HOFSTRA UNIVERSITY
FRANK G. ZARB
SCHOOL OF BUSINESS
HEMPSTEAD, NEW YORK 11549

The Merrill Lynch Center for the Study of International Financial Services and Markets

FALL 2003 VOL. 6 NO. 1

# The Director's View ...

*George J. Papaioannou, Ph.D.*

For a Center dedicated to the study of international financial services and markets, two important questions are: What determines the growth and structure of financial systems around the world and can national or regional financial systems be integrated into one global system? The answers to these questions have obvious implications for the business prospects of those sectors of the economy that depend on the growth of financial services and markets for their ongoing prosperity. It also has implications for policy makers concerned with the design of financial systems and the interaction between the financial and real economies.

A traditional approach toward answering the first question is to look at the factors that determine the demand for and supply of different types of financing. The demand side is represented by firms, governmental and other organizations, as well as individuals. The supply side is represented by financiers or those who have a surplus of capital available for financial investing. The propositions that support a demand-oriented explanation of financial development focus on the interests and preferences the demanders of capital have for various types of financial resources and arrangements. This view has been revisited with persuasive empirical evidence by Rajan and Zingales. They argue that entrenched interests in the economy, made up of businesses, organized labor and politicians, have an interest to keep the financial system underdeveloped and organized around the banking sector. Symbiotic or relationship-based arrangements between established firms and banks give these interests preferred access to financing and, in turn, enable them to thwart competition from abroad and start-up enterprises and, thus, earn economic rents. Only openness in cross-border trade and capital flows can force the development of open public markets for stocks and bonds.

Another demand-oriented proposition is that the industrial structure of an economy can also impact the development and structure of the financial system. Traditional industries intensive in fixed capital and investments which are easy to evaluate can support a more bank-heavy financial system. On the other hand, industries intensive in R&D and intangible assets require a broader investor base to share risks and more frequent price signals to guide capital allocation. These industries are better served by arms-length financial systems based on debt and equity public markets.

The supply side propositions are based on the idea that external financing grows in environments that provide adequate protection to suppliers of capital against the propensity of insiders to expropriate part of the returns that belong to outside financiers. The more intriguing version of this proposition is the argument, advanced by La Porta, Lopez de Silanes, Shleifer and Vishny, that there is a strong association between the degree of minority rights protection and the legal system–common or civil law. The judicial latitude allowed by common law systems contributes to a legal environment which is friendlier to minority rights protection. This leads to greater growth of markets for external financing, like stocks and bonds. Additional research also proposes that cultural factors, such as religion, and sociocultural attributes can contribute to, or retard, the growth of financial development, especially one based on public markets.

The second question, regarding the convergence of national and regional financial systems, concerns whether financial systems will converge toward a model dominated by relationship, bank-based financing or arms-length, open-market financing. Interestingly, each of these financial models favors, more or less, a different corporate governance model. This interrelationship leads to the question regarding the potential convergence of corporate governance models. The limited empirical evidence to date shows that there is a convergence trend in terms of legal form but not in terms of functionality– implementation and enforcement.

What are the implications of these findings? If, indeed, the type of legal system or culture has the dominant role in determining the diversity and structure of financial systems, then there are limits to financial development as well as convergence. Nations can not be expected to change their religion, culture or legal system to accommodate financial development. On the other hand, the demand-based explanation for the evolution of financial systems is more promising. Entrenched interests are more vulnerable and susceptible to the impact of outside shocks, resistance from competing groups and the emergence of new public and private interests better served by new financial structures. This explanation also ties financial development to economic openness and, therefore, economic internationalization. The potential of capturing large markets, the knowledge-intensive nature of

*(continued on page 2)*

## IN THIS ISSUE ...



### The Merrill Lynch Center Mission Statement:

*"Established to promote and facilitate faculty and student study in the field of international financial services and markets and to communicate knowledge to the academic and business communities."*

# The Director's View ...

*(continued from page 1)*

new industries as well as technological and communication advances, all favor the development of enterprises that prefer to operate within a global market. A plausible expectation is that, within this global market domain, the law of the survival of the fittest will force all players toward convergence, because only the best practices will survive global competition. Conditioning financial development on economic globalization is itself, however, vulnerable to international politics and upheavals. We are often reminded that the world was more globalized and financial development was on its way in the days before World War I. What followed was a period of 70 some years–the lost century–of insular economic policies and friction.

# A Message from the Editor ...

*Professor Gioia P. Bales, Merrill Lynch Center Administrator*

The activities of the Merrill Lynch Center over the past year reflect our continuing commitment to the study of international financial services and markets. At the same time, we are in the process of diversifying our information dissemination methods, enabling us to reach a broader spectrum of constituents with a wider array of products.

