GABELLI STUDENT THESIS ABSTRACTS: 2012

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The Impact of Tax Policy on Economic Competitiveness in the Nordic Region: Implications for the United States

Daniel Keyes, Christopher Minutoli, and Michael Wolff

Faculty Advisors: Stanley Veliotis and Johanna Francis

The United States currently holds debt equal to roughly 100% of annual GDP, about 70% of which is publicly held. Partisan debate in the country has recently focused on reducing the deficit and, consequently, the national debt. Those who oppose using tax increases to help close the deficit gap tend to do so on the grounds that it will diminish economic competitiveness at a time when the country is emerging from a deep recession.

These concerns, that increasing a tax burden will dampen growth and innovation, are seemingly at odds with the Nordic model supported in Denmark, Finland, Norway, and Sweden. These countries levy some of the world’s highest tax burdens on their respective populations, but boast leading economies in terms of competitiveness and innovation. What accounts for this?

Our goal will be to determine if motivations are fundamentally different in this region by analyzing the impact of changes in tax burden on various indicators of competitiveness, growth, and innovation. Depending on the results of our analysis, we hope to draw conclusions that are pertinent to populist economic theories of taxation and provide some insight into pervading fiscal policy in the United States.
A Comparative Analysis of the Financial Markets of China and India, and the Impacts of Key Regulatory Events

Alissa Brunetti

Faculty Advisor: Yi Tang

China and India are two fascinating nations to study through an economic lens because of their tremendous growth in recent years. Despite the current trend of stagnation in the developed world, China and India have managed to flourish and are now key emerging markets and prominent figures in the global economy. Such an immense increase in output requires simultaneous expansion of a country’s financial sector as demand for funding increases. There are both interesting similarities and differences between China and India’s financial markets that stem from factors like history, corruption level, and investor confidence. For instance, China’s banking sector is the country’s most prevalent form of traditional financing while India’s British-based regulatory system leads it to have a more developed equity market (in theory). Both countries, however, have an alternative financing network due to the inefficiencies of typical methods. My thesis will highlight these commonalities and variations with a qualitative research analysis. I will aim to come to a conclusion about the most effective financing environments in China and India, taking into account both the current conditions and prospects for future growth.

The second part of my thesis will be an empirical event study that will focus on China in two parts. First, I will analyze the results of regressions, comparing returns of both the Shanghai and Shenzhen indexes to three key macroeconomic indicators: GDP growth rates, rate of change of the CPI, and Reserve Ratio. I also will examine the predictive ability regressions I ran for each data set. The event I am examining is China’s transition (beginning mid-2005) from a corporate-ownership policy dictating that most entities be state-owned to one that permits a majority percentage of private ownership. My hypotheses are: 1) that there will be stronger correlations between market returns and macroeconomic variables after privatization and, similarly, 2) that there will be greater predictability of variables by stock returns after privatization. I believe that decreasing government control of firms will increase the implications of stock performance for China’s economy.
Accounting for Business Combinations:
The Implications of SFAS 141(R)

Christina Kennedy
Faculty Advisor: Paul Lynch

The past decade has caused consumers, in particular, to be skeptical of financial markets. The numerous fraudulent-accounting scandals that shocked the world in 2001, including those at Enron, World Com, Adelphi, and Tyco, exposed a gap in the thoroughness and in the consistency of financial reporting standards. While the implementation of Sarbanes-Oxley created stricter regulations on the accounting industry in the United States, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) launched an initiative to create a more universal approach to accounting for business combinations. This joint project to create uniformity in global mergers and acquisitions among other business transactions resulted in the creation of Statement of Financial Accounting Standards (SFAS) 141(R) and International Accounting Standard (IAS) 27.

In the revised reporting standards, a company discloses its business acquisitions in a manner that is truer to the fair market value of the acquisitions than it had been reported prior to these issuances. Therefore, my paper seeks to explain the differences in the method of accounting for business combinations and to demonstrate, through hypothetical financial statement analysis, the actual differences in reporting that arise as a result of this change for a practitioner.

