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PROGRAMME & ABSTRACT BOOK

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Programme Book

26th July 2018

Venue: Holiday Inn Singapore Atrium Level 3 (Seletar Room)

REGISTRATION: 09:30 – 09:50

APEF 2018 OPENING: 09:50 – 10:00

Dr Evan Lau

Associate Professor, Universiti Malaysia Sarawak (UNIMAS)

KEYNOTE SESSION I: 10:00 – 10:45

‘Assessing Alternative Economic Scenarios Under Increasingly Protectionist Policies’

Dr Olga Loiseau-Aslanidi

Director, Economic & Consumer Credit Analytics, Moody's Analytics

COFFEE BREAK: 10:45 – 11:15

KEYNOTE SESSION II: 11:15 – 12:00

‘Hedge funds: What did they do in the foreign exchange market?’

Dr Kaihong Tee

Loughborough University

LUNCH: 12:00 – 13:30

Buffet Lunch at Atrium Restaurant

SESSION I: 13:30 – 14:30

Room: Seletar 1

Session Chair: Evan Lau, Associate Professor, Universiti Malaysia Sarawak (UNIMAS), Malaysia

Differences between Subjective Over-indebtedness and Objective Over-indebtedness: Household-Level Evidence from Thailand

Pasit Chotewattanakul, The University of New South Wales, Australia; Keiran Sharpe, The University of New South Wales, Australia; Satish Chand, The University of New South Wales, Australia

Impacts of Fiscal Policy on Economic Growth: Another Look from Institutional Perspective

Ai Ho, Lingnan University, Hong Kong; Ping Lin, Lingnan University, Hong Kong; Duc Nguyen, Banking University of Ho Chi Minh City, Viet Nam

Money, Asset Prices and the Liquidity Premium

Seungduck Lee, Sungkyunkwan University, South Korea

Room: Seletar 2

Session Chair: Kaihong Tee, Loughborough University, United Kingdom

Sarbanes-Oxley, Capital Structure and the Choice of Payment in Mergers and Acquisitions

Qing Fu Chai, University of Lincoln, United Kingdom; Huainan Zhao, Loughborough University, United Kingdom, Ying Wang, Anglia Ruskin University, United Kingdom; Conghui Chen, Anglia Ruskin University, United Kingdom

Heterogeneous Government Spending and Labor Market Dynamics: A Perspective from Directed Search

Xiangcai Meng, Woosong University, South Korea

Spend More Time or More Money? —The effects of Rent-seeking and Financing Constraints on Corporate R&D Expenditure

Jiannan Xu; Xiamen University, China

COFFEE BREAK: 14:30 – 15:00

SESSION II: 15:00 – 17:00

Room: Seletar 1

Session Chair: Pasit Chotewattanakul, The University of New South Wales, Australia

Counterfeiting and the Pricing Behavior of the Authentic Firm

Jiwon Lee, The Bank of Korea, South Korea

A Study of Microcredit Repayment Delays in Southern Metro Manila, Philippines

Jasmin-Mae Santos, University of the Philippines-Diliman, Philippines; Gian Paolo Samson, University of the Philippines-Diliman, Philippines

Does Financialization Affect the Social Transaction Costs? A Dual Perspectives Based on Financing Constraints and Business Development

Songqin Huang, School of Economics and Management, University of Southeast, China; Wei Liu, University of Sydney, Australia; Hongxing Zhou, School of Economics and Management, University of Southeast, China; Mengyuan Zhu, School of Economics and Management, Harbin Institute of Technology, China

Saving behavior of the elderly and inheritance tax reform in Japan

Hiroyasu Nomura, Dokkyo University, Japan

Performance Assessment of Acquired Banks: A combination of DEA and Malmquist Total Factor Productivity Analysis

Victor Boadu, Heritage Christian College, Ghana; Philip Serumaga-Zake, University of South Africa, South Africa; Jan Kruger, University of South Africa, South Africa

Creditor protection and the transmission of monetary policy through bank loans

Begoña Torre Olmo, University of Cantabria, Spain; Sergio Sanfilippo Azofra, University of Cantabria, Spain; María Cantero Sáiz, University of Cantabria, Spain

Room: Seletar 2

Session Chair: Ying Wang, Anglia Ruskin University, United Kingdom

Conditional Impacts from Overnight Returns on Stock Returns

Alex Huang, National Chiao Tung University, Taiwan; Ming-Che Hu, National Chiao Tung University, Taiwan

Investigation of the impact of changes in ethnic mix on the EU referendum result

Aihua Zhang, University of Leicester, United Kingdom; Paul King, University of Leicester, United Kingdom

India's Service export growth, Challenges and corrective measures

Sonia Mukherjee, Symbiosis Law School, Symbiosis International (Deemed) University, India

Women's Employment, Childcare Leaves and Earnings Mobility among Married Couples in Japan

Yoko Morita, Nagoya City University, Japan; Kazuyasu Sakamoto, Gunma University, Japan

Financial integration for ASEAN-5 and Japan, Hong Kong and China

Joseph Ryan Paglingayen, Far Eastern University, Philippines

Nepal and South Asian Economic Growth Perspective

Post Raj Pokharel, Time Pharmaceuticals P. Ltd., Nepal

27th July 2018

Venue: Holiday Inn Singapore Atrium Level 3 (Seletar Room)

SESSION III: 09:30 – 11:30

Room: Seletar 1

Session Chair: Victor Boadu, Heritage Christian College, Ghana

Impacts of the Transport Infrastructure on the Exports Sophistication

Shi Zhenkai, School of Economic and Management, Southeast University, China

Social capital and start-up performance: the mediating effect of business model innovation

Shangmin Zhang, Southeast University, Chongqing Three Gorges University, China

A Comparison and Implication of the Foreign and Domestic Studies on Economic Effects of CAFTA

Mei Chen, Southeast University, Chongqing Three Gorges University, China; Shumei Chen, Southeast University, China

Export duration, Market similarities and Potential market entry

Xiao-Yun Yang, Southeast University, Chongqing Three Gorges University, China

The Evolution and Trend of Asia-pacific Regional Economic Integration and Countermeasures

Min Chen, Southeast University, Chongqing Three Gorges University, China

Institutional Investors & Corporate Performance Endogeneity Testing Using Simultaneous Equations Approach

Qaisar Malik, Foundation University Islamabad, Pakistan; Abdul Waheed Foundation University Islamabad, Pakistan; Naeemullah Khan, Foundation University Islamabad, Pakistan

Room: Seletar 2

Session Chair: Post Raj Pokharel, Time Pharmaceuticals P. Ltd., Nepal

The Implication of Volatility and Jump Risks from Spot and Option Markets Before, During and After the Recent Financial Crisis