The hosting of conferences and seminars is at the heart of what we do at the Merrill Lynch Center. A listing of our most recent informational sessions appears on page 8. In particular, our annual May business conference – this year's topic was "Design, Development and Marketing of Alternative Investments" – continues to draw a cross section of business professionals, academics and students. The conference commenced with a keynote breakfast address by Mr. Gary Gastineau, Managing Director, ETF Advisors, LP and focused on the timely question: "Will exchange-traded funds replace conventional mutual funds?" Three distinguished panels followed, discussing hedge funds, real estate investment trusts and exchange-traded funds, respectively. Highlights of the conference appear on page 3. Plans are well underway for this year's event on "Risk Management in Financial Institutions," tentatively scheduled for May 5, 2004. Visit our Web site or contact us for more information on the content of this conference.

Several initiatives have begun at the Merrill Lynch Center to provide different dissemination methods. To facilitate research projects, a database of financial Web sites, alphabetically and by topic, is now available at www.hofstra.edu/Academics/Business/MLC. Furthermore, we expect to publish our first "Annual Report on Financial Globalization" early in 2004, highlighting the most recent trends in this area. This document will also serve as a source of statistical information on the progress of globalization across markets and institutions.

## MARK YOUR CALENDAR

Wednesday, May 5, 2004

Third Annual Business Conference:
"The Design, Development and Marketing of Financial Services and Products."
*Risk Management in Financial Institutions.*
Visit our Web site at www.hofstra.edu/Academics/Business/MLC for more details.

IF YOU WOULD LIKE FURTHER INFORMATION
REGARDING THE MERRILL LYNCH CENTER, PLEASE CONTACT US AT:

**Frank G. Zarb School of Business**
**134 Hofstra University**
**Hempstead, NY 11549-1340**

**Telephone: (516) 463-5703/5141**
**Fax: (516) 463-4834**
**E-mail: MLCenter@hofstra.edu**

**For an updated list of our programs, please visit**
**www.hofstra.edu/Academics/Business/MLC.**

# Alternative Investments: Hedge Funds, REITs and Exchange-Traded Funds Conference held at Hofstra University, May 5, 2003

*Article by Drs. Robert Campbell, Ahmet Karagozoglu and Steven Krull*

Alternative investments have evolved from fundamental debt and equity instruments to meet the changing needs of individual and institutional investors. Alternative investments have developed as a result of advances in financial engineering and in response to changes in factors such as:

- Investor return and risk objectives
- Legal and regulatory environment
- Tax and accounting laws
- Domestic and global economic and market conditions

Dr. Ahmet Karagozoglu, Conference Co-Director

The driving force for such alternative instruments can either be the investors' needs or the creativity of financial engineers at a variety of financial institutions. An alternative instrument may be designed as a tailor-made product to meet the needs of a select client base and then become a standard, mainstream investment tool as its benefits are marketed to a larger market.

The Merrill Lynch Center conference focused on three general types of alternative investments: Exchange-Traded Funds (ETFs), hedge funds, and Real Estate Investment Trusts (REITs). Hedge funds and REITs represent more of alternative forms of financial intermediation while ETFs represent more of an alternative financial instrument. The conference, which was attended by over 200 business professionals, faculty members, and students, provided a forum to share experience in the design, development and marketing of these alternative investments. The conference also covered issues relating to the performance and risks of alternative investments and regulatory concerns.

The conference began with an executive breakfast at the Hofstra University Club, with Keynote Speaker Gary L. Gastineau, Managing Director of ETF Advisors. Mr. Gastineau provided an overview of the ETFs in his keynote speech titled, *"Will Exchange-Traded Funds Replace Conventional Mutual Funds?"* He presented his thoughts on the future of ETF development and the effect of fund structure on investor performance.

Conference participants were invited to attend three consecutive sessions at the Scott Skodnek Business Development Center. The first session focused on hedge funds. Practitioners discussed the current state of the hedge fund industry and presented various contemporary strategies utilized by hedge fund managers. Presentations and discussions included current issues in the hedge fund industry such as assessing and isolating risk, fund performance, and the impact of hedge funds on traditional portfolios. Stephen Lee, Vice President of Citigroup Alternative Investments, presented the differences between hedge funds and traditional investments and discussed the benefits and risks of hedge funds to investors. Bill Yost, Senior Vice President of DLIBJ Asset Management USA Inc., explained equity market neutral hedge funds and discussed the quantitative investment process. Two major areas of alternative investments covered by the conference was brought together in a presentation provided by Allen R. Gillespie, Principal at GNI Capital, Inc., titled "The Use of Exchange-Traded Funds By Hedge Funds."

Other strategies discussed in the session included convertible arbitrage, event and/or merger-driven arbitrage and macroeconomic strategies.

Session II explored Real Estate Investment Trusts (REITs), which are real estate firms that do not pay corporate income taxes. To prevent unfair competition with taxable firms, the IRS imposes a restrictive institutional structure upon REITs that severely restricts their range of operations and controls cash flows. The most important restriction is that REITs must distribute 100 percent of their earnings in the form of dividends, making REITs a unique investment with high current returns.

The first speaker was Dan Cohen, CEO of First Evergreen, a private real estate investment firm in New Jersey. Mr. Cohen presented a concise summary of the principles of investment in REITs, and compared these investments to another popular, competing real estate investment vehicle: Real Estate Limited Partnerships (RELPs). As compared to RELPs, REITs offer the advantages of market liquidity and managerial flexibility. On the other hand, investors in RELPs have fewer problems of managerial control, and are able to receive the tax benefits of pass-through capital losses within specified limits.