Although the acquisition process and the equity method of consolidation remain the same, under SFAS 141(R) the fair valuation of a shareholder’s equity and earnings per share of the consolidated corporation are greater than that of the consolidated entity under SFAS 141. Do the bolstered return on equity and earnings per share ultimately affect shareholders’ decisions to invest in a business or how much they should invest in a parent company?
The Effect of Self-Construal and Purchasing Patterns on Attention to Product Detail

Caitlin Byrnes and Jessica Castano

Faculty Advisor: Beth Vallen

The purpose of this research is to identify the influence of an individual’s self-perceived levels of independence and his or her consumption patterns on the level of attention said individual gives to product information.

One scalable construct developed by past research to measure levels of independence is “self-construal.” Using a predetermined scale, this research will identify subjects as being either “independent” or “interdependent,” depending on where on the self-construal spectrum they fall. An independent person is less likely to be influenced by his or her peers. Their behaviors, beliefs, and attitudes are centered on their own self, rather than other people.

When examining consumption patterns, this research will focus on utilitarian versus hedonic purchasing tendencies. Utilitarian product attributes detail the more practical features of a good, such as durability or affordability. Hedonic attributes are the “unnecessary” features of a product that may weigh into our decision to buy it. Some examples of hedonic attributes are trendiness and brand recognition.

First, this research aims to determine the link between the two constructs of self-construal and hedonic versus utilitarian purchasing patterns. Second, we hope to identify the relationship this link has with the level of attention paid to product information. The studies done will also determine if peer presence affects the level of attention paid to product information.
The Impact of Globalization on U.S. Private Equity Performance

Yujin Ye

Faculty Advisor: Kevin Mirabile

This paper explores the U.S. private equity (PE) and venture capital (VC) firms investing internationally, with a focus on emerging markets. Investing internationally offers substantial benefits. This paper investigates two major benefits and whether they also can be extended to U.S. PE and VC investments: One is potentially higher return from fast-growing emerging markets, the other is the benefit of diversification. By comparing the performance of those who invest internationally and those invest domestically, this paper attempts to provide a quantitative interpretation of how a globalized portfolio can help to improve the U.S. PE and VC performance.

Corporate Fraud and Economic Factors: United States, 1984 to 2010

Sean Pinckney

Faculty Advisor: Steve Raymar

This paper seeks to examine the possible link between economic factors and the prevalence of corporate frauds in the United States. I believe that my findings will show that periods of extended growth in the economy and stock markets lead to a greater number of frauds occurring during the boom, as executives concoct new ways to keep up with the growth. Periods of declining growth in the economy or stock market will lead to a greater number of frauds reported, according to our hypothesis, as results are brought under questioning. The hypothesis also holds that the passage of new and updated regulation will act as a deterrent to committing fraud, while a lack of regulation will act as a proponent of committing fraud.
This paper will focus exclusively on the United States to isolate the results from other regulatory and economic factors, and also because of the multitude and reliability of U.S. data as compared with less reliable and available data elsewhere. The data will span from 1984 to 2010, encompassing three recessions, numerous stock bubbles and collapses, five presidential administrations, and a multitude of frauds, spanning from the insider-trading scandals of the 1980s to the mutual fund scandals and dot-com crash of the early 2000s and the “Great Recession” of the late 2000s. I feel our biggest contribution to research and literature will be looking at frauds through a historical lens rather than through a case-by-case basis as most literature on the subject has done. By combining this historical perspective with an analysis of economic factors, I hope to provide valuable information and a unique view for future generations to assist them in preventing people from becoming victims to the numerous frauds in corporate America.

A Study of the Impact of Equity Short-Sale Restrictions: Summer 2011 European Bans

Chris Hendrix and Trey Reilly

Faculty Advisor: Christopher Blake

Amid the financial recession of the late 2000s, markets across the globe have met with uncertainty and steep decline. Europe, in particular, has been a region in turmoil, with high unemployment and multiple countries facing debt crises contributing to the chaos. In a move meant to calm the increasingly volatile European markets, the European Securities and Markets Authorities (ESMA) announced that four countries—France, Belgium, Italy, and Spain—had agreed on Thursday, August 11, 2011, to temporarily restrict short-selling across numerous financial stocks. After a 15-day trial period, stock markets in the affected countries had fallen overall, but analysts noted that the fall was likely to occur regardless, and that the short-sale ban may have created greater stability in the markets over the period. In an expected move, the four countries announced on August 26 that they
would extend the existing bans. Previous policy actions of restricting short-selling have been implemented across the globe, most recently with restrictions on 797 financial stocks in the United States in 2008. Numerous studies have attempted to pinpoint the impact such policies have, and the evidence is critical for the decision-making process of policy makers. After conducting a thorough literature review, however, it has become evident that there is no semblance of an overall agreement or consensus among academics as to the impacts such policies have. Thus, this thesis will apply tested, previously used methodologies to a new sample created by the most recent European policies, in the hopes of furthering the understanding of short-sale regulations.

