008, the SEC published a roadmap toward the mandatory use of IFRS by U.S. issuers that could lead to IFRS among U.S. filers by the year 2014 (Fed. Reg. 70816, 2008). The SEC also finalized rules allowing the submission by foreign firms of financial statements prepared in compliance with IFRS, without reconciliation to U.S. GAAP (Fed. Reg. 70816, 2008).

In its executive summary, the SEC has clearly shown support for the international convergence of GAAP. For example, the Commission has long viewed reducing the disparity between the accounting and disclosure practices of the United States and other countries as an important objective for both the protection of the investors and the efficient use capital. The use of a single set of high quality globally accepted accounting standards by issuers will help investors understand investment opportunities outside the United States more clearly and with greater comparability than if those issuers disclosed their

OPINION LEADERS AND THEIR INFLUENCE ON CONSUMER PURCHASING BEHAVIOR IN SAUDI ARABIA

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ABSTRACT

Current thinking on opinion leaders varies with respect to key features distinguishing these individuals. Some studies emphasize influence as the crucial determinant, others stress knowledge, and still others focus primarily on information transmission. Most research, however, see a combination of knowledge or expertise and influence as characterizing the opinion leader. From a marketing perspective in some product categories, opinion leaders appear to be more knowledgeable about and involved with the product class. This study examines the existence of TV opinion leadership and the purchasing of TV sets in Saudi Arabia, and the characteristics opinion leaders and non-leaders have. In addition, the study re-examines the Two-Step Flow model to assess its validity in Saudi Arabia. The findings reported in this article indicated that the concept of TV opinion leadership exists in Saudi Arabia. And those opinion leaders were more likely to have some social characteristics than followers. In addition, those opinion leaders were found to be both information givers and seekers. The validity of the Two-Step Flow model of communication was also re-examined in Saudi Arabia. The findings support the existing literature on the inaccuracy of this model and, therefore, a multi-step model of communication would be relevant for the Saudi context.

JEL: C80; D91; M16; M31

KEYWORDS: Data collection, consumer choice, international business administration, marketing and advertising

INTRODUCTION

This introduction provides a background on the Saudi environment to help the reader appreciate the study, followed by major sections on literature review, data and methodology, empirical results, and conclusion.

Until in the late 1980s, most Saudis observe traditional Saudi gender roles. Men are more active in public and commercial spheres, and women are engaged in the home and family environment. Early in the 1990s primarily as a result of the intense economic developments in the urban centers in Saudi Arabia, and internal migration from rural areas to major cities in search of better work opportunities have impacted the Saudi society. As more families migrate to urban centers, rural areas experience population decline. This population shift strained the traditional values within the Saudi home, and has added to altering women's role into a participant in economic development. The socio-economic developments in the Saudi society have also been affected by the tremendous improvement in the educational sector. The educational system in Saudi Arabia has been broadened and modified to conform to new standards. Schools were opened in even the remotest parts of the country. The number of schools, community colleges and universities (Public & Private) has increased dramatically. The Saudi government and families encourage women to enroll in higher education and, therefore, women's role in socio-economic development has been enhanced. The educational progress in Saudi Arabia must be recognized as being both positive and remarkable for males and females. As in many other countries, the impact of modernization on Saudi Arabia is seen as in the best interest of the country. Radical change has been

IMPACT OF WOMEN HEADS-OF-STATE ON HUMAN DEVELOPMENT

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ABSTRACT

This study explores the relationship between women heads-of-state and their impact on Human Development in their country. Mainly, the intent of this paper is to determine whether women heads-of-state do a better job as compared to their male counterparts in improving health, education and economic status of their citizenry. A thorough review of Human Development Index (HDI) data shows that although women heads-of-state have a higher and positive impact on HDI as compared to their male counterparts, this difference in their performance is not statistically significant. The source of the data used in this study is Human Development Reports available at http://hdr.undp.org/statistcs/. The HDI data used in this study is from Human Development Reports 1998, 2002, and 2008.

