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STOCK REPURCHASE ANNOUNCEMENTS AND STOCK PRICES EVIDENCE FROM TAIWAN

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ABSTRACT

This paper uses an event study methodology to examine the stock price behavior surrounding announcements of stock repurchases made by Taiwan firms from 2000 to 2008. Our analysis shows that stock prices go up in response to stock repurchase announcements. We also find the announcement effects between various industries to be significantly different; the announcement effect is greatest in the financial industry and least in the electronics industry. Finally, firms which fully executed stock repurchases were confirmed to have experienced a relatively large stock price decline in the pre-announcement period compared with those which executed less than 10% stock repurchases; however, there is no significant difference in their announcement effects.

JEL: G14

KEYWORDS: Stock repurchases, event study, abnormal return, cumulative abnormal return

INTRODUCTION

On June 30, 2000, the Taiwan Legislative Yuan promulgated amendments in the provisions of the Securities Exchange Act. Following the formal implementation of these amendments on August 9 of the same year, the treasury stock system officially allowed firms to repurchase their shares in the open market. Nevertheless, companies were limited to the following objectives: (1) transferring shares to employees; (2) repurchasing shares for the exercise of stock options and convertible bonds; and (3) protecting corporate credit and the interest of stockholders (Taiwan Securities Act 28-2). The data from the Market Observation Post System of the Taiwan Stock Exchange show that the number of listed companies that issued at least a repurchase announcement from August 9, 2000 to October 31, 2008 is 459, about 60.47% of the total number of listed firms.

The Taiwan stock market has been shaken several times. After 2000, Taiwan went through two political administrations and several global economic downturns, most notably the subprime crisis emanating from the US and developing into the global financial tsunami of 2008. Every time stock prices plummet, many companies announce programs to buy back their own shares. In view of all these, our study aims to examine the effects of stock repurchase announcements by listed companies on their respective stock prices, and to find out whether there is an "announcement effect". If so, this study further examines the issues of whether the announcement effect varies across industries and of whether the extent to which the repurchase is executed really matters.

While previous studies employ shorter periods (i.e., from half a year to 5 years), this paper uses a total of 8 years of data (August 2000 to October 2008) under the assumption that a longer period will help confirm the hypotheses tested. Based on the concept that standardized abnormal returns and cumulative returns may reduce the effects of disturbance events on stock returns, this study adopts the Market Model Hypothesis and the OLS method of event study to estimate the standardized abnormal return (SAR) and the standardized cumulative abnormal return (SCAR) of the sample. Both the standardized cross-sectional *t*-test and nonparametric sign test are used to test the hypotheses.

DETERMINANTS OF IPO UNDERPRICING: EVIDENCE FROM TUNISIA

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ABSTRACT

This paper empirically analyzes the short run performance of Tunisian initial public offerings (IPO). It sheds light on the determinants of IPO's in a context of a frontier market characterized by high information asymmetry, low information efficiency, thin trading and the presence of "noise" traders. Using a sample of 34 Tunisian IPO's from the period 1992-2008, we find an average market adjusted initial return for the first three trading days of about 17.8 percent. The factors significantly related to the underpricing are retained capital, underwriter's price support, oversubscription, listing delay and the offer price. Age of the firm, its size and the size of the offer do not seem to reduce the amount of money left on the table by issuers. It appears also that underpricing is driven by irrational investors (ipoers) seeking for short-run capital gains. These results remain unchanged after controlling for the presence of institutional investors, price discount and the existence of liquidity contract. Overall, the results show that investors rely mainly on side information to value IPOs.

JEL: G14; G3

KEYWORDS: Initial public offerings, Short-run underpricing, Underwriter's price support.

INTRODUCTION

Several empirical studies documented the existence of the initial underpricing phenomenon for newly listed firms during the early days of trading across many countries and capital markets. Early studies examined the performance of IPOs on the US market. Ibbotson (1975) find an average abnormal return of 11.4%. Loughran and Ritter (1995) based on their survey of papers on the IPO underpricing report average initial returns of 10.0%. More recently, Purnanandam and Swaminathan (2004) find returns ranging from 14.0 to 50.0% depending on the matching criteria used. At the international level, most researchers have found mixed results compared to American findings. On the German market, Ljungqvist (1997) using a sample of 189 firms over the period 1970-1993 find an initial underpricing of about 10.9%. In France, Jacquillat and MacDonald (1974) and Dubois (1989) report an initial underpricing respectively about 4.2% and 19.0 percent.