Chang-Shu Chung, National Chengchi University, Taiwan; Ting-Fu Chen, Feng Chia University, Taiwan; Shih-Kuei Lin, National Chengchi University, Taiwan

On the characterization and existence of Nash equilibria in large games with bio-social traits
Haifeng Fu, Xi'an Jiaotong-Liverpool University, China

Multivariate BEKK-TGARCH approach to testing and predicting volatility spillovers & leverage effects

Hira Aftab, James Cook University, Australia; Rabiul Beg, James Cook University, Australia; Sizhong Sun, James Cook University, Australia; Zhangyue Zhou, James Cook University, Australia

Relation between foreign currency borrowings and foreign exchange rate volatility: Evidence from Bangladesh economy

Muhammad Tashfiq Huq, Hiroshima University, Japan; Masaru Ichihashi, Hiroshima University, Japan

What currency order flows tell about spot exchange rate? The case of an emerging economy

Muhammad Aftab, COMSATS Institute of Information Technology, Pakistan; Abolaji Daniel Anifowose, University of Malaya, Malaysia

COFFEE BREAK: 11:30 – 11:45

SESSION IV: 11:45 – 12:00 (POSTER & NETWORKING)

Room: Seletar 1

Wavelet-based Relation between the Price of Crude Oil and Retail Petroleum Products before and after the Public Price Disclosure System in Korea

Yeonjeong Lee, Pusan National University, South Korea; Yun-Jung Lee, Pusan National University, South Korea; Seong-Min Yoon, Pusan National University, South Korea

Korea's Response Strategy to the US Protectionism: focused on the US-Washing Machines

Youngrim Kim, Pusan National University, South Korea; Neungwoo Kim, Pusan National University, South Korea; Yang Kee Lee, Pusan National University, South Korea

LUNCH: 12:00 – 14:00

Buffet Lunch at Atrium Restaurant

END OF CONFERENCE

Virtual Presentation

Available on APEF.ear.com.sg on 25th July 2018

Rationality in Decision-Making: The effect of economic scenarios on voters' decisions

Ingrid Rafaela Rodrigues Leiria, Korea University, South Korea; Tiago Wickstrom Alves, Universidade do Vale do Rio dos Sinos, Brazil

RATIONALITY IN ILLEGAL MARKETS: The effect of illegal goods demand on crime rate

Ingrid Rafaela Rodrigues Leiria, Korea University, South Korea; Tiago Wickstrom Alves, University of Vale do Rio dos Sinos, Brazil; Aleksandro Mirian de Carvalho, University of Vale do Rio dos Sinos, Brazil

Abstract Book

26th July 2018

Venue: Holiday Inn Singapore Atrium Level 3 (Seletar Room)

REGISTRATION: 09:30 – 09:50

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Dr Evan Lau

Associate Professor, Universiti Malaysia Sarawak (UNIMAS)

KEYNOTE SESSION I: 10:00 – 10:45

‘Assessing Alternative Economic Scenarios Under Increasingly Protectionist Policies’

Dr Olga Loiseau-Aslanidi

Director, Economic & Consumer Credit Analytics, Moody's Analytics

Abstract

U.S. President Trump is following through on his campaign promises, pulling out of the TPP, reopening negotiations on NAFTA, and imposing 25% tariffs on U.S. imports of steel from many countries and 10% on aluminum. Subsequently, higher tariffs and other penalties have been threatened on China, and more recently on imported automobiles from many countries. The decades-long effort by the U.S. to bring down tariffs and other trade barriers is over. Four scenarios for the global economic outlook were assessed using the Moody's Analytics Global Economic Model. This is a structural forecast model that includes 65 countries that are linked together through trade flows; financial markets; foreign exchange rates and commodity prices; and investment and capital flows. An appendix to this paper provides documentation on the Moody's Analytics Global Economic Model. The most likely scenario maintains the new status quo, with the U.S. increasing tariffs by 25% on steel and 10% on aluminum imports for a limited number of countries, with similar in-kind increases in tariffs and nontrade barriers by U.S. trading partners. Under this baseline, real global GDP is reduced by a modest 0.4% by the end of 2019. A second more upside scenario increases U.S. tariffs as in Scenario 1, but with little effective response from U.S. trading partners. China agrees to ease up on their technology transfer rules and treats foreign companies operating in China more similar to domestic companies. This is a more favorable outcome but does not

change the macroeconomic performance of the U.S. or global economy in the near term. Scenario 3 models a trade skirmish in which the U.S. expands tariffs on \$150 billion in imports from China, and the Chinese and other impacted U.S. trading partners respond with in-kind tariffs and trade barriers. The economy suffers as import prices and inflation rise, exports weaken, the value of the U.S. dollar rises, stock markets soften, credit spreads widen and foreign direct investment is reduced. By late 2019, U.S. real GDP is reduced by 1% and global GDP by somewhat less. A fourth scenario examines a deeper trade war in which NAFTA breaks down, tariffs on all global trade rise by approximately 10%, and China and other countries respond with competitive currency devaluations. This scenario pushes the U.S. economy into recession. The rest of the global economy is hit hard but avoids recession in the near term.

COFFEE BREAK: 10:45 – 11:15

KEYNOTE SESSION II: 11:15 – 12:00

‘Hedge funds: What did they do in the foreign exchange market?’

Dr Kaihong Tee

Loughborough University

Abstract

The Foreign exchange market is one of the most actively traded financial markets in the world. This talk reviews the foreign exchange market and discusses case studies that involve the hedge funds.

The talk will reference periods surrounding the past financial crises to discuss hedge funds' strategies in the foreign exchange market. Focus will also be extended on market liquidity and regulatory issues. Included will also be the latest research that explores Hedge funds' activities and implications.

