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# Introductory Chapter

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Additional information is available at the end of the chapter

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## 1. Theoretical perspectives on trade and global market

Theoretical Perspectives on Trade and Global Market at the very beginning deals with the relationship between trade openness and economic growth which is ambiguous from both theoretical and empirical point of view. The theoretical propositions reveal that while trade openness leads to greater economic efficiency, market imperfections, differences in technology, and endowments may lead to adverse effect of trade liberalization on individual countries. The empirical evidence pointing to the benefits of trade liberalization and bringing theoretical issues on possible adverse effect of openness to the fore has been reexamined. It has been argued that “passive” trade liberalization may not necessarily lead to positive economic outcomes, particularly in less advanced transition economies. Considering the empirical work on the matter, a lot of controversies are related to measurement issues. We find that openness measured by trade intensity indicators may lead to misleading conclusions about the trade growth nexus. Hence, the discussion of policy implications regarding the positive influence of trade barriers on economic growth goes well beyond the context of transition.

Furthermore, in this section, a generalization of the Ricardian model of international trading is presented. Unlike the original Ricardian analysis, the presented model takes into account the producers’ entrepreneurial activities, their specialization factor (the improvement factor in production due to specialization), and the countries’ taxes (tariffs). The main result of this model is that for a given entrepreneurial activity culture and a given specialization factor, there exists a critical taxation level above which specialization and all entrepreneurial activities are suppressed and international commerce is ceased.

Sometimes, a change in investment motives, caused by an unexpected shock such as national disasters, can make the location pattern of Foreign Direct Investments (FDIs) hosted in a neighboring country. In this section, the location of new manufacturing FDIs of Japan in Korea from 2008 to 2015 is analyzed. The occurrence of “East Japan earthquake” in 2011 changed the location pattern of Japanese FDIs by industry group. However, general attracting factors, such

as easy accessibility to service establishments, continue to be an important location factor, regardless of the industry group. Therefore, to be an effective strategy, the regional economic development strategy of the host country attracting FDIs should be flexible to the sudden changes in the natural environment of the source country of FDIs, and focus more on the general factors which attract FDIs.

The last part of the section is devoted to corruption which is a constant in the society and occurs in all civilizations; however, it has only been in the last 20 years that this phenomenon has begun being seriously explored. It has many different shapes as well as many various effects, both on the economy and the society at large. Among the most common causes of corruption are the political and economic environment, professional ethics and morality and, of course, habits, customs, tradition, and demography. Its effects on the economy (and also on the wider society) are well-researched, yet still not completely. Corruption thus inhibits economic growth, affects business operations, employment, and investments. It also reduces tax revenue and the effectiveness of various financial assistance programs. The wider society is influenced by a high degree of corruption in terms of lowering of trust in the law and the rule of law, education, and consequently, the quality of life (access to infrastructure, health care). There also does not exist an unambiguous answer as to how to deal with corruption. Something that works in one country or in one region will not necessarily be successful in another. The chapter tries to answer at least a few questions about corruption; the causes for it, its consequences, and how to deal with it successfully.

## **2. Financial dimensions (exchange rate and bank finance)**

Financial Dimensions (Exchange Rate and Bank Finance) starts with the chapter on Panel Vector Autoregression (PVAR) models which are employed to examine the relationships between industrial production growth rate, consumer price inflation, short-term interest rates, stock returns, and exchange rate volatility. More specifically, the consequences of the dynamics detected by the models on monetary policy implementation for 10 OECD countries have been explored. This chapter indicates that factors that may cause a rise in short-term interest rates with respect to the USA can lead to volatility in exchange rates and thus macroeconomic instability. It is also implied that sustaining macroeconomic growth and decreasing inflation can result in increased export performance, which, in turn, provides the amount of US dollars to curb volatility in US dollar quotations. Accordingly, this study reveals that high importance should be given both monetary and nonmonetary factors in open-economy framework to detect the possible impacts on trade and capital flows by Dynamic Stochastic General Equilibrium (DSGE) models. Due to their exchange rate risk of economic agents, it is also suggested that the economic policymakers of these countries had better create a theoretical framework including financial frictions, economic agents' preferences, and different shocks to smooth the variations in exchange rates and minimize the negative outcomes of Brexit.