In the context of emerging markets, several studies highlighted that Chinese IPO's enjoy the world's highest initial returns. Among others, Mok and Hui (1998), Tian (2003) Chan *et al*. (2004) and Larry *et al*. (2008) report underpricing ranging between 100-300%. These levels are much higher than the average level of 60% in other emerging markets (Jenkinson and Ljungqvist, 2001). For example, Yong and Isa (2003) report an average initial yield of 80.3% for Malaysian IPOs over the period 1980-1991. More recently, Agarwal *et al*. (2008) find an average initial return of 20.8% for Hong Kong. Finally, Kiymaz (2000) documents an average 13.6% underpricing over the period 1990-1995 for a sample of Turkish IPO's.

This paper extends the international literature on IPO's by examining the IPO's on the Tunis Stock Exchange (TSE), a frontier market characterized by high information asymmetry, low information efficiency, thin trading and the presence of "noise" traders. This study thus sheds light on the

DIVIDEND POLICY AND THE LIFE CYCLE HYPOTHESIS: EVIDENCE FROM TAIWAN

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ABSTRACT

This paper examines the dividend policy for firms listed on the Taiwan Stock Exchange and test the life cycle hypothesis. The sample involves 6031 observations of dividend payments over the 16-year period 1992-2007. Consistent with the prediction of the life cycle hypothesis, the results indicate that dividend payers (cash dividends, stock dividends, or both) are associated with higher profitability, higher asset growth rate, and higher market-to-book ratio than non-payers (none dividends). The median return on assets (ROA) is 7.03% for dividend payers and -0.93% for non-payers. Similarly, the median market-to-book ratio is 1.69 for dividend payers as opposed to 0.80 for non-payers. Moreover, the results indicate that stock-dividend payers are associated with higher asset growth rate, but lower ratio of retained earnings to total equity than those for cash-dividend payers. In particular, stock-dividend payers are associated with higher asset growth rate and lower return on assets, lower retained to total equity ratio than those for cash-dividend payers. These results are consistent with the life cycle hypothesis of dividend payment in that younger firms with higher growth potential but lower profitability tend to distribute more stock dividends than cash dividends. When firms become more mature as characterized by lower growth potential but higher profitability tend to distribute more cash dividends as opposed to stock dividends.

JEL: G32; G35

KEYWORDS: dividend policy, cash dividend, stock dividend, life cycle hypothesis

INTRODUCTION

Ever since Miller and Modigliani (1961) published their pioneering article on dividend policy, numerous theoretic and empirical studies have examined this important issue. Empirical evidence suggests that a firm's dividend policy may depend on the stage of the firm's life cycle. For example, younger firms with higher growth opportunities but lower profitability may distribute less cash dividends. In contrast, mature firms with higher profitability but lower growth opportunities may distribute more cash dividends. The past two decades have witnessed drastic changes in dividend policy among industrial firms. Fama and French (2001) report a significant decline in the proportion of United States industrial firms that pay cash dividends in the period 1978-99. They note that such changes in dividend policy are related to changing characteristics of these publicly traded firms. DeAngelo et al. (2006) propose that changes in dividend policy of publicly traded industrial firms in the United States are consistent with the prediction of the life cycle hypothesis.

The purpose of this paper is to examine dividend policy for industrial firms listed on the Taiwan Stock Exchange over the period 1992-2007. In particular, we examine whether the dividend policy of Taiwan's industrial firms are consistent with the prediction of the life cycle hypothesis. We first examine the pattern of dividend payments for industrial firms listed on the Taiwan Stock Exchange over the sample period. That is, we examine if there is any change in the proportion between dividend payers and non-payers? Moreover, since both stock dividends and cash dividends are quite common for firms listed on the Taiwan Stock Exchange, we examine whether dividend payers change their choice between stock dividends and cash dividends in the sample period. Finally, we examine whether the choice between stock dividends and cash dividends is consistent with the prediction of the life cycle hypothesis.