LUNCH: 12:00 – 13:30

Buffet Lunch at Atrium Restaurant

SESSION I: 13:30 – 14:30

Room: Seletar 1

Session Chair: Evan Lau, Associate Professor, Universiti Malaysia Sarawak (UNIMAS)

Differences between Subjective Over-indebtedness and Objective Over-indebtedness:

Household-Level Evidence from Thailand

Pasit Chotewattanakul

The University of New South Wales

Keiran Sharpe

The University of New South Wales

Satish Chand

The University of New South Wales

Abstract

This paper considers subjective and objective measures of household over-indebtedness, and the factors underscoring the relationship between these two types of over-indebtedness. A household is deemed to be ‘subjectively over-indebted’ when the head reports this to be the case, while objective over-indebtedness is measured by using data on income and debt repayments. We draw on data collected through the Household Socio-Economic Surveys and the Bank of Thailand’s supplement household survey of the first quarter of 2013. Our analysis using logit regressions shows both positive and negative correlations between subjective and objective over-indebtedness within subsets of the data. Further analysis of these subsets shows that households with a regular income and those who keep income-and-expenditure accounts have consistent assessments of subjective and objective over-indebtedness. Contrarily, households with illiterate heads tend to have the inconsistent assessments. Meanwhile, women tend to be conservative: their objective measures of over-indebtedness are less than their subjective accounts. Additionally, educational loans bias subjective assessment of over-indebtedness vis-à-vis the objective measurement. The policy implications of these findings, in the order stated, are: (i) more secure employment and proper financial management will

improve household credit status; (ii) improvements in literacy and financial literacy particularly will improve assessment of debt status by households; and (iii) underinvestment in education could be reduced through income-contingent student loans. The last of the above-enumerated has the potential to improve the level of education, productivity, and income in the overall population over time.

Impacts of Fiscal Policy on Economic Growth: Another Look from Institutional Perspective

Ai Ho

Lingnan University

Ping Lin

Lingnan University

Duc Nguyen

Banking University of Ho Chi Minh City

Abstract

What is the role of economic institutions in the effectiveness of fiscal policy? This paper argues that the extent to which fiscal policy affects long-term growth depends on how economically free a country enjoys. We use a sample of 72 countries over the period 1990 through 2015 to provide empirical evidence on the interrelationship between government spending, economic freedom and economic growth. The non-linear effect of fiscal policy on growth is investigated by extending the classical growth regression with an interaction term between fiscal policy and economic freedom. We also conduct a bundle of robustness checks with both cross section and panel data approach. Our study establishes that it is institutional factors that determine the effect of fiscal policy on economic growth. Public investment in infrastructure can enhance long-term growth better in countries with less degree of freedom. Meanwhile, public consumption does not benefit growth but its adverse impact is mitigated if a country is more economically free. We also find that the determining role of institutions in emerging countries is more prominent than that in advanced economies which are pretty homogenous in economic development and have already been at a high level of economic freedom.

Money, Asset Prices and the Liquidity Premium

Seungduck Lee

Sungkyunkwan University

Abstract

This paper examines the effect of monetary policy on the market value of the liquidity services that financial assets provide, known as the liquidity premium. Money supply and nominal interest rates have positive effects on the liquidity premium, but asset supply has a negative effect. This implies that liquid financial assets are substantive substitutes for money, and that the opportunity cost of holding money plays a key role in explaining variation in the liquidity premium and thus in asset prices. The higher cost of holding money due to higher money growth rates leads to the higher liquidity premium of liquid assets. My empirical analysis with U.S. Treasury data during the period from 1947 to 2007 confirms the theoretical predictions. The theory also proposes that the liquidity properties of assets can cause negative nominal yields in equilibrium when the cost of holding money is low and liquid assets are scarce. I present the suggestive empirical findings in the U.S. and Switzerland to support this prediction.

Room: Seletar 2

Session Chair: Kaihong Tee, Loughborough University

Sarbanes-Oxley, Capital Structure and the Choice of Payment in Mergers and Acquisitions

Qing Fu Chai

University of Lincoln

Huainan Zhao

Loughborough University

Ying Wang

Anglia Ruskin University

Conghui Chen

Anglia Ruskin University

Abstract

We examine the effect of Sarbanes Oxley Act on the method of payment and target capital structure in mergers and acquisitions. Using sample mergers and acquisitions from 1980 to 2012, we find that acquiring companies adjust their capital structure after Sarbanes Oxley Act. More specifically, acquirers pre-acquisition actual market leverage is closer to the target

leverage in the post-SOX period than the pre-SOX years. Pre-acquisition leverage deviation before SOX enactment is negatively associated with all-cash payment and the proportion of cash payment in M&As. We also find a significant and positive effect of pre-acquisition year leverage deviation on all-cash payment for firm acquisitions and on the proportion of cash payment for asset acquisitions in the post-SOX period. Furthermore, in the post-SOX years, overleveraged acquirer firms are likely to increase the cash component in their offers when they acquire large target companies.

**Heterogeneous Government Spending and Labor Market Dynamics: A Perspective
from Directed Search**

Xiangcai Meng

Woosong University

Abstract

This paper investigates the dynamic effects of heterogeneous government spending components on output and labour market outcomes. To account for the empirical evidence that government wage expenditure, government investment, and government consumption expenditure affect output and the unemployment rate heterogeneously, we develop a directed search model with heterogeneous government expenditures, a productive government sector, and complementarity between private goods and public goods. Calibrating the model to the U.S. economy, we show that the model can generate the empirical pattern of the dynamic responses of output and unemployment to government spending shocks of each component, as well as the order of the cumulative output and unemployment rate multipliers. Through counterfactual experiments, we evaluate the quantitative gains from reallocating government expenditures. We find that raising government wage expenditure financed by lowering government consumption expenditure generates the largest cumulative output and unemployment multipliers: 20 percent increase of government wage expenditure raises the cumulative output multiplier by 5.25 percent and reduces the cumulative unemployment rate multiplier by 8.22 percent, respectively. Our analysis suggests that reallocation of government resources can be an alternative to alleviate the rising government deficit.

**Spend More Time or More Money? —The effects of Rent-seeking and Financing
Constraints on Corporate R&D Expenditure**

Jiannan Xu

Xiamen University

Abstract

Financing constraints are the main obstacles to corporate innovation (Hall and Lerner,2010), especially for Chinese economy that have underdeveloped capital markets with limited financing options. In these markets, governments have more power in allocating capital and enjoy a greater degree of freedom, which consequently creates opportunities for rent-seeking. In this paper, our dataset is derived from the Business Environment and Enterprise Survey (BEEPS,2012) conducted by the World Bank, which covers 2768 firms from 31 cities in China. We use R&D investment intensity (R&D/Sales) and whether the firm has invested in R&D (R&D Decision) as two proxies for firm innovation. We extend the conception of 'Rent-seeking' and classifying it into two main categories-'rent-seeking by spending more time' and 'rent-seeking by spending more money'. The empirical results show that for these companies who tend to build up political connections with officials by devoting more time, there is less probably for the company to conduct R&D activities. While for those companies who tend to build up political connections with officials by offering informal payment, there is more probably for the company to conduct R&D activities. This article provides new ideas for China's current financial anti-corruption and promotion of enterprise innovation. Based on our findings, the government should vigorously develop the multi-level capital market, further perfect the construction of the financial system to solve the financing problems of innovative enterprises and promote enterprise innovation.