Mr. Cohen was followed by Michael McMahon, Senior Vice President and Director of Taxation for Reckson Associates, a large public REIT headquartered on Long Island. Mr. McMahon addressed the current proposal to reduce or eliminate federal taxes on dividend income, noting that REIT dividends would not benefit from such tax breaks. Therefore, dividend tax cuts would reduce the comparative tax advantage of REITs. Nonetheless, Mr. McMahon expects the REIT institutional form to continue because REITs offer unique advantages to investors that go beyond the corporate tax exemption, such as high dividend returns combined with substantial capital gains, market liquidity, restrictions on asset class, protection from operational diversification and inflation protection.

The final speaker was Dr. Debrata Nag from the finance faculty of William Patterson University. Mr. Nag is a primary contributor to the scholarly literature on REIT Initial and Seasoned Equity Offerings (IPOs and SEOs). Since REITs are not permitted to retain earnings, public equity financing is much more important to them than it is to other firms. Mr. Nag noted that market responses to REIT equity offerings are different from those of conventional firms. As is the case for conventional IPOs, REIT IPOs are underpriced. But the increase in price is much smaller for REITs. He maintains that underpricing is more moderate for REITs because there is less uncertainty about the value of their assets. This pattern is similar for SEOs. As is the case for conventional firms, announcements of REIT SEOs are associated with declines in share value, but the value decline is much smaller. Mr. Nag attributes the more moderate wealth effect to a difference in the signal sent to shareholders by the announcement.

Session III focused on Exchange-Traded Funds. Presentations covered new developments such as actively-managed, fixed-income and leveraged ETFs. Discussions focused on the applications of ETFs, such as hedging equity portfolio exposures and asset allocation, as well as the marketing of these alternative investments. Robert Tull, Vice President of New Product Development at the American Stock Exchange, discussed the Exchange's perspective on the global ETF market and presented their compelling benefits including diversification, lower expense ratios and tax efficiency. Craig Lazzara, Director of Marketing and Client Services at ETF Advisors, discussed index construction as it relates to investment strategy and explained that ETF performance differences are largely index driven. Matthew F. Mark, Business Development Officer at Barclays Global Investors Services, focused on the creation and redemption of emerging market ETFs as well as the recent developments in the global financial markets that led to the emergence of these funds.

Pictured (l to r) are: Dr. Ahmet Karagozoglu, Conference Co-Director; Dr. Ralph Polimeni, Dean of the Frank G. Zarb School of Business; Gary Gastineau, Partner, ETF Advisors and Dr. George Papaioannou. Mr. Gastineau was the keynote speaker for the executive breakfast during the May 2003 conference.

# American International Group's Howard Smith Shares His Views on Today's Global Insurance Industry

*Howard Smith is Vice Chairman, Chief Financial Officer, Chief Administrative Officer and Director of American International Group, Inc. (AIG). Mr. Smith joined AIG in 1984 as Vice President and Comptroller and was named Senior Vice President and Comptroller in 1987 and Executive Vice President and Comptroller in 1995. He was appointed Chief Financial Officer in 1996 when he also assumed responsibility for AIG's Treasury, Investor Relations, Credit and Market Risk Management functions, in addition to the Comptroller's Department. Prior to joining AIG, he spent 19 years with Coopers & Lybrand and was the Partner in charge of the Firm's New York Office insurance practice.*

*Mr. Smith earned a B.B.A. degree in accounting from the City College of New York in 1965. He is a member of the American Institute of Certified Public Accountants, the New York Society of Certified Public Accountants and the Financial Executives Institute. Mr. Smith is also a member of the Business Advisory Board of the Merrill Lynch Center.*

The Merrill Lynch Center asked Mr. Smith to provide his personal comments on the significant trends affecting the global insurance market today. We were particularly interested in his thoughts on new regulatory and accounting standards. A synopsis of his remarks follows.

Q. *What are the major challenges affecting the insurance industry today?*
A. There is a need to properly price and underwrite risk in an environment that is subject to a wide range of issues such as the possible implications of tort reform in the United States to the possibility of catastrophes and acts of terrorism.

In addition, insurance entities, such as AIG, are focusing on the worldwide need for retirement savings products. Clearly, it is difficult to identify a country in the world that is financially capable of meeting the retirement needs of its citizens.

Furthermore, a major component of profit in the life insurance industry is the ability to earn spread income (the excess of investment earnings over the rates credited to policyholders). This factor has become even more challenging in the current worldwide low interest rate environment. The lifeblood of an insurance entity's assets is its investments and in today's environment, the creditworthiness of debt issuers must be more closely assessed and monitored than ever before. Moreover, a company selling fixed annuities must be able to react quickly and change its pricing guarantees in a period of rapidly changing interest rates.

Q. *What are the key issues facing your company in a global market?*
A. In a global insurance business, it is critical that a company is keenly aware of the different political and financial environments in each country in which it operates. A global company must be very conscious of exposures to changes in foreign currency rates and make sure that proper hedging procedures are operational.