THE IMPACT OF FINANCIAL SECTOR REFORMS ON BANKS PERFORMANCE IN NIGERIA

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ABSTRACT

This study examined the impact of financial reforms on banks' organizational performance in Nigeria between 1995 and 2004. It specifically determined the effects of policies of interest rates deregulation, exchange rate reforms and bank recapitalization on banks performance, and analyzed how banks internal characteristics and industry structure affect the performance of Nigerian banks. The study utilized panel data econometrics in a pooled regression, where time-series and cross-sectional observations were combined and estimated. The result of econometric panel regression analysis confirmed that the effects of government policy reforms, bank specific characteristics and industry structure has mixed effects on banks profitability level and net interest margin of Nigerian banks. Bank specific characteristics appear to have significant positive influence on bank's profitability and efficiency level, while industry stricture variables appeared not to have contributed meaningfully to the profitability and efficiency performance of banks in Nigeria
.

JEL: Nigeria, Financial Reforms, Banks Performance

KEYWORDS: F2; G21; E1

INTRODUCTION

Roles of bank in the economic process are strategic. It represents the heart of the national economic life and the nucleus of the economic survival around which other sectors are tangential. The centrality of the banking sector also makes the sector to attract much attention in any reform process. Therefore, the adoption of the Structural Adjustment Programme (SAP) in Nigeria in 1986 made the banks the centre of the gamut of the reform in the financial sector.

Among the objectives of financial reforms is to build more efficient, robust and deeper financial systems, which can support the growth of private sector enterprises (Ajilore 2003). The proponents of financial reforms argued that such reform would bring about significant economic benefits through improved bank operational efficiency and effectiveness in order to guarantee a more effective mobilization and efficient allocation of resources among various economic units. Whether or not bank actually achieves these expected performance gains, remain critically an empirical question. If reforms do in fact, lead to efficiency gains, then shareholder wealth could be increased. On the other hand, if reforms do not lead to the promised positive effects, then reforms may lead to a less profitable and valuable banking industry.

A reading of the literature suggests that the efficiency gains that alleged to accrue to the large and growing wave of banking reforms have not been verified. More importantly, signals from the apex bank (CBN) indicated that three out of the remaining 25 banks after the recent reform are technically distressed. Thus, leading the research community in quandary on whether the industry has followed a path of massive restructuring on a misguided belief of efficiency gains or whether the financial regulators and operators are lying to the public and shareholders about the effects of their activity on banking performance. It is important to address this issue by reconciling data with empirical reality of continued reform activity in the Nigerian banking sector.

Moreover, while there are myriads of studies on the effects of reform policy on other sectors of the Nigerian economies, there is paucity of studies on the effects of bank reforms on banking performance itself in Nigeria. The neglect of this issue is particularly surprising for this sector of Nigerian economy,

WHICH COUNTRIES ARE THE TARGETS FOR ANTI-DUMPING FILINGS?

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ABSTRACT

This study examined the relationship between anti-dumping filings and macroeconomic indicators of a targeted country. Focus was placed on trade policy indicators using panel data drawn from 97 countries over the period 1995 to 2005. It was determined that the number of anti-dumping filings decreased with a targeted country's liberal trading regime success. For (targeted) developed countries, greater overall trade-flow expansions and applied tariff reductions for non-agricultural products had a negative impact on the number of anti-dumping charges. On the contrary, trade policies in (targeted) developing countries were found to have no significant impact on the decision to file anti-dumping lawsuits by filing countries.

JEL: F10; F13

KEYWORDS: Anti-dumping, Trade policy

INTRODUCTION

Since 1980, there has been a substantial increase in the use of administrative protections, especially in relation to anti-dumping measures. The rise in anti-dumping usage has spread from the "major four countries," Australia, Canada, the European Union (EU), and the United States (U.S.), to other countries around the world (Prusa, 2005). Anti-dumping measures have clearly emerged as an important trade policy tool among countries.