COFFEE BREAK: 14:30 – 15:00

SESSION II: 15:00 – 17:00

Room: Seletar 1

Session Chair: Pasit Chotewattanakul, The University of New South Wales, Australia

Counterfeiting and the Pricing Behavior of the Authentic Firm

Jiwon Lee

The Bank of Korea

Abstract

This paper studies the strategic pricing decisions of exporting brand-name firms when they face different levels of counterfeiting activities in destination countries. I empirically document the differential pricing behavior of U.S. exporting firms in response to counterfeiting activities and show that it differs by the income levels in destination countries. In response to increased intensity of local counterfeiting activities, U.S. firms increase their export prices to low and middle-income countries but decrease their prices to high income countries.

To explain these findings, I develop a pricing model for counterfeiting based on the analytical distinction between deceptive versus non-deceptive counterfeiting, in the spirit of Grossman and Shapiro (1988a). The model features imperfectly informed consumers and authentic firms exporting merchandise to destination countries where they subject to both types of counterfeiting. I first present a market equilibrium where the authentic firm exports the genuine good directly to consumers in destination countries. Next, I allow the authentic firm to authorize an exclusive (“authorized”) local retailer in the foreign market to filter counterfeits out. The model shows that the optimal export mode choice of the authentic firm between direct exports versus exports through an authorized local retailer results in differentiated pricing strategies against counterfeiting in destination countries.

A Study of Microcredit Repayment Delays in Southern Metro Manila, Philippines

Jasmin-Mae Santos

University of the Philippines-Diliman

Gian Paolo Samson

University of the Philippines-Diliman

Abstract

Microcredit is the provision of loans to low-income or poor individuals who may otherwise not qualify for loans from traditional financial institutions. It is characterized by a large number of frequent settlements with possible delays in repayment, creating randomness of the actual interest rate. In this research, we utilize the Generalized Yunus equation for microcredit to study the case where a borrower has one or two random delays in repayment and provide an asymptotic expansion of the rates involved. Moreover, we analyze the factors affecting repayment delays by borrowers in Southern Metro Manila, Philippines by means of variable selection in a logistic regression model.

Does Financialization Affect the Social Transaction Costs? A Dual Perspectives Based on Financing Constraints and Business Development

Songqin Huang

School of Economics and Management, University of Southeast

Wei Liu

University of Sydney

Hongxing Zhou

School of Economics and Management, University of Southeast

Mengyuan Zhu

School of Economics and Management, Harbin Institute of Technology

Abstract

Financialization is expected to affect social transaction costs. However, most of scholars only stay in the stage of theoretical construction without empirical tests. Using the sample of Chinese listed firms during the period of 2008-2015, this study explores the influence of financialization on social transaction costs from a dual perspective of financing constraints and business development, suggesting that financialization significantly reduces social transaction costs for both state-owned and non-state-owned enterprises. Moreover, this study examines the moderating effects of provincial marketization process and political connection, suggesting the arguments that the restriction effect of financialization is substituted for provincial

marketization process, whereas political connection weakens the negative relationship between financialization and social transaction costs. Further, the above effects work only in non-state-owned enterprises. All empirical results are robust to various sensitivity tests. This study provides a more precise understanding of the corporate financialization, highlighting the motivation for reducing social transaction costs and the role of institutional environment in contemporary China.

Saving behavior of the elderly and inheritance tax reform in Japan

Hiroyasu Nomura

Dokkyo University

Abstract

This paper examines the effects of the 2013 Japanese inheritance tax increase on saving behavior of the elderly. This is the first empirical study to investigate the relation between Japanese actual inheritance tax reform and household behavior based on micro-level survey data. We follow a difference-in-difference approach by using pooled cross-section data, provided by the Central Council for Financial Services Information, covering each 3-year-period before and after the announcement of the tax reform. Under this analytical framework, it is tested whether the elderly singles who are likely to be affected by the tax hike do change their saving behavior as compared with those who are not. Our estimation identifies a slightly positive impact of the policy change on intensive savings margin, suggesting that the income effect from an expected rise in tax burden on the future transfers of their wealth may outweigh the substitution effect that reduces savings.

**Performance Assessment of Acquired Banks: A combination of DEA and Malmquist
Total Factor Productivity Analysis**

Victor Boadu

Heritage Christian College

Philip Serumaga-Zake

University of South Africa

Jan Kruger

University of South Africa

Abstract

Data Envelopment Analysis using Value Added Approach which adopted both CRS and VRS models was employed in a panel study from 2007-2012 to determine efficiency of 62 acquired banks from 30 countries in 2006. Results from the VRS model were used for further analyses. Malmquist TFP was determined to identify key value drivers in the acquired banks.

Average efficiency of the banks was 71.1 percent when combined but when separated, large banks had average efficiency of 84.2 percent whilst small banks recorded 88.9 percent. Average minimum efficiencies were 45.2 percent and 56 percent respectively for large and small banks. From Malmquist analyses 53.2 percent (33 banks) experienced positive productivity change which was due to technological change whilst 46.8 percent (29 banks) recorded reduction. Of those that experienced increased productivity 22.6 percent (14) were large banks whilst 30.6 percent (19) were small. Some efficient banks were not productive whilst some inefficient banks were. Banks operated at 83.31 percent scale efficiency when combined, however, on separation the large banks operated at 87.32 percent efficiency whilst the small banks were 92.75 percent efficient. The work established two key value drivers for banks namely: efficiency change and technological change. The work has shown that efficiency is not synonymous to productivity and that technological innovation in banking operations is key to higher productivity.

Creditor protection and the transmission of monetary policy through bank loans

Begoña Torre Olmo

University of Cantabria

Sergio Sanfilippo Azofra

University of Cantabria

María Cantero Sáiz

University of Cantabria

Abstract

The purpose of this article is to analyze how creditor protection influences the transmission of monetary policy through bank loans. Additionally, we test whether the influence of creditor protection on loans is different before and after the crisis. The role played by banks as loan suppliers is essential to understand how monetary policy affects the economy, as they are a key element in this process. In the last years, there has been a renewed interest in analyzing the bank lending channel as a monetary policy transmission mechanism (Cantero-Saiz et al., 2014; Salachas et al., 2016; Borio and Gambacorta, 2017). This channel states that a restrictive monetary policy deteriorates banks' access to loanable funds, which leads to a reduction in lending supply (Bernanke and Blinder, 1988).

Most studies reveal that banks' response to monetary restrictions depends on their financial strength or ability to access to alternative sources of funding. In this regard, smaller, less liquid and more poorly capitalized banks are less able to insulate their lending from monetary shocks, so they extend fewer loans during monetary contractions (Kashyap and Stein, 1995a; 1995b; 2000; Kishan and Opiela, 2000; 2006; Altunbas et al., 2002; 2010).