It is also of paramount importance that the long-term goals and objectives of an entity are not altered to deal with the short-term horizons of some in the investment community. The realization of an adequate return on equity is critical for a company to be able to continue to attract necessary capital.

Finally, many experienced insurance investment analysts have recently retired or changed careers and, in an environment of additional transparency and more disclosure, the need to educate a new group of analysts is present.

Q. *Regulatory issues have taken center stage recently. What are your insights in this area?*
A. A significant amount of time is being expended to comply with new corporate governance issues such as the Sarbanes-Oxley requirements and the additional needs of rating agencies and external audit firms. The cost of these activities is very significant and yet a company cannot lose any focus in continuing to successfully run its business.

Many financial executives, in almost all industries, have growing concerns that required disclosure documents – such as, Annual 10-K SEC filings – are becoming so voluminous to meet applicable requirements that average investors are no longer reading the materials. In addition, disclosures such as financial derivatives are too complex for the average investors to even attempt to read.

Q. *Global accounting issues have also become an area of focus. What are your thoughts in this area?*
A. I fully support the adoption of uniform global accounting standards. Convergence to uniform worldwide standards would make it easier to understand the relative strengths and weaknesses of an entity and, in the new global marketplace, will allow stronger companies to more easily attract capital.

The requirement in Europe, however, to develop a uniform set of accounting standards by 2005 has also led to consideration of untested radical changes from present generally accepted accounting principles. A point of particular concern to the global insurance industry is "fair value" accounting. The opposition to fair value accounting in the insurance industry is worldwide. In essence, fair value would require that each asset and liability on a company's balance sheet be revalued quarterly and these valuation changes be recognized in a company's income statement. The resulting volatility on a company's reported earnings would be significant and, in my view, render the income statement to be almost meaningless.

From a theoretical standpoint, the International Accounting Standards Board's (IASB) own definition requires that a liability be readily marketable or transferable to a third party in assessing the current valuation of the liability. For several reasons, many insurance liabilities do not meet this definition. Rather than adopt such a drastic and possibly ill-conceived change, a recommendation of worldwide insurers is that the IASB consider a supplemental type of fair value disclosure (no change in the basic financial statements) to see if such information proves useful to investors and readers of financial statements. It is believed that the IASB is at least considering these arguments.

# The Role of an Academic, Teacher, Scholar and Good Citizen

*Reflections by Dr. Esmeralda Lyn, Professor of Finance, Former Co-Director of the Merrill Lynch Center*

I believe that every academic aspires to be a "teacher-scholar." I am no exception. My academic career has now spanned over 20 years and my professional aspirations have evolved into an even more encompassing one – that of "teacher-scholar-good citizen." I am still imbued with wide-eyed idealism about this profession – that we learn and teach for the sheer love of knowledge and the desire to share that knowledge with others, especially our students. When that idealism starts to wane and cynicism intrudes, I only have to be reminded of Henry Adams' inspiring words – *"A teacher affects eternity; he can never tell where his influence stops."* Those words also ring true if we substitute the word "researcher" or "good citizen" for "teacher."

My research interests have always gravitated toward the international arena. Serendipity brought my first co-author, Professor Wi Saeng Kim, and me together to work on our "trilogy" which appeared in the *Journal of International Business Studies* (1986, 1987 and 1990). We pioneered the application of extant foreign direct investment theories and Tobin's q to explain inward FDI by foreign companies into the United States and the performance of U.S. and foreign multinationals. Professor Kim and I, together with Professor Edward Zychowicz (referred to as KLZ hereafter), have continued our research collaboration on international topics, specifically delving into different aspects of emerging markets.

In the paper, *"Is the Source of FDI Important to Emerging Market Economies?: The Evidence from Japanese and U.S. FDI,"* which was presented at the 2001 Multinational Finance Society Meeting and has been accepted for publication by the *Multinational Finance Journal*, KLZ take the position that technology transfers associated with foreign direct investment inflows (FDI) are an important determinant of economic growth in developing countries. We also posit that technology transfers, *ceteris paribus*, depend on the attributes of FDI providers, particularly as they relate to the degree of technological advancement and the behavioral aspects of the technology transfer. Japan and the United States are two important sources of FDI where multinational corporations domiciled in the two nations exhibit distinct variation in these attributes. KLZ have also been investigating the workings of a specific emerging market, Korea, which has weak shareholder protection rights and possesses unique characteristics regarding its organizational and ownership structure. For example, in *"The Wealth Effects of Capital Investment Decisions: An Empirical Comparison of Korean Chaebol-affiliated and Independent Firms,"* we find that the investment decisions of Korean business group (*chaebol*-affiliated) firms do not increase shareholder wealth, while the capital investment decisions of independent firms generate significantly positive abnormal returns. Our findings support the view that the organizational structure of Korean *chaebols* creates an incentive for managers to make non-value maximizing capital investment decisions.


Dr. George Papaioannou presents a plaque to Dr. Esmeralda Lyn in appreciation of her years of dedication to the Merrill Lynch Center.