Trade policy has been commonly viewed as the major policy provoked barrier to trade (Ekanayake and Ledgerwood, 2009). For instance, one of the key explanations for the unprecedented rise in anti-dumping use in many countries is the success of the Uruguay Round tariff liberalization (Feinberg and Reynolds, 2007). Miranda *et al*. (1998) suggested that tariff liberalization has been accompanied by the widespread use of other administrative protections, including anti-dumping duties, to maintain some level of protection for the domestic industry against the surge in import competition.

Anderson and Schmitt (2003) theoretically revealed that there is a shift from tariff protection to quotas and anti-dumping restrictions when tariff liberalization occurs. However, Sudsawasd (2012) pointed that tariff reduction may not necessarily be associated with an increase in the use of anti-dumping measures. It is uncertain whether a foreign firm will lower its export price with a lower tariff rate in an import country. If the firm raised its export price since it may possess some market power in the export market, then it is less likely for export countries to confront them with an anti-dumping charge. Conversely, the relationship may be ambiguous and is a matter of empirical evidence. For the empirical studies on this subject, Feinberg and Reynolds (2007) and Moore and Zanardi (2008) found that tariff liberalization was associated with an increase in anti-dumping petitions, at least for developing countries. In addition, Sudsawasd (2012) found that the effects of tariff liberalization on anti-dumping use varied across world regions and developed countries were likely to be more sensitive than developing countries to tariff policy change in most world regions.

Despite the large number of existing studies that have investigated the influence of various determinants on anti-dumping filings (e.g., Knetter and Prusa, 2003; Aggarwal, 2004; Sadni Jallab *et al*., 2006; Sudsawasd, 2012), studies on the relationship between macroeconomic conditions in targeted countries

THE RELATIONSHIP BETWEEN THE UNITED STATES AND VIETNAM STOCK MARKETS

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ABSTRACT

This paper uses the Generalized Autoregressive Conditional Heteroscedasticity - Autogressive Moving Average (GARCH-ARMA) and the Exponentially General Autoregressive Conditional Heteroscedasticity-Autogressive Moving Average (EGARCH-ARMA) models to examine the relationship between United States and Vietnam stock markets. The paper analyzes 1,483 daily observations from 2003-2009. The study finds that the U.S. market has a positive and significant influence on the Vietnam market. Specifically, the S&P 500 Index has a positive and strong significant influence to the VN-Index return in recent years. However, there is no evidence of a volatility effect of the S&P 500 Index on the VN-Index. To support the initial findings, the study performs robustness tests to examine the effect of Dow Jones Index on the VN-Index return and shows similar results. Not only do these findings provide additional evidence that Vietnam is a viable market economy but also indicates that fund managers' should consider movement of the U.S. stock market before making Vietnam investment decisions.

JEL: E50, G1

KEYWORDS: Index, stock market, volatility effect.

INTRODUCTION

In recent years, financial markets in both developed and developing countries experienced liberalized capital movement, financial reform, and advances in information technologies. These changes have increased the interaction between domestic markets to other markets in the world. In particular, the linkage between stock markets has increased rapidly. Many studies have found that the U.S. stock market has strong influence on other stock markets. However, until now there is no official research to examine the influence of the U.S. stock market (like S&P 500 and Dow Jones Indices) on the Vietnam stock market (VN-Index). Market analysts frequently try to explain the movement of the Vietnam stock market (VN-Index) in the financial news in relation to movement in the U.S. stock market. Statements such as "*VN-Index declines…after the plunge by Wall Street*" and "*VN-Index is up…due to the soar of Dow*" are quite common. Those claims seem to suggest that the U.S. stock market transmits its influence to the stock market in Vietnam. There is a need to study this effect in order to answer the question: How does the U.S. stock market influence the Vietnam stock market?

