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Firm Valuation, Capital Access and Transparency Effects of Dividend Distributions: An Emerging Market Story

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Abstract

This paper investigates the impact of the relative ease of capital access and firm's information transparency on the relationship between dividend cash payment and firm valuation using a panel data of Vietnamese firms. Several firms in Vietnam are state-owned enterprises (SOEs) that enjoy benefits, such as easier access to external capital at a lower cost, when compared to non-SOEs. We find that there is a significant and positive relationship between firm valuation and dividend cash payments. In addition, the same amount of increase in dividend payment is associated with a higher amount of increase in firm value for firms that have less access to external capital or have lower information transparency than for firms with better access to capital or in firms with more information transparency.

Keywords: Dividend cash payment, firm valuation, capital access, SOEs, information transparency, Vietnam.

The Diversification Effect of Defense Business on Risk and Return

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Abstract

This study investigates the effect of defense business as a distinctive way of diversification on a firm's accounting determined risk and accounting returns. It finds that firms with both defense and commercial business were less volatile in sales and accounting returns and earned accounting returns comparable to or higher than pure commercial firms for the period of 1980 to 2015. The evidence suggests that it is a viable strategic decision for management to diversify into defense business for optimizing risk-return performance. Additionally, diversifying into defense business was more effective for lowering a firm's risk and improving its accounting returns in the build-up period for defense demand (1980-1990) than in the deep cuts period (1991-1998). This study is among the first that attempts to connect two important streams of research – diversification effect and defense industry profitability – and sheds light on understanding the effect of political changes on firms diversifying into defense business.

Money Demand, Bank Lending and State Output

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Abstract

This paper examines both money demand and the bank lending channel across the lower 48 states and detects changes in their behavior over the last several decades. Our analysis shows that while the income elasticity of money demand has remained relatively stable over recent decades, the sensitivity of money demand to interest rates has declined a bit after the Great Recession. In contrast, the bank lending channel appears to have changed dramatically as it was robust before the Great Recession but vanished from the data afterward. We suspect that the breakdown in the bank lending channel, in an economy with stable money demand, is due to the regulatory uncertainty that permeated the banking sector after the financial crisis. Finally, the bank lending channel, often associated in the literature with small banks, is active even in larger banks, although output is somewhat less sensitive to changes in loans.

JEL classifications: E41, E51, G21, P25, R11

Keywords: demand for money, lending, banks, regional economic growth, financial crisis

FX Liquidity Risk and Forward Premium Puzzle

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Abstract

I document the forward premium puzzle and show that the Uncovered Interest Rate Parity (UIP) violation is resolved in a low liquidity regime using a low-frequency time-varying FX liquidity risk measure. Controlling for FX liquidity risk, I show that the negative slope coefficients in Fama's 1984 UIP regressions become positive in low liquidity regimes. This implies that in a low liquidity regime, high interest rate currencies depreciate, thereby resolving or lessening the UIP violation. I also show that Japanese yen (JPY) exhibits a "liquidity hedge" against liquidity risk. This lends support to the global usage of JPY as lending currency for the carry trade strategy.

JEL Classifications: C53, E43, F31, G12, G13, G15, G17

Keywords: Forward Premium Puzzle, FX, Liquidity Risk, Carry Trade Strategy