Apart from banks' financial strength, the different impact of the bank lending channel across banks might be well explained by legal factors in every country. One possible explanation, which has been scarcely explored, is the existence of creditor legal protection. Monetary restrictions will be less effective in countries with stronger creditor protection, since banks in these countries will be more able to access to deposits and debt securities to finance their loans (Houston et al., 2010). Besides, these banks will be more likely to control firms in case of bankruptcy, seize collateral and force repayments, so they will provide more loans (Djankov et al., 2007). Although several papers have analyzed the influence of creditor protection on bank lending (Desai et al., 2004; Djankov, 2007; Qian and Strahan, 2007; Houston et al., 2010; Acharya et al. 2011), none of them have examined how creditor protection affects monetary policy transmission through the bank lending channel.

As far as we are concerned, this is the first study that analyzes how creditor protection influences the bank lending channel of monetary policy. Our empirical analysis comprises a sample of 1,096 listed banks from 36 countries during 2003-2015. The analysis is performed using the System-GMM methodology for panel data. This methodology allows controlling both unobservable heterogeneity and the problems of endogeneity through the use of instruments (Arellano and Bond, 1991). We find that creditor protection does not directly influence loan supply, neither before nor after the crisis, but they play an important role during monetary shocks. In this regard, the bank lending channel is only present in countries with weak legal creditor protection, while it is weakened or even neutralized in countries with stronger creditor rights. These results are very interesting to central banks because suggest that they should consider the degree of creditor legal protection when implementing monetary policy decisions.

Room: Seletar 2

Session Chair: Ying Wang, Anglia Ruskin University, United Kingdom

Conditional Impacts from Overnight Returns on Stock Returns

Alex Huang

National Chiao Tung University

Ming-Che Hu

National Chiao Tung University

Abstract

This paper documents significant relationship between overnight returns and future stock returns in the long-term where high averages of overnight returns lead to low future stock returns, with formation periods ranging from one month to one year. On the other hand, variations in overnight returns lead to different reactions of future stock returns, depending on the levels of past return performances and stabilities of momentum effects. Return reversals are strongest for stocks with extreme past returns. When momentum effects are volatile, higher variations of overnight returns lead to higher future stock returns. When momentum effects are stable, lower variations of overnight returns lead to higher future stock returns for stocks with extreme positive past returns; for stocks that perform worst in the past few months, the two variables have a non-linear relationship. A set of sample sorting criteria according to the above relationship are found to significantly enhance the profitability of momentum trading strategy.

Investigation of the impact of changes in ethnic mix on the EU referendum result

Aihua Zhang

University of Leicester

Paul King

University of Leicester

Abstract

The Economist article “The immigration paradox Explaining the Brexit vote” (14 July 2016) argues that the rate of change in the number of migrants in an area, rather than the total headcount influenced the Brexit vote. This argument, however, was simply made by looking at the individual factor of ‘foreign-born’ (or ‘UK-born’) population in isolation, with no formal analysis. To verify this paradox, we apply two statistical approaches to the CDRC geographical dataset and find that total headcount /level of immigration had no significant impact on the Brexit vote while the rate of change in ethnic mix had some minor impact on the referendum result.

India's Service export growth, Challenges and corrective measures

Sonia Mukherjee

Symbiosis Law School, Symbiosis International (Deemed) University

Abstract

For developing countries, the trade in services represent a new frontier. The share of the developing countries have gradually improved in matter of global services trade since 2008. The service exports in the developing countries have surpassed the developed countries and has also surpassed the merchandise exports. The main drivers of service growth are Telecommunications, Information, Communication and Technology (ICT), financial services and other business services. With the large pool of English speaking University graduates and good IT infrastructure, India has acquired a second position as exporter of computer and information services. According to the recent Economic Survey, 2017-18, India has remained as the eight largest exporter of commercial services in the world in 2016 with a share of 3.4% which is double the share of merchandise exports in the world. In 2015, India’s service export growth registered a negative growth of (-2.4%) again returned to the positive territory in the year 2016. This was on account of improved travel and software services. With the increased demand for Indian services worldwide, the service exports have the potential to reach around \$300 billion by the year 2022. The share of the services exports have increased to 36.80% in

the total exports and is dominated mainly by the software sector followed by the business, travel, transport and other services. To sustain the service export growth in the future and reach the higher target by 2022, a number of sound measures are needed to be taken. Challenges such as global uncertainty, protectionism, stricter immigration rules are the main factors which come in the way to shape India's service exports. To overcome such obstacles and maintain a healthy service export growth, India is required to strengthen its position on a number of grounds. For example, on the proposed Trade Facilitation Agreement where unnecessary issues like administrative and regulatory weight on trade are present can be justified in the high-level meeting. According higher priority to the service sector in trade negotiations can improve India's service export scenario. The other measures such as improvement in the regulatory and institutional framework suitable to local conditions, addressing domestic supply side constraints, coordination issues in services minimizing advertent trade restrictive effects, good governance, conducive business environment, promotion of business facilitation, clustering, sound competition policy and building a partnership between public and private sectors can build a competitive the service sector in the global economy.

Women's Employment, Childcare Leaves and Earnings Mobility among Married Couples in Japan

Yoko Morita

Nagoya City University

Kazuyasu Sakamoto

Gunma University

Abstract

We examine the impact of women's employment and childcare leaves on earnings mobility among married couples in Japan. With dissemination of work-life balance policies, such as, childcare leaves, more women are remaining continuously employed after their first birth. We examine whether differences in employment patterns and taking childcare leaves affect earnings mobility among married couples.