This empirical study investigates the effect of a mature stock market on an infant stock market; specifically it examines the influence of the S&P 500 and Dow Jones Indices on VN-Index with special focus on political events between the U.S. and Vietnam governments. The GARCH-ARMA and EGARCH-ARMA models are utilized. The findings showthe U.S. stock market has a positive and significant influence on the Vietnam stock market. The influence of the S&P 500 Index on the VN-Index has become more significant and stronger after visits of top leaders from both countries in 2005. However, there is no volatility effect of the S&P 500 Index on the VN-Index. A robustness test is performed to support the initial findings by examining the effect of Dow Jones Index on the VN-Index return. Using the same method, number of observations and time period, the outcome shows similar results. That is, the U.S. stock market has an influence on the Vietnam stock market that is getting stronger. These findings could provide a basis for fund managers to develop investing strategies. The results provide evidence that Vietnam is a market economy. The Vietnam stock market, like other markets is influenced by the U.S. stock market. The remainder of the

TERMS OF LENDING FOR SMALL BUSINESS LINES OF CREDIT: THE ROLE OF LOAN GUARANTEES

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ABSTRACT

This study examines the role of loan guarantees in lines of credit granted to small businesses. Since there is evidence of simultaneity among lending terms, two-stage instrumental variable procedures are used to obtain consistent parameter estimates. The findings suggest the presence of a loan guarantee is associated with lower interest rates and smaller lines of credit and that loan guarantees and collateral are to some extent substitutes in that loans guarantees are a close substitute for collateral but collateral does not always serve as a close substitute for loan guarantees. Furthermore, firms with longer banking relationships and/or fewer banking relationships are less likely to have loan guarantees.

JEL: G2

KEYWORDS: Term of lending, bank relationships, line of credit

INTRODUCTION

Numerous authors have investigated the importance of banking relationships in lending to small businesses. For example, Petersen and Rajan (1994) find that small firm borrowing is concentrated among a small number of lenders, indicating substantial benefits to developing and maintaining a strong banking relationship. They conclude that the value of the banking relationship relates more to the availability of credit than to a lower cost of funds. Brick, and Palia (2007) study the interrelationship between interest rate, fees, and collateral in small business loans. They note that all three of these factors, in principle, can be negotiated simultaneously to achieve the required return and suitable level of risk. Their empirical findings provide evidence of jointness or endogeneity among the terms of lending.

Not included in the Brick and Palia study is the role of loan guarantees for small business line of credits (LOC). Both loan guarantees and collateral serve to reduce the loss given default (LGD) of a loan and the pledging of personal loan guarantees may also lower the probability of default. On the other hand, loan guarantees and collateral may introduce a moral hazard if the bank relaxes its lending standards assuming that it is not exposed to either the risk of default or a significant loss at default. Furthermore, loan guarantees and collateral can serve as a form of non-price credit rationing as discussed by Stiglitz and Weiss (1981). Thus, on can argue that loan guarantees and collateral are substitutes in the lending process. On the other hand, both have unique dimensions. For example, of the firm pledges corporate assets such as account receivables or inventories the lender must perfect a lien on the assets, monitor them, and liquidate them in the case of default. This is process can involve significant costs and the marketability of the collateral is always an issues. In the cases of loan guarantees the borrower is often asked to pledge his/her personal assets, such as real estate, stock and bonds, and other personal assets. Thus, in the case of collateral the firm's assets are being pledged while in the case of a personal guarantee borrowers are risking their own assets and possible bankruptcy. In addition, there are third party guarantees of course and in the United States, the U.S. Small Business Administration (SBA) was created to assist small businesses and represents one source of loan guarantees for small businesses.

ON THE PRICING OF DUAL CLASS STOCKS: EVIDENCE FROM BERKSHIRE HATHAWAY

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ABSTRACT

This study focuses on determining whether short-term market inefficiencies exist that can be periodically exploited by investors. Berkshire Hathaway's dual class stock with differential voting rights and one- way conversion option provides a unique opportunity to investigate this issue while controlling for other exogenous variables that could bias the findings. Given the investor attention directed toward Berkshire Hathaway, and the company's famous CEO Warren Buffett, this company's stock should always trade in an efficient market. The results suggest that Berkshire Hathaway class B shares tend to have significantly higher opening prices and Berkshire Hathaway class A shares tend to have higher closing prices, although both A and B shares have similar average daily returns. Price dynamics may create unique arbitrage opportunities for investors. However, the higher overnight returns for B shares may be offset by higher volatility embedded in the B shares.