A new research topic that has captured the interest of researchers in recent years is in the area of legal protection and external governance mechanisms in emerging economies and how their absence exacerbates the severity of agency problems between controlling insiders and minority shareholders. KLZ have embarked on researching this new and exciting topic. In our first paper *"Can Market Forces Mitigate Legal System Deficiencies? Evidence from Emerging Stock Market Openings,"* KLZ document positive valuation effects around the time of stock market openings and that these valuation effects are larger for countries with French civil law traditions in comparison to countries with legal systems having English common law origins. Our documented results reinforce the importance of country legal systems and the protection of shareholder rights in determining the quality of corporate governance systems and financial market outcomes in emerging markets. Our findings also suggest that stock market liberalizations may mitigate the deficiencies in the existing institutional environments that are not supportive of effective corporate governance systems.

*(continued on page 6)*

*The following Hofstra faculty serve as the Merrill Lynch Center Associates for the 2003-2004 period:*

**A. Sinan Cebenoyan, Ph.D.**
Finance

**David Flynn, Ph.D.**
Management, Entrepreneurship, and General Business

**Tao Gao, Ph.D.**
Marketing and International Business

**Nancy Huckins, Ph.D.**
Finance

**Richard Jones, Ph.D.**
Accounting, Taxation and Legal Studies in Business

**Ahmet Karagozoglu, Ph.D.**
Finance

**Wi Saeng Kim, Ph.D.**
Finance

**Steven Krull, Ph.D.**
Finance

**Laura Lally, Ph.D.**
Business Computer Information Systems and Quantitative Methods

**Keun Lee, Ph.D.**
Marketing and International Business

**Esmeralda Lyn, Ph.D.**
Finance

**Susan Martin, J.D.**
Accounting, Taxation and Legal Studies in Business

**Rusty Mae Moore, Ph.D.**
Marketing and International Business

**James Neelankavil, Ph.D.**
Marketing and International Business

**Ehsan Nikbakht, Ph.D.**
Finance

**Anoop Rai, Ph.D.**
Finance

**Jeffrey Seltzer, J.D.**
School of Law

**Elaine Sherman, Ph.D.**
Marketing and International Business

**Elizabeth Venuti, Ph.D.**
Accounting, Taxation and Legal Studies in Business

**K.G. Viswanathan, Ph.D.**
Finance

**Edward Zychowicz, Ph.D.**
Finance

# The Role of an Academic, Teacher, Scholar and Good Citizen

*(continued from page 5)*

Professor Zychowicz and I have increased our understanding of how stock returns in various new markets in Eastern Europe behave. In *"Predicting Stock Returns in the Developing Markets of Eastern Europe,"* which is forthcoming in the *Journal of Investing*, we find that market fundamentals, such as earnings-to-price ratios, book-to-market ratios and dividend yields, along with political risk measures and economic variables, have the ability to predict stock market returns in the transitional countries of Eastern Europe. Our findings show rapid and significant price increases to improvements in country political conditions and market liquidity, while changes in the economic environment affect returns with longer horizons. In *"The Performance of New Equity Offerings in Hungary and Poland"* (*Global Finance Journal*, 2003), we document the short-run performance of initial public offerings in Hungary and Poland during the 1991-1998 period. The empirical analysis reveals significant first-day underpricing of 15.12 percent in Hungary and 54.45 percent in Poland. We find that market momentum is a significant determinant of initial returns in both countries, while post-offering volatility further explains some of the initial underpricing in both markets.

My research interest in international finance has spilled over to my community work. Understanding how a little bit goes a long way in emerging countries, such as, how small improvements in corporate governance or how microfinance can improve markets and, therefore, spur economic growth, I have been encouraged to establish, with some friends and colleagues, a foundation called *Global ShareResource*. The mission of this organization is *"to assist poor communities in emerging market economies build and improve their human assets so they have access to a better future for themselves and the world."* The foundation has already funded projects in Afghanistan, Ecuador and the Philippines to build schoolhouses and support youth in attaining secondary education complemented by vocational training.

Teacher-scholar-good citizen – a goal still to be achieved. What an awesome responsibility it is to be a teacher-scholar-good citizen, and how difficult and challenging the process of becoming one, and yet the dividends of accepting such responsibility are manifold and truly gratifying!

The Associates of the Merrill Lynch Center represent Hofstra faculty from a wide range of disciplines. Each of our 21 associates is committed to contributing to the study of one specialization within the field of international financial services and markets. Their responsibilities include: maintaining current familiarity within their area; moderating roundtable discussions; and initiating and organizing programs – such as seminars and symposiums – that enhance the understanding and expand the knowledge base in their areas.