We define family earnings as the couple's earnings, comprised of the husband's and wife's earnings. And, we define upward mobility as transition from the lower quintiles of husbands' earnings to the higher quintiles of couples' earnings. Our main purpose of this article is to examine how wives' employment patterns and taking childcare leaves differently affect the degree of upward mobility. Our analysis is based on 2003–2014 data from the Japanese Panel Survey of Consumers (JPSC: conducted by the Institute for Research on Household

Economics). By this empirical analysis, we infer policy implication for promoting female employment with regard to earnings inequality of married couples. We define wives' employment patterns as continuing to work after birth of the first child. In addition, we examine the effect of taking childcare leaves on upward earnings mobility. Since, the Japanese Gov't has been laid the policy emphasis on promoting female employment, particularly on the work-life balance policies for married women while raising children, this article examine influences of these policies on earnings distributions of married couples. Our empirical analysis yields the following findings; First, labor supply of married women become more irrelevant to husbands' income level in the 2000's, although it was negatively correlated with husbands' income level in the 1980's. Second, wives' employment after the first birth promote upwards mobility in couples' earnings and the effect of upwards mobility is larger for households whose husbands' earnings are above the third quintile than for households whose husbands' earnings are below the second quintile. Third, the employment after the first birth of wives whose husband's earnings is below the second quintile has an effect to decrease the probability of moving downwards in couples' earnings is large, but the effect to increase the probability of moving upwards is small. Fourth, taking childcare leaves enhances the probability of upward mobility. And the effect of upward mobility is larger as husbands' earnings become higher, and the largest in the fourth quintile of husbands' earnings. These findings suggest the following policy implications concerning to earnings distribution of married couples. First, the correlation of wives' earnings and husbands' earnings become higher in the 2000's, so that more employed wives who have high- earned husbands are, more widened couples' earnings disparity is. Second, the work-life balance policies, such as, childcare leaves are benefited more to high-earned couples and it should be designed to encourage low earnings couples to take childcare leaves in order to prevent widening earnings disparity.

Financial integration for ASEAN-5 and Japan, Hong Kong and China

Joseph Ryan Paglingayen

Far Eastern University

Abstract

The study establishes cointegrating relationships and causality among the ASEAN-5 stock markets along with neighbor countries namely Japan, Hong Kong, and China. The necessity to establish such relationship stems from identifying opportunities for diversification and minimize investment risks. To test for the integration of stock markets, the Johansen Cointegration and Gregory-Hansen tests were utilized. Results indicate that there is no bivariate

cointegrating relationship between the Philippine stock market and the selected neighbor countries. Further, a vector autoregression model was utilized to determine short-run linkage between the Philippine stock index relative to others. The Granger causality test was then undertaken to identify the direction of causality and findings indicate the existence of univariate causality moving towards the Philippines.

Nepal and South Asian Economic Growth Perspective

Post Raj Pokharel

Time Pharmaceuticals P. Ltd.

Abstract

This paper presents the economic figure of South Asian countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The paper incorporates the summary report of South Asian economic stance based on the report of Asian Development Outlook 2017 and IMF's world economic outlook database 2017 in relation to gross domestic product based on purchasing power parity (PPP), GDP per capita, Investment in Gross Capital Formation, Gross National Saving and Inflation based on average consumer price of South Asian countries and also special focus to Nepal. The study period covers from 2002 to 2017. The paper highlighted that there exists massive fluctuation in the GDP growth rate of South Asian Countries. More specifically, Maldives found highly fluctuated GDP growth rate followed by Afghanistan during 2003 to 2016, year study period. Bhutan, among the South Asian countries have made highest portion of investment whereas Pakistan seemed the lowest position for investment in the percentage of GDP. From 2002 to 2010, Afghanistan faced the toughest inflation among the South Asian countries and improved the inflation to the satisfactory level during 2011 to 2016. Nepal experienced the highest inflation during 2011 to 2016 and failed to improve in comparison to the period from 2002 to 2010. The need of improving per capita GDP, increasing the portion of investment for capital formation and controlling inflation in the region, is prime concern for rapid economic growth in South Asia.

27th July 2018

Venue: Holiday Inn Singapore Atrium Level 3 (Seletar Room)

SESSION III: 09:30 – 11:30

Room: Seletar 1

Session Chair: Victor Boadu, Heritage Christian College, Ghana

Impacts of the Transport Infrastructure on the Exports Sophistication

Shi Zhenkai

School of Economic and Management, Southeast University

Abstract

The exports sophistication is one important topic in the vertical trade theory, and there are many factors affecting the country's exports sophistication. However, the research analyzing the impacts of the transport infrastructure on the exports sophistication is rare. This paper examines variations in level of exports sophistication across 176 countries manufacturing industries. We find that the exports sophistication is positively related to the transport infrastructure. Moreover, the quality improvement of transport infrastructure has a negative impact on the exports sophistication of labor intensive industries but increases the exports sophistication of capital intensive and technology intensive industries.

Social capital and start-up performance: the mediating effect of business model innovation

Shangmin Zhang

Southeast University, Chongqing Three Gorges University

Abstract

Social capital is vital for start-ups, but start-ups face challenges in capturing Social capital. Given that social capital does not automatically lead to higher start-up performance and that start-ups need to take appropriate actions to exploit social capital to achieve better performance, it is imperative to explore the mediators that enable start-ups to translate social capital into higher performance. This study proposes that business model innovation may be a key conduit

through which social capital affects start-up performance. Based on a dataset of 171 start-ups, we find that the positive relationship between social capital and start-up performance is mediated by business model innovation. These findings not only aid start-ups in accomplishing the performance effect of social capital, but also provide some insights into the implications of business model innovation.

A Comparison and Implication of the Foreign and Domestic Studies on Economic Effects of CAFTA

Mei Chen

Southeast University, Chongqing Three Gorges University

Shumei Chen

Southeast University

Abstract

The CAFTA was initiated in 2002, established in 2010, and the negotiations on upgrading the CAFTA were concluded on November 22, 2015, exhibiting the full process of tentative exploration, establishment, and upgrade of FTA. It has great influence on the economy, trade, and welfare of ASEAN members and China. This paper, by employing NoteExpress 2, analyzes the trend and the focus of literatures on the economic effects of CAFTA at home and abroad and conducts a review and comparison of the different methodologies and results. It has been found that the scholars have applied CGE model to do ex-ante assessments, simulating its effects on GDP, import and export, as well as welfare, while resorted to gravity model to do ex-post assessments, identifying its impacts on trade flows mostly. The simulation and estimation results are not identical with each other and to the real economic condition, however, it is still revealed that the establishment of CAFTA is favorable for the ASEAN members and China to expand trade and improve welfare.

Export duration, Market similarities and Potential market entry**Xiao-Yun Yang**

Southeast University, Chongqing Three Gorges University

Abstract

Using product-level HS 4-digit coded export data from China to 186 countries and economies, this paper aggregate industry export information and calculate industry average export duration based on similarity between target export markets and current export markets, to verify pre-export experience' s influence on potential export market entry. We find that the pre-export experience influences the market expansion path. If the potential export market is similar to the current export markets, experience on current export market promotes tapping into a new market. Conclusions of this study prove that export learning effects have spillover effects across markets, which provide more theoretical and practical basis for how to promote export market diversification strategy.