In our study, we analyze the recent bans on short-selling in four European countries—France, Spain, Italy, and Belgium—to determine the impact the restrictions have on market liquidity, volatility, and returns. As past empirical studies on the impact of short-sale restrictions have provided no definitive consensus regarding the effects of such policies, an examination of the most recent short-selling bans in Europe will contribute to the existing literature. Using event-study methodology, we examine the change in volume, variance, and abnormal returns for the restricted stocks in Europe over a short horizon leading up to and following the bans. In measuring the impacted stocks, we will use the stocks’ respective indices as a benchmark in analyzing the effect of the ban. Using measures of quoted spread, return, return volatility, and trade volume for individual stock performance, the study will draw conclusions as to the actual impacts of the short-sale restrictions.
Analyzing the Social Capital Market
Through a Financial Risk Analysis of Community Investing

Chelsea Carges and Delaney Leighton

Faculty Advisor: Yusif Simaan

As American citizens realize the implications of their growing power as consumers combined with the impact that corporations can have on social issues, the importance of the Social Capital Market (SCM) continues to increase. Corporations now realize that social issues cannot be an afterthought; instead, there are real economic benefits to be gained from attempting to solve social problems. The SCM currently holds the interest of 30% of the U.S. market, or 63 million people, who invest in 260 socially screened mutual fund products with assets of $201.8 billion. Additionally, $2.71 trillion dollars are invested in funds, pensions, trusts and other vehicles that use at least one of the three core socially responsible investing (SRI) strategies: screening, shareholder advocacy, and community investing (Saul, 2011).

The authors of this research paper are focusing on one of those three strategies, community investing, and examining the risks and economic and social returns of this strategy. They will then compare these risk and return values to: the greater SCM with the Dow Jones Sustainability World Index (DJSWI) as a benchmark, and a traditional investment route with the Dow Jones as a benchmark. The goal of the research will be to test the following hypotheses:

H1: Community investing allows for a lower-risk investment than traditional investment methods with similar returns.

H2: Companies with higher returns on the Dow Jones Sustainability World Index (DJSWI) also have a greater impact socially.

There are several conclusions that the authors hope to reach through their research in community investing, culminating in a reflection of the SCM and the true economic and social impact that it provides to all associated parties. The authors will work to uncover how the risk, returns, and sustainability of investments relate to each other within the confines of the SCM, as well as the larger economic market.
Neuromarketing: The Effect of Consumer Awareness on Brand Perception and Ethicality

Megan Smith

Faculty Advisor: Yuliya Komarova

In studying the neural activity of the brain, neuromarketing could revolutionize the way market research is conducted. Presently, the metrics and methods available to gain this research are subject to several biases and are unable to tap into the unconscious mind (which makes up 95% of our decision making). Whether in focus groups, interviews, or surveys, it is difficult for people to critically analyze and express subconscious motives or reactions. The aim of neuromarketing is to explain what is going on inside the human brain by using clinical information about brain functions and imaging equipment to look at functional anatomy (the way neurons fire, the cortex or cortexes affected by specific stimuli, the way memories and emotions are encoded, etc.). Neuromarketing is important because it has the potential to offer a more complete picture of what drives consumers to make purchases.

Understanding how consumers feel about neuromarketing, and about companies that use neuromarketing will be increasingly important. This research will show the relationship between consumer awareness of a company’s use of neuroscience and how it affects consumers’ overall perception of the brand and the company’s ethics. In addition, the level of detail, type, and source of information regarding neuroscientific research practices will be studied to see if they impact consumer perception. Since companies cannot hide the presence of neuromarketing from consumers, solutions for managing the use of the technology will be provided.

The research will consist of an experimental survey in which participants will be provided different scenarios regarding a fictional company’s use and implementation of neuroscience. One group of participants will be told that the company uses neuroscientific research, while the other group will not. The unaware group will be used as the control group. Participants will then be asked to use a Likert scale to rate their level of agreement with statements about both ethicality and brand perception.