JEL: G11; G12; G14

KEYWORDS: Dual class stock, market efficiency, asset pricing, volatility

INTRODUCTION

Berkshire Hathaway's dual classes of common stock with differential voting rights and one-way convertibility provide a unique opportunity to study market efficiency in the short run. Both class A and class B shares are based on the same corporate fundamentals but class A shares are convertible to 30 shares of class B stock. However 30 class B shares can never be converted to one share of class A stock. Holding everything else constant, class B shares should trade for exactly 1/30th of class A's stock price.

In addition to the conversion differences class B shares carry lower voting rights with each class B share voting at only 1/200th of its class A counterpart. In other words an investor holding 30 shares of class B stock only possesses 15 percent of the voting power of one class A share even while owning the same fraction of the company. Since several studies including Megginson (1990) and DeAngelo and DeAngelo (1985) maintain that shares of stock with superior voting rights sell at a premium the expectation is that class B shares should always trade at a slight discount to class A shares. The inferior voting rights should keep class B shares trading at a lower price than its fractional class A value but arbitrage will also keep the prices closely in line. If class B shares increase too high relative to class A then class A shareholders will convert and sell class B pushing the price back to equilibrium with class A. In addition, both classes of stock should share the same risk characteristics. Given sufficient adjustment time we fully expect these price and risk relationships to hold. However, what about in the short run? Are there opportunities for profit that exist for alert day-traders? In this study we investigate whether Berkshire Hathaway class A and class B stock maintains the expected price and risk relationship in the very short run.

The purpose of this paper is to further investigate short-run market efficiency issues. Given the ubiquitous nature of short-term traders it would be useful to see if temporal market inefficiencies do indeed exist that short-term traders can arbitrage for profit. Jordan and Diltz (2003) in their study of 324 day traders find that opportunities for short-term trading profits do exist. Their findings indicate that 36 percent of day

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TRANSACTION COST DISCOVERY BY DECOMPOSITION OF THE ERROR TERM: A BOOTSTRAPPING APPROACH

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ABSTRACT

There is agreement regarding the fundamental role of transaction costs in determining currency options market efficiency. However, the estimation of transaction costs in this relationship is controversial. In this study, a bootstrapping approach is adapted to decompose the error term of the put-call parity regression analysis in order to estimate transaction costs. The currency option market is more than 95 percent efficient with the estimated transaction costs. This robust transaction cost calculation will be valuable to traders and researchers as it eliminates dependence on crude proxies for transaction costs.

JEL: G13; G14

KEYWORDS: Transaction costs, error term decomposition, put-call parity, serial correlation, ARCH

INTRODUCTION

Efficiency is the key factor in the functioning and development of options markets. Further, efficiency represents the equilibrium market price, which can be used as the market's best forecast of the future options price (Hoque et al, 2009). The efficiency of an options market can be investigated by testing the put-call parity (PCP) relationship in the usual setting where the market is assumed to be frictionless. The PCP is a no-arbitrage relationship that must hold between the prices of a European call and a European put written on the same underlying currency, and having the same strike price and time to expiration. However, real financial markets are not frictionless, and therefore there is extensive literature on options market efficiency regarding the design of a PCP test with transaction costs.

Furthermore, previous research has relied on the number of PCP violations that lead to arbitrage profits in order to determine options market efficiency. The PCP can be violated even for a fraction of a cent of arbitrage profit per unit of foreign currency options. PCP violations that generate non-attractive arbitrage profits can be considered outliers. The transaction costs can also contribute to filtering of these outliers in order to estimate reasonable arbitrage profits to deduce the efficiency of the options market. Undoubtedly, transaction costs play an important role in establishing options market efficiency based on an arbitrage profit strategy.

The remainder of this paper is organized as follows. Section 2 briefly discusses the relevant literature. Section 3 describes the research methodology and the data. Section 4 provides analysis and interpretations of the empirical findings. Section 5 concludes the paper.

LITERATURE REVIEW

Phillips and Smith (1980) provided a systematic analysis of the transaction costs facing traders in the organized options market. They included explicit costs, in the form of commissions and other fees, and implicit costs such as bid-ask spreads for the pricing of transaction services. The explicit costs of commissions and other fees are institution-dependent. The implicit cost of the bid-ask spread is the difference between the highest quote to buy and the lowest offer to sell the asset in the market. Phillips and Smith (1980) also documented the transaction cost ranges for individual investors, options market

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