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THE FIRM'S FINANCING CONSTRAINTS AND THE INVESTMENT-CASH FLOW SENSITIVITY: AN INTERTEMPORAL PATTERN

Jamel E. Chichti
Université de la Manouba, Tunisia

Walid Mansour
Université de Sousse, Tunisia

Abstract

The meat of the financing constraints theory, dubbed the investment-cash flow sensitivity, had spawned a plethora of research agendas and hot debates to explain it away. Although the scathing critics that are addressed to its usefulness, it still is used to gauge financing constraints. In this paper, we interpret it from an intertemporal perspective. Indeed, using the investor's participation constraint, we derive a deterministic, linear relation between the sensitivities at subsequent dates. Our major theoretical result corroborates the fact that the worsening of the financial contractibility's terms increases the investment's dependence on net worth. Further, beyond a given threshold value of the parsimonious proxy capturing the informational problems, the firm will be more financially constrained in the subsequent period, which confirms the role of net worth in driving the firm's investment in the context of incentive problems that bring forth binding financing constraints.

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BARBARIANS IN THE BANK? SOVEREIGN WEALTH SERVICE FIRMS FUND ACQUISITIONS OF A MINORITY STAKE IN FINANCIAL

Mark Mietzner
Tech University Darmstadt, Germany

Dirk Schiereck
Tech University Darmstadt, Germany

Marc W. Simpson
Northern Illinois University

Abstract

We examine the response of the market on the announcement of a sovereign wealth fund acquiring a minority stake in exchange-listed financial services firms, based on 35 transactions between 1995 and 2008. While various empirical studies document the value destruction of M&A activity in the banking industry, there is also evidence on wealth creation by minority stake acquisitions by private equity funds in exchange-listed companies. We document similar evidence for sovereign wealth funds. That is, there is a significant positive announcement effect of up to 5.66%, but a long-run insignificant stock price reaction is noted as well.

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VOLATILITY TRANSMISSION AMONG DEVELOPED STOCKS MARKETS

Imen Kouki
Higher Institute of Management, Tunis

Mahfuzul Haque
Indiana State University

Abstract

In this study, we investigate the dynamic and the transmission of conditional volatilities including the structural change in mean and variance of developed markets. We propose a multivariate VAR (1) - GARCH (1, 1) for four (4) dimensions, where all returns markets are considered endogenous and including the crash of 1987 as the structural change. Our results show the relevance of the structural change on the volatility and return transmission of shock. The structural change shows the importance effects of the direction and the intensity of transmission and interdependence of information between markets and reduces the persistence of volatility, in which, the activity of developed markets returns quickly.

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VALIDITY OF THE RESIDUAL INCOME MODEL IN TAIWAN: *Evidence from the Var-Based Cross Equation Test*

Chen-Yin Kuo
Tung Fang Institute Of Technology, Kaohsiung, Taiwan

Keshin Tswei
Nanhua University, Chiayi, Taiwan

Abstract

The paper attempts to test the validity of the Residual Income Model in an effort to explain Taiwan stock price movements. We adopt VAR-based cross equation restrictions test proposed by Campbell and Shiller (1987) using Taiwan data during the past ten years. The empirical results indicate that for whole listed stocks and five listed industries data, when using bivariate VAR model, RIM is valid for Taiwan stock valuation. However, when using trivariate VAR model, RIM is not valid for Taiwan. The major policy implication of these results is to provide Taiwan investors an adequate valuation foundation for the RIM model to help them predict future stock price and avoid investment risk in financial crisis. As for the debate whether stock price movement can be justified from valuation models, the main contribution of this study is to provide the evidence from the validity of the RIM for Taiwan stock valuation.