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Hakan Danis & Mehmet Huseyin Bilgin

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Hakan Danis and Mehmet Huseyin Bilgin, Guest Editors

This is the second issue of *Emerging Markets Finance & Trade* (*EMFT*) featuring papers presented at the Eurasia Business and Economics Society (EBES) Conferences, which bring together many distinguished researchers from all over the world to present new research, exchange information, and discuss current issues. Although the conferences focus on Europe and Asia, papers from all major business, finance, and economics fields—theoretical or empirical—are included in the program. Therefore, the scope of the issue is quite wide. The conference was organized in Istanbul on May 26–28, 2010, with the support of the Central Bank of the Republic of Turkey, Istanbul Economic Research Association, and Turkish Derivatives Exchange (Turkdex). The papers in this issue were selected from the 263 conference papers presented at the conference. All the papers went through the standard referee and editorial process of the journal, including assessments by two anonymous referees, and they benefited from the comments made during the conference as well. This issue includes five conference papers.

In the first paper, Yiwei Fang, Iftekhar Hasan, and Katherin Marton investigate the relationship between institutional development and the performance effect of bank diversification in transition economies. The literature on the relation between bank diversification and its effect on bank performance is inconclusive. While some argue that diversification among the line of businesses in the banking sector might increase banks' efficiency in capital allocation, others argue that if a bank does business in many different sectors, it might lose its comparative advantage and decrease its performance. The authors test the impact of institutional reforms in fifteen East European transition countries on the performance of bank loans and assets diversification using data from 1997 to 2008. They find that asset diversification is positively related to bank performance, whereas loan diversification is negatively related. They also show that institutional reforms may have different effects on bank performance. For instance, while banking liberalization and corporate governance restructuring increase profits from loan and asset diversification, legal reforms reduce profit gains.

In the second paper, Heeho Kim and JooEun Cho analyze the degree of capital mobility of selected countries relative to China. They discover that uncovered interest parity (UIP) between China and the United States, Japan, the United Kingdom, Singapore, Korea, Malaysia, and Thailand does not hold and test for the existence of additional risk factors to explain the failure of the UIP. They argue that the existence of insufficient institutional development, weak macroeconomic fundamentals, and underdeveloped financial markets could justify the rejection of UIP. They show that including account portfolio equity flows and market risk do explain the failure of the model.

In the third paper, Laura Márquez-Ramos investigates the effects of the adoption of International Financial Reporting Standards (IFRS) on international trade and foreign direct investment (FDI). She finds that IFRS encourages international trade in goods and foreign direct investment by reducing the cost of information and uncertainty. She

Hakan Danis (hakan.danis@bbvacompass.com) is a senior economist at BBVA Research in Houston, TX. Mehmet Huseyin Bilgin (mhbilgin@khas.edu.tr) is an associate professor of economics at Kadir Has University, Faculty of Economics and Administrative Sciences in Istanbul, Turkey.

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argues that differences in financial reporting standards cause information asymmetries among investors and IFRS could reduce information asymmetries among countries. This would likely give incentive to foreign investors to invest in the countries adopting IFRS. To understand the importance of adoption of IFRS, she tests whether IFRS increases trade in goods and FDI and increases comparability among those countries that adopt IFRS. She also investigates whether IFRS eliminates information costs and stimulates exports and FDI. The study uses data for EU member countries along with the United States, China, Japan, members of the European Free Trade Association, Croatia, and Turkey between 2002 and 2007. She shows that adopting IFRS increases transparency and makes it easier to compare countries and therefore, stimulates FDI and diminishes the perceived risk of foreign investment.

In the fourth paper, Ender Demir and Hakan Danis investigate the stock price reactions of Turkish soccer clubs, namely, Besiktas (BJK), Galatasaray (GS), and Fenerbahce (FB), to game results. They consider game results (defeat, draw, or win) according to the match venue (home or away) and competition type (national or European) to study the market reaction. The odds are also included by using betting payoffs in the analysis to control expectations. In this framework, stock prices are supposed to be affected solely by expectation surprises. The findings indicate that the match results of the listed soccer clubs affect abnormal returns. They find that the stock market response is negative for draws and losses for BJK, FB, and GS, and there is an asymmetric stock market reaction to wins and losses. The price reaction of BJK stocks is more sensitive to game results than both GS and FB stocks, which can be attributed to differences in the legal structure of the listed companies. They also find that a win in a European Cup does not affect clubs' stock returns. However, a domestic win effect is significantly greater than the effect of a European Cup win.

In the final paper, E. Nur Özkan-Günay examines the sources of FDI among European countries. She uses a panel data estimation technique with two different sets of countries: (1) EU-15 (early members of the European Union), and (2) EU-12+2 (new members plus two candidate countries). She finds that determinants of FDI inflows are different in these two sets of countries. For example, macroeconomic indicators such as consumer price inflation and the unemployment rate do not explain the FDI flows into EU-15 countries while they do explain the variation in FDI in new and candidate countries. The size of the market is a significant factor for attracting FDI in new candidate countries while it is not an important factor in developed countries.

For this issue, we have accepted papers that address a wide range of empirical issues in finance and economics concerned with emerging markets. We thank all the participants in the EBES 2010 Conference in Istanbul for their contributions and comments, all the referees of this issue for their constructive comments and suggestions, and Ali M. Kutan, editor of *EMFT,* for giving us this opportunity.