The second chapter in this section is a continuation of previous topics, namely PVAR models are used to determine the impacts of exchange rate volatility on industrial production growth

rate, consumer price inflation, short-term interest rates, and stock returns for 10 OECD countries. The variance decompositions (VDCs) found that exchange rate volatility can be a secondary factor for the variations in immediate interest rates, implying that Uncovered Interest Rate Parity (UIP) condition should be analyzed by the inclusion of other macroeconomic variables. IRFs expose that volatility in exchange rates can have a positive impact on the liquidity conditions in money market and an increase in real economic activity because investors to move their money away from currency markets to money markets. The relatively lower impact of exchange rate volatility may arise from the zero bound problem, thus it is emphasized that the examination of impacts on exchange rate volatility on macroeconomics variables should be made both considering conventional and unconventional monetary policy. Although impulse response functions (IRFs) did not detect the significant impact of exchange rate volatility on inflation, VDCs obtained supporting results to exchange rate pass through (ERPT). It is suggested that the monetary policy to be developed should clarify alternative channels that exchange rate may affect inflation.

The third chapter in this section deals with micro, small, and medium enterprises (MSMEs), which are particularly important for emerging countries. This is primarily because of MSME's potential in job creation. Yet, lack of access to finance is a major obstacle to their growth. The MSEs are more than just GDP earners; they are instruments of inclusive growth. MSEs also act as ancillary industries for large-scale industries providing them with raw materials, vital components, and backward linkages. This sector seeks to empower people to break the cycle of poverty and deprivation. In addition to limited development of industries in North-East Region (NER) of India, there is limited availability of data on whatever industries exist there. Data showing the credit disbursements toward MSME sector by commercial banks in Assam as a percentage of their total credit disbursements do not show a favorable picture for the MSMEs. Majority of the banks' MSME credit disbursement as a proportion to total credit disbursements ranges between 1 and 6%. Formal lending sector is always preferred over informal sector for the MSMEs because of the credibility of such lending institutions. MSMEs need special credit policy especially at the start-up stages. The chapter aims to find out the characteristics of MSMEs operating under rural villages in Assam and also the various problems encountered by them in obtaining finance from banks.

### 3. Technical issues of global operations

Technical Issues of Global Operations consists of two chapters. The first chapter in this section is devoted to numerical computer simulation of the market mechanism, the consolidated order book. The chapter consists of two parts. The first part is devoted to empirical analysis of consolidated order book (COB) for the index RTS futures. In the second part, Poissonian multiagent model of the COB has been considered. By varying parameters of different groups of agents submitting orders to the book, it is possible to model various real-life phenomena. In particular, the spread, the profile of the book, and large price changes have been modeled. Two different mechanisms of large price changes have been considered in detail. One such mechanism is due to a dis-balance of liquidity in the COB and another one is arising from the dis-balance of sell and buy orders in the order flow.

The second chapter in this section investigates the relevance of fundamental analysis (FA) for companies listed on the Euronext 100 index. Can FA provide relevant information that increases understanding of the underlying value of a company? This chapter leverages an FA strategy to select shares in a portfolio that can systematically yield significant, positive excess market buy-and-hold returns, 1 and 2 years after the portfolio formation. Using annual financial data available from 2000 to 2016, this analysis calculates three scores applied to construct the portfolios: the L-score, F-score, and PEIS. These insights inform investors' potential uses of fundamental signals (scores) to obtain abnormal returns. The results show that portfolios formed with high versus low scores earned 1- and 2-year abnormal returns between 2000 and 2016. This chapter contributes to scarce accounting research in European capital markets by further understanding of the possibility of mispriced securities.

Finally, I would like to thank Intech publishing company for giving me the opportunity to become the editor of this book. I appreciate that they believed I could provide the necessary knowledge and technical assistance. We together managed to find the other great colleagues that contributed to this book. I would like to thank all the authors for their valuable contributions that resulted in this book; I think that it will be an asset to the professional community. I would also like to thank our technical reviewers and colleagues at Intech. We could not have done it without you.

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