JEL: E2, I1, I2

KEYWORDS: Human Development Index (HDI), Life Expectancy, Adult Literacy, Gross Enrollment, Education Index, Gross Domestic Product (GDP)

INTRODUCTION

In the past few years, more and more women have been elected presidents or prime ministers. Notable among them has been Angela Merkel of Germany, Michele Bachelet of Chile, Ellen Johnson-Sirleaf of Liberia, and Cristina Fernandez de Kirchner of Argentina. In modern times, more specifically since 1917, women have been presidents or prime ministers in different parts of the world (Worldwide Guide to Women in Leadership, 2009). The more prominent among them are Margaret Thatcher of Britain, Indira Gandhi of India, and Mary Robinson of Ireland. Yet, arguably, the strongest country in the world--United States--still does not have a women president. However, when Hillary R. Clinton, a serving Senator and wife of a former US president ran for the Democratic Party nomination in 2008, there was a succinct and real possibility of a woman becoming president of United States. Because of her candidacy, there was great excitement in the United States and throughout the world. In the same election, the Republican Party vice presidential candidate was also a female--Sarah Palin.

Although, the Palin candidacy did not generate as much excitement as Clinton's because she was a vice presidential candidate and her chances of winning were not as high as Clinton's prospect of securing the Democratic Party nomination. Regardless, in the 2008 US presidential election there was a strong possibility of electing a women leader as the President because a women president would represent and focus on issues that are important to women and families. Some thought that Ms. Clinton's candidacy focused on hopes, dreams, desires and frustrations of women across America and thus Ms. Clinton as President was a vehicle for achieving gender equity, fair treatment, and collapse of the glass ceiling for women (Lowen, 2008). Others stated that since women play a critical role in families, nations and economies, who would be better to focus on these issues than a woman leader (Powell, 2009). Furthermore, a group of prominent women rights leaders urged Barack Obama--the winner in 2008 election--to ensure equal female representation in decision-making and in his administration (Basch, el al., 2009). The women rights leaders' claimed major economic, security, governance and environmental issues could not be solved without equal participation of women at all levels of society. Along the same lines, many have also claimed that women participation in political decision-making improves quality of governance and reduces corruption (Women rights activists discuss human development, call for strengthening a women's role in society, UNDP, 2009).

AN ANALYSIS OF MINING SECTOR ECONOMICS IN MONGOLIA

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ABSTRACT

This paper provides an assessment of the mining sector and shows how it is critical for further sustainable growth in Mongolia. In 1990, Mongolia transferred from socialism to a parliamentary democracy and since then has implemented political and economic reforms that have constituted a sweeping break from the past; succeeding in a way that very few other post communist nations have been able to do. The Mongolian economy was mostly influenced by agriculture and small and medium sized businesses; however since the late 1990s, the Mongolian capital market has had a strong correlation with the fate of Mongolia's mining deposits, which are of worldwide interest. If these deposits were exploited, the Mongolian capital market would boom and thus strongly effect the whole economic situation. During the last few years the mining sectors have started to provide an important contribution to the GDP. Unfortunately without previous experience and the appropriate legal environment, the mining industry faces great challenges in further development; at same time investment opportunities for the whole country have been delayed for an uncertain period. Thus, this paper emphasizes how to maintain the sustainability of Mongolian economic growth while identifying and analyzing the main difficulties, challenges and strategic efforts in the mining sector and determining appropriate solutions based on international experience and practices.

JEL: A1; D2; G00; L00; L5; O4

KEYWORDS: Mongolia, mining industry, investment, economic growth

INTRODUCTION

In October 2009, the Government of Mongolia signed an agreement with Canada based private mining company, Ivanhoe Mines, to utilize the copper and gold deposits under "Oyu Tolgoi" project. A week after the signing ceremony, Ivanhoe Mines handed out an initial 100 million USD to the state budget of the country. During this activity, the Minister of Finance of Mongolia, Mr. Bayartsogt declared that each citizen of the country will receive one time incentive of 50,000 MNT or 35 USD from this payment within next year, 2010 (Ministry of Finance of Mongolia, 2009). 1 USD = 1,428.5 MNT as of October 2009 (Mongol Bank, 2009). The population of Mongolia is around three million, if we multiply this figure by the 35 USD; it would be 105 million USD. I asked myself, why Government is going to do such a thing. Thus, I was motivated to know that what kind of problematic issues are arising, how other countries deal with the mining sector, and how the mining sector can be a positively influence in the growth of the country.