Specialization include:

- Emerging Markets
- International Investments
- Derivatives
- Law and Regulation
- Information Technology
- International Economics
- Marketing of Financial Services
- International Banking
- Accounting for International Markets and Services
- Management and Organization of Financial Services
- International Investment Banking

# The Business Development Center Offers Valuable Programs for Long Island Businesses and Government Entities

*Richard V. Guardino, Jr., Vice President for Business Development and Judith Tyne, Assistant Dean, Business Development Center*

A new sense of vitality and energy exists at the Scott Skodnek Business Development Center (BDC) at Hofstra University and the entire staff looks forward to expanding the services currently offered. In particular, we are excited to announce three new projects. The BDC wishes to congratulate Winthrop University Hospital for the award of a two-year Federal Workforce Investment Act Fund to conduct customized training of employees. The BDC will provide on-site training in leadership, communication, strategic planning, time management, marketing and competitive strategies. Two additional community development projects will focus on revitalization on downtown business areas. Working in collaboration with the Town of Oyster Bay and Nelson, Pope and Voorhis, LLC, a strategic marketing plan will be developed for downtown Syosset. In addition, a marketing guide will be created for the Village of Bayville.

If your goal is to start a new business, expand and/or diversify your current business and develop new skills to help you run your business, the BDC has a program that will fit your needs. In cooperation with Hofstra University College for Continuing Education and the Frank G. Zarb School of Business, the BDC provides a comprehensive package of expertise and services promoting economic development and job creation for the Hofstra community, Long Island and the region. The BDC has the benefit of having all of the resources of Hofstra University at its disposal. Combining the most respected members of academia and an impressive student body with our business community and governmental agencies, the BDC can provide the resources and services to fit your individual and specific needs. A partial listing of services includes:

*Business/Corporate Training* – Customized programs developed and delivered on-site or at the BDC. Topics include Web site development, leadership, conflict resolution, management training and more.

*Business Seminars* – The BDC can assist with all facets of business seminars including presentation of the complete event – topic, speaker, facility, mailing, database, catering, administrative support, moderator, and analysis of evaluations. Rental of conference rooms accommodating 10 to 150 people.

*Center for Entrepreneurship* – Provides assistance for creating, maintaining and expanding a business. Workshops provide basic skills required to operate and grow a successful business. Training and counseling enable participants to complete a business plan. A Certificate in Entrepreneurship may be earned by completing the following three components: (1) Workshops – Setting Goals-Self Discovery, Managing Personnel and Operations, Advertising/Presentations, Selecting the Right Technology, Insurance/Legal, Sales/Networking, Internet/Electronic Services, Record Keeping, Taxes, Developing a Marketing Plan, and Financial Management/Excel; (2) Mentoring

*(continued on page 7)*

## The Business Development Center Offers Valuable Programs for Long Island Businesses and Government Entities

(continued from page 6)

(Business Participation), one-on-one counseling with business owners sharing their expertise and experiences as entrepreneurs; (3) Submission of a business plan. Sessions are held for 10 weeks on Monday and Wednesday from 6:30 to 9:30 p.m. A March 2004 session is planned. Since the program's inception in 1991, we have successfully trained over 870 entrepreneurs.

*Distinguished Lecture Series* – Moderated by Dr. Irwin Kellner, Augustus B. Weller Chair in Economics. Six lectures per year are designed to bring together the elite of Long Island's business community and offer them the opportunity to interact with some of the country's most powerful and influential thinkers in fields ranging from science to politics to investments. American International Group, Inc.; Citigroup; PriceWaterhouseCoopers; and Ruskin, Moscou, Faltischek, P.C. sponsor this series. Attendance is by invitation only.

*Economic Report* – Written by Dr. Irwin Kellner, Augustus B. Weller Chair in Economics. Dr. Kellner is one of the nation's leading economists and is the chief economist for North Fork Bank and CBS MarketWatch. Dr. Kellner appears regularly on television and is a frequent speaker for business groups and government leaders. The *Economic Report* is published bimonthly by the BDC.

*Geographic Information System (GIS)* – Provides a powerful mapping tool for strategic planning and implementation. The system is used to encode, store, analyze and report spatial data. The usefulness of GIS lies in its ability to link different information technologies such as mapping and database management systems and provides a repository for spatial data, which can be constructed, maintained, edited and analyzed. Some of the services and products offered at the center include data conversion, demographic analysis, access to the database repository, database analysis and design, geocoding customer and facility locations, land use planning, site selection and analysis, economic development and GIS output production. Fee-based, hands-on training is also available.

*Market Research and Polling Center* – Offers custom market research and public opinion polling geared to meet the specific needs of the client. Providing expertise in quantitative and qualitative research methods, the Center offers brand awareness and customer satisfaction research, community development, programmatic assessments and business-to-business research. Skilled staff assist any organization in answering its research questions with actionable results.

*Merrill Lynch Center for International Financial Services and Markets* – Promotes and facilitates faculty and student study in the field of international financial services, and communicates knowledge to the academic and business communities via conferences and seminars on topics of global interest.

*Video Conferencing* – State-of-the-art business technology labs including video conferencing and large group display systems are available. Participate at meetings, seminars, market your services and products to another location. Rooms have internet access, conference phones, and catering services.

For additional information on the Business Development Center, call Judith Tyne (516) 463-5285.