The Evolution and Trend of Asia-pacific Regional Economic Integration and Countermeasures**Min Chen**

Southeast University, Chongqing Three Gorges University

Abstract

The Asia-pacific region is the area with vast development accompanied by subtle evolution worldwide under frequently changeable global economic circumstance. The development of regional trade agreements (RTAs) in this area is most complicated and comprehensive. The interactive influence of economic growth and trade liberalization, and of the combination and differentiation, has grandly contributed the development of RTAs in the process of regional integration in this area, which has formed the strong driving force of the regional economic integration. On the basis of characteristics of the evolution in the course of Asia-pacific regional economic integration, this paper has analyzed the driving mechanism of the integration evolution and future development trend, then put forward some corresponding countermeasures.

Institutional Investors & Corporate Performance Endogeneity Testing Using Simultaneous Equations Approach

Qaisar Malik

Foundation University Islamabad

Abdul Waheed

Foundation University Islamabad

Naeemullah Khan

Foundation University Islamabad

Abstract

In the recent decades institutional investors have become the largest owners in the corporations, owing to their larger size, expertise to collect information and ability to monitor the management. The presence of institutional investors in corporate ownership structure has ignited the discussion regarding their role and effectiveness in decision making in context of corporate governance mechanisms and corporate financial performance measures. Moreover, it also gives rise to a debate; whether the best performing corporations attract institutional investors or the financial institutions have their independent investment decisions that help enhancing the corporate performance. The present study intends to enhance the understanding of the endogenous relationship between institutional ownership and firm performance through simultaneous equations approach. The current study contributes to the body of knowledge by exploring the rarely tested and inconclusive relationship between the studied variables in an emerging economy of Pakistan. The study is of utmost importance for the current and prospective individual and institutional investors from within the country and from cross borders investors.

The study penetrates into the unbalanced panel data set of 276 listed companies from Pakistan Stock Exchange covering six years period from 2010 to 2015, comprising 1231 firm year observations. The study uses Tobin's Q as a market-based measure of performance in the presence of firm specific control variables, to check the endogenous association through OLS and 2SLS approach. Durbin–Wu–Hausman test is used to determine the endogeneity before analyzing the 2SLS model. The findings of the study support the arguments generated on the basis of literature review conducted for the study. The empirical results of Durbin-Wu-Hausman Test (DWH) conforms the endogeneity of institutional ownership and firm performance and vice versa. The results derived from 2SLS also confirm an extremely significant and positive association between the institutional ownership and firm performance in the studied companies. These companies target large size firms for investments, efficiently

manage the operations and financing and ensure the disbursements of the returns through governing bodies to the equity holders. The study suggests that the influence of financial institutions in corporate governance mechanisms may moderate the studied relationships so the related variables may be included in future studies for the deeper understanding of such moderation.

Room: Seletar 2

Session Chair: Post Raj Pokharel, Time Pharmaceuticals P. Ltd., Nepal

**The Implication of Volatility and Jump Risks from Spot and Option Markets Before,
During and After the Recent Financial Crisis**

Chang-Shu Chung

National Chengchi University

Ting-Fu Chen

Feng Chia University

Shih-Kuei Lin

National Chengchi University

Abstract

In this paper, we attempt to answer three questions: (i). On average, what the proportion of the stochastic volatility and return jumps account for the total return variations in S&P 500 index, respectively? In particular, which one has more influence than the other does on the total return variations? (ii). Is the fitting performance of infinite-activity jump models better than that of finite-activity jump models both in the spot and option markets? (iii). When will investors require significantly higher risk premiums? Specifically, were there significant changes in volatility risk premiums and in jump risk premiums before, during or after the financial crisis? For the first question, we find that most of the return variations are explained by the stochastic volatility. In fact, the return jump accounts for the higher percentage than the stochastic volatility at the beginning of financial crisis. To answer the second question, we adopt the particle filtering with expectation-maximization algorithm and the dynamic joint estimation to obtain the stochastic volatility model with double-exponential jumps and correlated jumps in volatility (SV-DEJ-CJ) and the stochastic volatility model with normal inverse Gaussian jumps (SV-NIG) fit S&P 500 index returns and options well in different criteria, respectively. Finally, for the third question, we observe that both the volatility and jump risk premiums

significantly increase after the financial crisis periods, that is, the panic in the post-crisis period causes more expected returns.

On the characterization and existence of Nash equilibria in large games with bio-social traits

Haifeng Fu

Xi'an Jiaotong-Liverpool University

Abstract

For a large game with traits (LGT), this paper firstly characterizes the distribution of its pure-strategy Nash equilibrium by using a characterization inequality under the following two sets of conditions: (i) both the traits and actions of the game are at most countable; (ii) both the traits and payoff functions of the game are at most countable. In order to obtain similar characterization results without the countability restriction, the nowhere equivalence condition is introduced to model the relationship between agent space and the characteristic type space induced by the game function. This condition is different from the saturation property and enables us to find a characterization result for a LGT with usual agent space and specific game function. Besides, we also show the existence of the characterization inequality under general conditions, which leads to the existence of Nash equilibria in LGT under the three sets of conditions. We also present two counterexamples to show the failure of the characterization result under certain conditions. Finally, we show that the nowhere equivalence condition is not only sufficient but also necessary for the establishment of the characterization result for LGT.

**Multivariate BEKK-TGARCH approach to testing and predicting volatility spillovers
& leverage effects**

Hira Aftab

James Cook University

Rabiul Beg

James Cook University

Sizhong Sun

James Cook University

Zhangyue Zhou

James Cook University

Abstract

In this paper we investigate asset markets volatility linkages among Australian stock, bond, and money markets to better understand the dynamic structure of the domestic financial markets. This paper examines sources of volatility and volatility spillovers in multiple asset markets due to news information. We estimate a VAR-BEKK-GJR-GARCH variant of volatility model to assess linkages across asset markets. The model is estimated by the maximum likelihood method with multivariate skewed t - innovation density. The asymptotic chi-square tests for volatility spillovers and leverage effects are constructed. This model is utilized to predict asset volatility and correlation. Application of the proposed model to the Australia's domestic stock, bond, and money markets reveals that the domestic financial markets are interdependent and predictable. In general, volatility spillovers from stock market to bond and to money markets simultaneously occur due to common news information. Real example is used to demonstrate the proposed model. The empirical findings of this paper quantifies the association among security markets which can be utilized for improving agents' decision making strategies for risk management, portfolio selection and diversification.