Mongolia has an area of over 1.5 million sq km with a population of only 2,737,602 and divided into 21 aimags (provinces). The country is located in the heart of the Asian continent between Russia and China, is a democratic country with a free market economy and has extensive and largely untapped mineral resources. Thus the mining sector has started to play an important role towards the country's future economic development. The Government encourages foreign investment and has adopted several long-term programs in exploration, exploitation and processing of minerals, such as coal, copper, fluorspar, gold, oil and silver (Byamba –Oyu & Tsedendorj, 2007). The bubble in commodities in the world stock market has particularly benefited Mongolia either by raising the profits in the mining sector or increasing

INTANGIBLE RESOURCES AS A DETERMINANT OF ACCELERATED INTERNATIONALIZATION

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ABSTRACT

The aim of this research is to analyze the internationalization strategies followed by small and medium enterprises (SMEs) of Jalisco. Specifically, we want to identify cases of early internationalization, and how SMEs get and manage their resources. We developed an analytical framework based on the resource-based view of the firm and on two internationalization models, the Uppsala and the Born-Global. The purpose is to allow the analysis of different typologies of internationalized SMEs. The empirical results show the internationalization strategies of SMEs follow two main trends: the first presents a gradual internationalization, as suggests the Uppsala model and the second follows an accelerated internationalization, agreeing with the born-global approach. An interesting finding is that accelerated internationalization is not an exclusive behavior of technology intensive or innovating companies. In fact, it is possible to find born-global SMEs even in mature and traditional sectors. This is possible thanks to the control of strategic intangible resources like experience and relational capital of managers. These findings contribute to extend and deepen the knowledge of born global companies.

JEL: F23; M16

KEYWORDS: Resource-Based View, Intangible Assets, Born-Global companies, SMEs.

INTRODUCTION

The present enterprise environment, characterized by constant evolution in the technologies of production, information, communications, transportation, the openness of markets and a greater mobility of human and financial capital, affects the way business is conducted. This managerial context forces companies, both established as those in formation, to reflect on business form and how best to take advantage of the prevailing conditions to survive, preserve their market position, diversify risks and grow.

In Mexico, the importance of SMEs can not be overstated. SME's are important based on the number of establishments (99.3% of total companies), generation of employment (88.9% of the jobs) and the possible benefits from internationalization (INEGI, 2009; SIEM, 2009). Because of this importance it is important to identify reasons that companies to succeed in foreign markets.

In the following section, we present the theoretical frame of this work, which includes a brief description of the enterprise success, the resource-based view of the firm (RBV) and the models of accelerated internationalization. Later, in the empirical section, we will describe the methodology used, the studied case will appear and we will discuss the reached results. The paper closes with some concluding comments.

LITERATURE REVISION

We define internationalization to be the commitments of a company outside its origin country and transferring services, products or resources beyond the borders. In a broader sense, an internationalized company is one that conducts any operation of its value chain in a country that is not local (Welch &

WE-COMMERCE: EVIDENCE ON A NEW VIRTUAL COMMERCE PLATFORM

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ABSTRACT

The proliferation of the Internet and the latest mobile communication technologies have given rise to new forms of communication that made it easier for sellers as well as consumers to communicate and conduct business in real time and in virtual space with manufacturers, retailers or among each other. In addition, consumers are building social networks for interacting, and for collectively buying products ("We-Commerce"). From the sellers' perspective, they are stepping away from traditional forms of a single buyer-seller relationship and formerly dominant group building processes. By tapping into consumer networks and using consumers as marketing assets, marketers can enhance sales volumes, save marketing spending, and increase profits. This paper (1) provides an overview of grouping phenomena in marketing. It then (2) points out different platforms of group commerce in virtual surroundings, and (3) elaborates the influence of group mechanisms onto the consumer's decision-making process. Eventually, (4) further research questions are presented.

