Summer 2000

Quantity and Quality in Economic Research, Volume IV (Book Review)

Ralph Lim
Sacred Heart University

Recommended Citation

Lim, R. (2000). [Review of the book Quantity and quality in economic research, volume IV]. *Eastern Economic Journal, 26*(3), 368-370.

Ralph Lim, Sacred Heart University

Book review: *Quantity and Quality in Economic Research, Volume IV*. Edited by Theologos Homer Bonitsis and Roy Chamberlain Brown. Aldershot, England: Ashgate Publishing,1997.

ISBN 9781859726822

This volume collects 15 articles focusing on three themes- international financial economics; statistical science and economics; and applied economics and finance.

Five articles deal with international finance. Bonitsis and Kallianiotis offer explanations for persistent U.S. trade deficits. They note that from 1973 to 1992 changing exchange rates did not correct trade imbalances. Despite a declining dollar, U.S. trade deficits remained high. Empirical tests show that several macroeconomic variables can explain U.S. trade deficits: high budget deficits, high national debt, low savings, strong reliance on foreign investment, tastes for foreign goods, high U.S. income elasticity for foreign goods, high U.S. income growth, and a strong U.S. dollar. Analyzing the U.S. trade deficit by focusing only on the value of the dollar tells us only part of the story.

Kasibhatta examines Eurocurrency loans to Brazil and tests the loan pushing hypothesis. Loan pushing implies that high risk borrowers receive more lenient terms. The author's model includes variables such as LIBOR, Brazil's inflation rate, Brazil's debt service ratio, and Brazil's ratio of current account to GDP. Empirical tests show all these variables to be statistically significant. The loan pushing hypothesis is rejected. This implies lender risk aversion toward Brazil.

Malindretos and Tsanacas criticize traditional international finance theory for being overly dependent on the trade balances variable. Furthermore, traditional theory employs many unrealistic assumptions: perfectly competitive markets, perfectly substitutable inputs/products, equal size among nations, and equal importance of all nations. The authors also argue that instead of examining prices, incomes, and interest rates, the root causes for these variables should be examined. In my opinion, these ideas should have been tested empirically.

Rivera-Solis examines data from 1960 to 1983 and shows that multinational bank entry into Spain decreased Spanish banking concentration. This is not a surprising result. What is perhaps surprising is the evidence showing market growth is more important in reducing concentration.

Anastasopoulos compares international trade models and international travel models. While trade models have been used extensively over the past 50 years, international travel models have been developed only recently. Travel models essentially extend trade models; both are highly influenced by the disposable income variable. Not surprisingly, the demand for international travel has high income and price elasticities. A contributing factor to pricing is the currency exchange rate.

Three articles examine statistical science and economics. Shvyrkov analyzes 2x2 tables. Effective use of these tables depends on whether data resembles a "homogeneous invisible population."

Winkler compares statistics textbooks in the U.S. and former East Germany. Unlike those in the U.S., East German texts combine accounting with statistics. Government ownership of the means of production may explain this. East German texts also contain limited coverage of several topics (normal distribution, hypothesis testing, multiple regression, random variables, and time series analysis) discussed substantially in U.S. texts. I wonder if statistics texts in other Eastern Bloc nations follow the East German approach.

Jain and Rowley present a descriptive article about econometrics. Models depend on the methods and assumptions of the builder, so progress can be achieved if computer software can test outcomes based on different approaches. The authors argue that emphasis should be placed on testing the sensitivity of results to different assumptions, rather than focusing on a single result. This article would be more complete if some examples were presented.

Finally, seven articles deal with applied economics and finance. Nicholas discusses state lotteries. As a mature industry with volatile revenues, effective marketing strategies are crucial for lotteries. Several states have targeted advertising toward those demographic groups more likely to play lotteries. This article would have been more comprehensive if it had tested an empirical model using various marketing and demographic variables on lottery sales.

Telofski and Kim offer an "international service market opportunity index" (ISMOI) to estimate service market potential in foreign nations. The goal is to help U.S. firms increase their exports of services. ISMOI is a multiple factor index that includes a foreign nation's population, GDP, and capital formation. Higher ISMOI numbers indicate greater market potential for services. Empirical tests reveal that there is a high correlation between ISMOI predicted rankings and actual rankings of national service consumptions. International service marketers may find ISMOI useful in market research and targeting.

Floros and Tsetsekos examine stock split announcements. While contending that abnormal positive returns are realized for stock split announcements, the authors focus their study on industry effects.

They analyze data from 1963 to 1986 for six different industries. Retail, food processing, and chemical industries show statistically significant positive returns. Petroleum shows lower than normal returns. Utilities and pharmaceuticals are not statistically significant. Thus, returns could depend on industry. In my judgement, other industries should have been examined to further explore industry effects.

Shojai and Kurland present a logit model to predict the success of takeover attempts. Data from 1986-1988 for 37 random acquired firms shows the most significant variables that improve takeover success are: higher earnings growth rate, lower earnings growth variation, lower market value to book value ratio, and lower dividend payout ratio. The model predicts 70 percent of successful takeovers in the original sample. For another sample of firms, the model predicts 50 percent. This model's predictive power is therefore not strong enough and further refinement is needed.

Randall and Chen discuss home mortgage refinancing decisions by comparing corporate bond refunding and home mortgage refinancing. Corporate bond analysis usually assumes that the maturity of new bonds equals the remaining maturity of old bonds. This is usually not the case for refinancing home mortgages. Annual corporate bond interest is usually constant. Home mortgage interest declines every year. Using these differences, a method is developed to determine the feasibility of home mortgage refinancing.

Arize and Ndubizu discuss the impact of SFAS 52 on forecasting. Before SFAS 52, foreign currency translation amounts were placed on income statements. This resulted in volatile yearly earnings for multinational firms. Under SFAS 52, translation amounts are excluded from the income statement. This makes earnings less volatile. Less volatile earnings should reduce earnings forecast errors. The authors examine results for pre- and post-SFAS 52. Not surprisingly, they found smaller forecasting errors in the latter period.

Rezvani, Bonitsis, and Geithman examine the economic determinants of male juvenile crime in New York City between 1970 and 1980. They find highly significant relationships between arrest rates and real per capital income. When the real per capita income of potential victims increases, there is greater incentive for crime. It is interesting that other variables tested (unemployment, welfare aid, divorce rate, race demographics, and school attendance) were not found to be statistically significant. Perhaps this is due to multicollinearity. Some variables should have been omitted in order to see if other variables became statistically significant.

Generally, this volume is a collection of articles about various issues. The articles represent a potpourri of issues, rather than a concentrated study on one specific topic. Consequently, this volume is good for the generalist. However, someone seeking information on a specialized topic will need to look elsewhere.