Relation between foreign currency borrowings and foreign exchange rate volatility:**Evidence from Bangladesh economy****Muhammad Tashfiq Huq**

Hiroshima University

Masaru Ichihashi

Hiroshima University

Abstract

Borrowing in foreign currency from sources in abroad is a relatively new concept in private sector of Bangladesh as government decided to liberalize foreign borrowing by private entrepreneurs from 2008. The major advantage of external commercial borrowing is lower borrowing cost in the international financial markets compared with the prevailing domestic market. On the other hand, government of Bangladesh is borrowing a lot in foreign currency for financing its big projects recently. We empirically analyze different parts of foreign currency borrowing effect on exchange rate volatility in Bangladesh economy. As Bangladesh is an import-based country, Exchange rate volatility can cause much pressure on living standards by increasing price of imported consumer products. Also, excessive public foreign currency borrowing builds pressure for repayment that can crowd-out necessary government spending and can make the country vulnerable in case of aid flow interruptions, which can be aggravated by a narrow export and production base in countries like Bangladesh. In addition to that increasing private foreign currency borrowing can cause currency mismatch at the time of repayment. But in our analysis, it is found that government borrowing of foreign currency is more important for explaining exchange rate volatility than the private part of the foreign currency borrowing in Bangladesh economy. As the private part is still a small portion in comparison with the government portion of foreign currency borrowing, our result suggests that government debt controlling measures could be more effective in moderating foreign currency volatility comparing with measures affecting private borrowings.

What currency order flows tell about spot exchange rate? The case of an emerging economy

Muhammad Aftab

COMSATS Institute of Information Technology

Abolaji Daniel Anifowose

University of Malaya

Abstract

Recently, the focus is emerging over market microstructure studies to explain dynamics of exchange rates that have been hard to predict. Currency order flows that connect price fluctuations and diffuse information, are quite relevant in this line of query. This study examines the role of currency order flow in the determination of exchange rate of Pak rupee against the US dollar. The findings highlight the fundamental microstructure element of currency order flows in explaining the exchange rates in the foreign exchange market of an emerging economy. These findings evidence the importance of market microstructure in exploring exchange rate dynamics, especially in the emerging markets.

COFFEE BREAK: 11:30 – 11:45

SESSION IV: 11:45 – 12:00 (POSTER & NETWORKING)

Room: Seletar 1

**Wavelet-based Relation between the Price of Crude Oil and Retail Petroleum Products
before and after the Public Price Disclosure System in Korea**

Yeonjeong Lee

Pusan National University

Yun-Jung Lee

Pusan National University

Seong-Min Yoon

Pusan National University

Abstract

This study analyzed the relationship between crude oil prices and retail petroleum product prices before and after the price disclosure system introduced on April 15, 2008 in Korea. Especially, we confirmed whether Rockets and Feathers phenomenon is established between the prices based on the wavelet analysis. As a result of the analysis, the coherence between crude oil price and retail petroleum product price has increased after the introduction of the price disclosure system in the high-frequency scale. It means that, due to the power of information cascade in the price disclosure system, the retail petroleum product prices have been quickly adjusted among competitive retail gas stations in response to changes in international oil prices. In the low-frequency scale, however, the coherence between the prices was high both before and after the introduction of the system. This means that the information has been sufficiently spread in the long-term and the competitive market equilibrium has been established among retail gas stations regardless of whether or not the information disclosure system is introduced.

**Korea's Response Strategy to the US Protectionism: focused on the US-Washing
Machines**

Youngrim Kim

Pusan National University

Neungwoo Kim

Pusan National University

Yang Kee Lee

Pusan National University

Abstract

As the US protectionism is getting stronger, in January 2018, the United States announced a safeguard measure against Korean washing machines. In this paper, we take into account that these measures are not appropriate and suggest various strategies to deal with them. Korea has already won the WTO against the US for anti-dumping and countervailing duties on residential washers. This safeguard measure also needs to be considered in the WTO litigation. In addition to violations of the measures themselves, we also need to look into whether the violation of the agreement is a double regulation of the announcement of safeguard measures during the execution of the judgment period under the washing machine dispute. Korea's responses to the US safeguard measures include the following two. In the short term, it is possible to be compensated and retaliate as stipulated in the agreement. In the long term, it is worth considering a response through international co-operation by acting in concert with other countries involved in safeguard measures. Korea is highly dependent on foreign trade. Therefore, in order to expand trade and avoid protectionism actively promoting an FTA with other countries can also be a countermeasure.

LUNCH: 12:00 – 14:00

Buffet Lunch at Atrium Restaurant

END OF CONFERENCE

Virtual Presentation

Available on APEF.ear.com.sg on 25th July 2018

Rationality in Decision-Making: The effect of economic scenarios on voters' decisions

Ingrid Rafaela Rodrigues Leiria

Korea University

Tiago Wickstrom Alves

Universidade do Vale do Rio dos Sinos

Abstract

The agents' decisions related to investment, consumption, and other issues are influenced by economics conditions. Similarly, in a majority election, voters could decide based on the economic scenario. Considering this possibility, two hypotheses were formulated to explain reasons for the decision of the voters. The first situation relates to the possibility that the voters choose the option that reduces the possibility of loss. This formulation is based on the tendency of loss aversion built by Kahneman and Tversky (1979). The second is reducing the decision-making time; this hypothesis is based on the so-called shortcuts formulated by Kahneman, Slovic, and Tversky (1982). These hypotheses were built with the theoretical basis of the Theory of Rational Decisions and Behavioral Economics. The experiment had the participation of 21 classes and 446 undergraduate students of Economics, Management, and Accounting, involving exposure to an economic scenario and two candidates. The voters should choose the best choice available.

**RATIONALITY IN ILLEGAL MARKETS: The effect of illegal goods demand on
crime rate**

Ingrid Rafele Rodrigues Leiria

Korea University

Tiago Wickstrom Alves

University of Vale do Rio dos Sinos

Alexsandro Mirian de Carvalho

University of Vale do Rio dos Sinos

Abstract

Using the Economic Theory of Crime as a basis, this paper aims to investigate the factors that influences the growth of the criminal rate. The data location used was the Brazilian state of Rio Grande do Sul. The objective of the present study is to analyze the demand for illicit goods as a determinant of the larceny rate increase that has occurred in the State of Rio Grande do Sul between 2002 and 2015. The following crimes were considered as part of the criminal rate: robbery, vehicle robbery, theft, vehicle theft and robbery followed by death. The methodology applied to develop this work are the Structural Equation Method (SEM) and the Panel with Generated Moment Method (GMM). The results showed that the demand for illicit goods suffers a positive influence of indicators such as unemployment rate, primary school dropout, and possession of narcotics and negative influence of indicators such as GDP per capita. Analyzing the rate of larceny, there was a negative influence from the GDP, family socioeconomic assistance, and mortality rate with drugs traffic; and a positive relation of unemployment rate and the abandonment of primary school with drug possession rate.



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