JEL: L81, M30, M31

KEYWORDS: We-commerce, consumer groups; consumer bundling/flocking; consumer behavior on the Internet; group/collective buying

INTRODUCTION

Marketing literature about grouping phenomena has been dominated for a long time by firstly a marketer-initiated perspective, and secondly by a one seller dealing with one consumer connection. Although the phenomenon of consumers' buying products together has ever since existed (Dameron, 1928), and sellers always reacted with different kinds of group discounts (e.g. on family vacation trips as well as group discounts at museums or movie theaters, and as a business model for consumer co-operatives), it has long been underrepresented in literature. This situation has dramatically changed with the advent of the Internet, which in his early stages has mainly been used for either building up relationships between companies or companies and consumers as well as single transactions in E-Commerce (e.g. Deller, Stubenrath, and Weber 1999; Mahadevan 2000). The phenomenon of consumers' buying products together on the Internet appeared first time with the second Internet hype in the early beginning of this century. Participating consumers received a discount on highly standardized products like printers or cameras by logging onto a seller's website (e.g. Letsbuyit.com), typing in their reservation price, and just waiting till the offer was closed. Although these forms of group buying seemed to be a good idea at first sight, they apparently did not meet the expectations of consumers. Group offers on the Internet vanished only after a few years in business.

The situation has changed with the growing interactivity by a combination of former stand-alone technologies like the Internet and mobile telecommunication services as well as new social media platforms like Facebook or Twitter. They allow for an anytime accessibility worldwide and coevally bringing people closer together on a regular basis. At the same time consumer power, but also the chances for consumers to find other consumers with the same interests and the same need for specific products are rising drastically. Consumers are now flocking on the Internet; they are virtually meeting in blogs, special interest groups or chat rooms, and therefore establishing a huge market segment for sellers. At that point

THE IMPACT OF CALIFORNIA BUDGET DEFICITS ON THE CRIMINAL JUSTICE SYSTEM: EVIDENCE AND RECOMMENDATIONS

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ABSTRACT

At the same time that the State of California faces crushing annual budget deficits, the Governor faces a mandate from the federal courts to significantly reduce prison overcrowding. California prisons were originally designed to hold fewer than 100,000 inmates. They are currently housing over 170,000 inmates. The problem facing California lawmakers is how to reconcile looming budget cuts, including those in the corrections system and the court system, with the mandate to reduce the number of prisoners. One suggested plan, to grant early release to approximately 27,000 inmates, has run into stiff opposition from police and prosecutor groups. They cite recent high profile abductions and murders committed by parolees who were released early to live in treatment centers and half-way houses. Criminal justice experts also predict that the early release of inmates will increase recidivism rates in a state that already has the nation's highest recidivism rate. This paper will explore and review the ongoing political and fiscal battles over the allocation of scarce public funds currently taking place in California, and the direct impact it will have on the criminal justice system in California and the rest of the United States.

INTRODUCTION

California is one of many states that face ongoing and difficult decisions about how to allocate scarce financial resources while suffering from projected multi-billion dollar budget deficits. And since the projected annual budget deficit is so large, it serves as an appropriate subject for the issues addressed in this paper. As the economy of the United States, and the economies of all 50 states, continue to suffer from one of the greatest recessions of modern times, our state governments are faced with the challenge of prudent fiscal planning for the future of their criminal justice systems. The competing interests of financing court systems, due process rights of the accused, legislative mandates such as "three-strikes laws," and determinate sentencing have all contributed to an ongoing and growing strain on the budgets of government entities. Now, as if to add insult to injury, California is struggling under the weight of a Federal Court order to significantly reduce the prison population of the state prison system. With constricted state tax revenues leading to massive annual deficits, the Governor and the Legislature are faced with the overwhelming task of making deep and significant cuts to the state budget. The education and health care systems of the state are direct competitors with the criminal justice system which includes the corrections and court systems for these scarce dollars.

This paper will focus on the ballooning prison population in California. It will explain the issues and discuss some of the proposed solutions. The political divisions run deep over these matters, especially when the looming threat of early release of felons into our communities takes on a real and imminent threat. These difficult times of high unemployment and economic uncertainty are a breeding ground for the commission of new crimes. Adding a flood of early released felons into this environment is unsettling and problematic.

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