## Spotlight on Research by Merrill Lynch Center Associates

SINAN CEBENOYAN
Professor, Finance

"Risk Management, Capital Structure and Lending at Banks," with Philip Strahan, *Journal of Banking and Finance*, forthcoming.

"Managerial Cost Inefficiency and Takeovers of U.S. Thrifts," with Fatma Cebenoyan and Elizabeth S. Cooperman, *Multinational Finance Journal*, forthcoming.

"Performance Persistence, Moral Hazard and Market Discipline: An Examination of S&Ls Following FIRREA," with Elizabeth Cooperman and Charles Register, *Managerial Finance*, forthcoming.

"Ownership Structure, Operating Inefficiency and Regulatory Reform: An Analysis of U.S. Thrifts," with Fatma Cebenoyan, Elizabeth S. Cooperman, and Charles Register, *Research in Banking and Finance*, forthcoming.

Papers presented at conferences include: "Subordinated Debt, Uninsured Deposits and Market Discipline," with Fatma Cebenoyan and "The Effects of Regulatory Regimes on Takeover Attributes," with Fatma Cebenoyan and Elizabeth Cooperman.

DAVID FLYNN
Professor, Management, Entrepreneurship, and General Business

"The Corporate Governance Structure of German Public Corporations: A Model For Chinese State Enterprises," with J. Schneider and W. Chen, Pan Pacific Association XX Conference Proceedings, Shanghai, in press.

"An Empirical Study of Foreign Direct Investment (FDI) on Wages in China," with L.D. Xu, Pan Pacific Association XX Conference Proceedings, Shanghai, in press.

RICHARD JONES
Assistant Professor, Accounting, Taxation, and Legal Studies in Business

"Global Accounting and Auditing," *Accountants' Handbook*, Tenth Edition, edited by D.R. Carmichael and P. H. Rosenfield. John Wiley and Sons, Inc., New York, 2003.

"The Influence of the Sarbanes-Oxley Act of 2002 on the Emerging Global Self-Regulatory Structure of Accounting," with Jill P. Giles. In-progress working paper.

AHMET KARAGOZOGLU
Assistant Professor, Finance

"The Split of the S&P 500 Futures Contract: Effects on Liquidity and Market Dynamics," with Terrence F. Martell and George H. K. Wang, forthcoming, *Review of Quantitative Finance and Accounting*, Volume 21, No. 4.

Papers presented at conferences include: "The Split of the S&P 500 Futures Contract: Effects on Liquidity and Market Dynamics," with Terrence F. Martell and George H. K. Wang, and "Introduction of Derivatives Exchanges in Emerging Markets," with Hatice Pinar Ersen.

WI SAENG KIM
Special Associate Professor, Finance

"Wealth Effects of International Investment and Agency Problems for Korean Multinational Firms," *Journal of International Financial Management and Accounting*, forthcoming, Volume 14, No. 3, 2003.

"Is the Source of Foreign Direct Investments Important to Emerging Market Economies? Evidence from Japanese and U.S. FDI," with Esmeralda Lyn, and Edward Zychowicz, forthcoming, *Journal of Multinational Finance*.

"Mitigate Legal System Deficiencies? Evidence From Emerging Stock Market Openings?" with Esmeralda Lyn, and Edward Zychowicz, completed paper under journal review.

"The Wealth Effects of Capital Investment Decisions: An Empirical Comparison of Korean

(continued on page 8)

## THE MERRILL LYNCH CENTER FOR THE STUDY OF INTERNATIONAL FINANCIAL SERVICES AND MARKETS

### ACTIVITIES REPORT: 2002-2003 ACADEMIC YEAR

OCTOBER 9, 2002

Lunch & Learn
Topic: "Financing Litigation"
Moderator: *Professor Susan Martin*, Zarb School of Business and Merrill Lynch Center Associate.

NOVEMBER 13, 2002

Lunch & Learn
Topic: "Business and Political Environment in Latin America"
Moderator: *Dr. Rusty-Mae Moore*, Zarb School of Business and Merrill Lynch Center Associate.

NOVEMBER 20, 2002

First Annual Roundtable Discussion on Corporate Responsibility
Topic: "Corporate Responsibility: Recent Events, Consequences and Possible Solutions"
Moderator: *Dr. Esmeralda Lyn*, Zarb School of Business and Merrill Lynch Center Associate.
Panelists: *Dr. Wi Saeng Kim*, *Steven Krull*, *Elizabeth Venuti* (Zarb School of Business and Merrill Lynch Center Associates), *Dr. Tara Radin* (Zarb School of Business) and *Professor Jeffrey Seltzer* (Hofstra Law School and Merrill Lynch Center Associate).

FEBRUARY 26, 2003

Lunch & Learn
Topic: "Law and Finance"
Moderator: *Dr. Esmeralda Lyn*, Zarb School of Business and Merrill Lynch Center Associate.

MARCH 26, 2003

Lunch & Learn
Topic: "Customer Relationships in the Financial Industry"
Moderator: *Dr. Keun Lee*, Zarb School of Business and Merrill Lynch Center Associate.

