APPLIED ECONOMICS, 2018. https://doi.org/10.1080/00036846.2018.1436143

Special Issue of Applied Economics: Papers from the European Economics and Finance Society, Conference (EEFS)

Joscha Beckmann[*] and Keith Cuthbertson**

University of Bochum and Kiel Institute for the World Economy*

Cass Business School City, University of London**

November 2017

Foreword

Special Issue of Applied Economics on "Finance and the Real Economy"

This special issue comprises a selection of papers from the 15th Annual Conference of the European Economics and Finance Society which took place in Brussels in June 2017 as well as invited submissions. The broad range of topics covered in these papers reflects a key aim of the European Economics and Finance Society, which is to bring together economists to discuss ideas across various diverse areas of interest, incorporating results from different countries.

The first set of 5 papers in this special issue deal mainly with empirical modelling of financial asset prices. The paper of *Bampinas et al.* compares different GARCH models for most of the stocks listed on the NYSE which comprise the S&P Composite 1500 Index. The paper in general rejects the assumption of normality and finds that an EGARCH model with GED errors emerges as the preferred choice (when non-negativity and stationarity constraints in the conditional variance are imposed). The article *by Economou et al.* employs daily stock price data, focusing on all listed stocks from USA, UK and Germany (January 2004 to July 2014). "Fear" is measured by an implied volatility index. The impact of fear on herding is found to be statistically significant, including evidence of cross-market herding. The third paper by *Kuehl,* finds that the comovement in exchange rates, in both the short-run and long-run, is determined not only by macroeconomic fundamentals (eg. money supply, interest rates etc) but also by common "non-fundamental factors". The dynamic conditional correlations are estimated in a DCC-GARCH approach.

The paper by *Ercolani et al.* uses monthly returns (1984 to 2014) on 5,785 actively managed US closed-end equity mutual funds. The paper applies a cross-section bootstrap but allows for time-variation in the parameters of factor models and hence of estimated alphas. The effects of this time variation on the cross-section distribution of alphas, increases the amount of positive statistically significant alphas in the right tail of the (bootstrap) performance distribution (relative to results without incorporating time-varying parameters). However, the results do not overturn the general pessimistic conclusion that overall, there are relatively few skilled managers - but funds with negative performance may be unlucky rather than having statistically significant negative alphas. Finally, the article *by Vunjic and Shao* analyzes the rapid rise of text-based social media and online Word-of-Mouth (WOM) activity on cinema box-office receipts. Using static and dynamic panel data regression approaches, it is found that the frequency, sentiment and timing of tweets posted about a film is found to be correlated with movie box-office revenues - with negative tweets being particularly damaging to revenues.

The second set of papers contributes to the growing literature on the impact of uncertainty on macroeconomic variables. *Tam and U Kei* investigate the role of economic policy uncertainty on multilateral trade flows, with special focus on the importance of policy uncertainty emanating from the US and China, on other trading nations. The panel data set covers 45 developed and developing countries (1998Q1-2015Q4) and a VAR model is used to account for the transmission of shocks over time and across economies. Evidence suggests that economic policy uncertainty in the US has significant impacts on global trade flows and that policy uncertainty emanating from China is of rising significance. The paper by *Thiem* investigates the influence of oil price uncertainty on real economic activity in the US, using a four-variable VAR, asymmetric GARCH-in-mean model. Oil price uncertainty is economically important during several periods, particularly after the significant variance shift in the mid-1980s. Significant spillover effects in the GARCH model suggest that oil price volatility is part of the transmission mechanism for more general macroeconomic shocks, particularly for the case of unexpected bad news.

The potential impact of Brexit on the level and volatility of stock returns, sovereign CDS and long-term interest rates, for 19 different countries (predominantly Europen) is examined by *Belke et al*. The findings show that Brexit policy uncertainty causes instability in key financial markets and the real economy across the UK and Europe, even over the medium term. The article by *Dihle and Mentges* uses a theoretical real options model to gauge the impact of uncertainty on investment and the real economy. The two sources of uncertainty considered are volatility risk and disaster risk. Second, the paper uses an SVAR model estimated for different countries and finds that these two types of risk have different impacts on investment over the medium term.

The third set of papers deal with both real investment decisions and the banking sector - with a focus on developments after the financial crisis. The article by *Ademmer and Jannsen* analyzes the sluggish recovery in business investment in the euro area and the role of monetary policy since the global financial crisis. The conclusion is that monetary policy played a significant role in stabilizing business investment at the beginning of the crises but in the aftermath of the crises, there now seems little scope for monetary policy to further stimulate real investment. *Kouretas and Drakos* examines the long-standing and puzzling correlation between national saving and investment for data on 14 EU countries (1970-2015). Using a panel cointegration methodology, a long-run relationship between savings and investment for EU member countries is established - with the savings retention coefficient being low in magnitude but statistically different from zero. This points to weak evidence in favour of the Feldstein-Horioka puzzle and implies a moderate degree of capital mobility, which is consistent with the macroeconomic experience of these countries during the period under investigation. The article by *Andrieș et al.* investigates the impact of various corporate governance indices (e.g. risk-management index, supervisory board index and a general corporate governance index derived using principal component analysis) on two dependent variables - a cost index and a technical efficiency index. The data consists of a sample of 139 commercial banks in 17 Central and Eastern European countries (2005-2012). The empirical findings indicate that implementing rigorous corporate governance structures is associated with higher costs for banks in emerging economies and a lower level of efficiency. However, the separate impact of the risk management and supervisory board indices on a bank's cost and efficiency indices are mixed.

The paper by *Mykhayliv and Zauner* examines social banks with reference to 12 different "performance measures" including economic efficiency (eg. cost-income ratio), asset quality (eg. percentage of impaired loans) and stability (eg. equity to total assets). The comparison used is between social banks and 30 global systemically important banks (G-SIBs) over the period 2000-2014. There are some differences in a subset of the alternative performance measures between social banks and G_SIBs in the non-crisis period - but surprisingly, over the period of the global financial crisis, the performance of social banks and G-SIBs is rather similar.

The final two papers deal with the impact of institutional arrangements on economic growth and on trade and inequality. *Nistor et al.* examine the impact of institutions on economic growth using panel data (1995-2014) on 21 economies (including emerging-European, emerging-Asian, Latin America, Middle-East and Africa) They find that World Government Indicators such as "voice and accountability" (e.g. free media and elections) and "government effectiveness" (e.g. quality of public services) have a significant positive impact on economic growth rates - but only for those countries which have a high expenditure on tertiary education. The final contribution by *Reinecke and Schmerer* explores the role of institutional quality in the trade and inequality nexus. It is possible that some governments that tax the gains from trade may use these funds to reduce inequality but if corruption prevents such redistribution then inequality may rise. The paper finds that trade reduces inequality but only in countries where there is high "institutional quality" as indicated by low levels of corruption.