APRIL 2, 2003

First Annual Roundtable Discussion on Economic Globalization
Topic: "The State of Economic Globalization: Views and Perspectives from Around the World"
Moderator: *Dr. George Papaioannou*, Zarb School of Business and Director, Merrill Lynch Center.
Panelists:; *Dr. Tao Gao*, *James Neelankavil* ((Zarb School of Business and Merrill Lynch Center Associates), *George Papaioannou* and *Dr. Irene Finel-Honigman* (Columbia University).

MAY 5, 2003

Second Annual Business Conference on "The Design, Development and Marketing of Financial Services and Products."
Topic: "Alternative Investments: Hedge Funds, REITs and Exchange-Traded Funds"
Co-Directors: *Dr. Robert Campbell* and *Ahmet Karagozoglu*, (Zarb School of Business and Merrill Lynch Center Associates).
Executive Breakfast Keynote Speaker: *Gary L. Gastineau*, Managing Director, ETF Advisors, LP.
Speakers: *Allen Gillespie*, Principal, GNI Capital; *Stephen Lee*, V.P., Citigroup Alternative Investments; *William R. Yost*, Senior V.P., DLIBJ Asset Management (USA), Inc.; *Daniel J. Cohen*, CFO, First Evergreen; *Michael McMahon*, Senior V.P., Reckson Associates Realty Corporation; *Dr. Raja Nag*, William Paterson University; *Robert Tull*, V.P., American Stock Exchange; *Craig Lazzara*, Director, ETF Advisors, LP.; *Matthew F. Mark*, Business Development Officer, Barclays Global Investors Services.

# Spotlight on Research by Merrill Lynch Center Associates

*(continued from page 7)*

Chaebol-affiliated and Independent Firms," with Esmeralda Lyn, Tae Park, and Edward Zychowicz, completed paper under journal review.

Papers presented at conferences include: "The Wealth Effects of Capital Expenditure Decisions: Pre- and Post-Crisis Evidence from the Korean Market," with Esmeralda Lyn, Tae Park, and Edward Zychowicz; "Value of Majority Ownership in Cross-Border Acquisitions," with Kiyoung Chang, and Young-Chul Kim; and "Agency Costs of *Guanxi* and Diversification Benefits of Investments in China by Korean Firms."

GEORGE PAPAIOANNOU
Professor, Finance
*Financial Services in the Evolving Global Marketplace.* Volume of readings from Conference held in October 1998. Edited with Esmeralda Lyn. (New York: Hofstra University, 2002).

"The Challenge of Value Management: A Financial Perspective," *International Law Digest*, January 2002.

"The Operating Performance of Firms That Switch Their Stock Listing," with K.G. Viswanathan and N. Travlos, *Journal of Financial Research*, forthcoming.

"Stock Splits on the Athens Stock Exchange," with N. Travlos and G. Laloudakis, working paper, 2003.

Paper presented at conference include: "Stock Listing Changes: Timing or Signaling?" with K.G. Viswanathan and N.G. Travlos, 2003.

ELAINE SHERMAN
Professor, Marketing and International Business
"Toward a Better Understanding of the Interplay of Personal Values and the Internet," with L. Schiffman, and M. Long, *Psychology and Marketing*, February 2003, Volume 20-2.

"Exploring the Dynamics of Online Retail Related Activities," with L. Schiffman, and M. Long, accepted for *Proceedings of Retailing 2003: Strategic Planning in Uncertain Times*, AMS/ACRA retailing conference, Fall 2003.

"Political Marketing Research in the 2000 U.S. Election," with L. Schiffman, *Journal of Political Marketing*, Volume 1, #2-3, Spring 2002. Also co-published in *Communications of Politics: Cross-Cultural Theory Building in the Practice of Public Relations and Political Marketing*, eds. Bruce Newman and Dajan Versic, Hayworth Press 2002.

"Trusting Souls: A Segmentation of the Voting Public," with L. Schiffman, and N. Kirpalani *Psychology and Marketing*, Dec. 2002, vol. 19(12).

"Trends and Issues in Political Marketing Technologies – Direct Marketing and Market Research," with L. Schiffman, *Journal of Political Marketing*, 2002.

Paper presented at conference include: "Challenges and Opportunities: Direct Marketing in a Changing Business Environment."

ELIZABETH VENUTI
Assistant Professor, Accounting, Taxation, and Legal Studies in Business
"Revisiting the Going Concern Assumption," *The CPA Journal*, forthcoming.

"MD&A: Revealing the Soft Numbers," with Mark P. Holtzman, *Financial Executive*, Volume 19, Issue 4 (June, 2003): 52-54.

"Enron and Off-Balance Sheet Financing," with Mark P. Holtzman and Robert Fonfeder, *The CPA Journal*, Volume LXXIII, Number 4 (April 2003): 24-33.

"Due Professional Care in Cases of High Engagement Risk," with Mark P. Holtzman and Anthony Basile, *The CPA Journal*, Volume LXXII, Number 12 (December 2002): 26-33. (Recipient of Honorable Mention in the Area of Accounting and Auditing for 2002 Max Block Distinguished Article Award.)

HOFSTRA UNIVERSITY