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Table of Contents

Cristiana Ecaterina **BANU**
The main way of reforming property – consolidating the privatisation process … 109

Anca Mădălina **BOGDAN**
European Union funds – a solution for the Romanian economic recovery … 115

Abbes Mouna **BOUJELBÈNE**
A behavioural explanation for the asymmetric volatility effect … 121

Marius **DINCĂ**
Roxana Maria **GÎDINCEANU (DRAGOMIR)**
The analysis of the management of Romanian investment funds using econometric methods ...132

Camelia **FIRICĂ**
Considerations upon Anglicism in the field of Romanian economic language … 144

George **HALKOS**
Environmental pollution and economic development: Explaining the existence of an environmental Kuznets curve … 148

Oleg **KITOV**, Ivan **KITOV**
A win-win monetary policy in Canada … 160

Rajmund **MIRDALA**
Financial deepening and economic growth in the European transition economies … 177

THE MAIN WAY OF REFORMING PROPERTY – CONSILIDATING THE PRIVATISATION PROCESS

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Abstract:

Representing a basic element in restructuring the economy, privatization must not be seen as an aim in itself or as an ideological axiom; it represents a logical component of a much wider reform programme, the dimension and sequence of the various stages and measures of the reform influencing its nature and perspective of success. The economical and social significance of privatization must be assessed by relating it to the economical efficiency, respectively to the extent by which it supports its increase on the long run.

The essential and fundamental condition of turning to the market economy consists in the economic agents' decisional autonomy, which is indissolubly connected in its turn to the problem of property. Therefore, the main way of reforming the property consists in consolidating the privatization process, the two concepts being closely related to one another, so that privatization cannot exist without privatization.

Key words: *property, privatization, reform.*

1. Introduction

The meaning we give to the privatization term is that of total or partial civil circuit transition of the production means that are in the property of some economic agents such as the state, into the property of some economical associations of private feature and individuals, under the conditions of a market with various degrees of freedom. By introduction in the civil circuit we understand a free circulation of the production means on a market where the price if formed freely based on the convergence between demand and supply.

Privatisation does not form a purpose in itself. The economical and social significance must be assessed by relating it to the economical efficiency, respectively to the extent by which it supports its increase on the long run.

Restructuring the economy represents the quintessence of transition, being also called the true reform, meaning the assembly of the transformation processes of the real economy, the only one to sustain reaching the targets of transition in the assembly of economy (Drăghici 2004).

Restructuring implies measures of restructuring the property, the banking system, tax system, a structural reform by changing the share of the branches and sectors, creating the markets and the social protection system.

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EUROPEAN FUNDS – A SOLUTION FOR THE ROMANIAN ECONOMIC RECOVERY

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Abstract

In Romania, the economic agents are used to excessively consume raw materials and energy without ensuring, in compensation, the corresponding added value. Thus, it is no wonder that the insolvency is a frequent phenomenon. Another problem of Romania's economy is determined by the improper costs/prices- profits report, correlated with the supply and demand of the market. If the firms do not take into account the laws of the real market, the risk and the profits, they will not be able to avoid insolvency, since the economic decisions, often disastrous, will continue to promote inefficiency. Many factories are temporarily insolvent, even if they function properly, because their partners have delayed the payments or haven't respected the contract by delaying the deliveries of parts, raw materials and services. When the mechanism of taking/profits and payments is blocked because of the lack of cash at a certain link of the economic cycle, the activity of many commercial agents, connected by several transactions, is threatened.

Key words: economic crisis, dynamic model, supply and demand.

JEL Classification: F21, G30, G33, M21, M48.

1. Introduction

Worldwide, Romania is not situated in the last group, but if we compare it with other European countries, we realize that along with Bulgaria, Romania places itself among the last. What is really important for Romanians is that the international financial institutions and the EU intend to support the economic recovery of Romania. The representatives of the World Bank, of the European Bank for Investments and of the International Monetary Fund came almost at the same time in Bucharest in order to support Romania. Due to the external support, the government succeeded in concluding an agreement with the IMF and the EU, in order to obtain funds to stop the fall of the Romanian economy. The agreement was concluded for an amount of 12.95 billion Euros with the IMF for two years' period. The total package of external financing with the fund, the EU, the World Bank and the European Bank for Reconstruction and Development (BERD) reaches a total of to 19.95 billion Euros.

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A BEHAVIORAL EXPLANATION FOR THE ASYMMETRIC VOLATILITY EFFECT

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Abstract:

In this study, we test whether the behavioural bias labelled "disposition effect", defined as the tendency of investors to ride losses and realize gains, leading to asymmetric return-volatility relation before and during subprime crisis periods. The study of the cross-sectional relation between past cumulative return, current return and volatility shows that volatility is less sensible to return chocks when cumulative past return is positive. Using the capital gain measure of Grinblatt, and Han (2005), we examine the relation between capital gain, current return and volatility for American stocks during tranquil and turmoil periods. We find that negative capital gain of disposition investors explain a large part of asymmetric volatility mainly in subprime crisis period. Moreover, volatility is less sensitive to return shocks under positive capital gain before subprime crisis. Although, during subprime crisis period positive capital gain increases volatility of bigger stocks. This finding can be explained by the loss aversion bias which leads investors to take their positions because of increasing of failure risk during global financial crisis period.

Keywords: asymmetric volatility; disposition effect; behavioural finance; subprime crisis, capital gain

JEL Classification: C32, F15

1. Introduction

It has been a challenge for financial economists to explain a stylized fact that volatility is negatively correlated with lagged returns, a phenomenon known as the asymmetric volatility effect. There is an ongoing debate concerning the appropriate interpretation of this phenomenon.

The two documented theories associated with this negative relation are the leverage effect hypothesis and the feedback hypothesis. The leverage effect hypothesis suggests that negative shocks to returns increase financial leverage, making stocks riskier and therefore subsequently driving up the volatility (Black 1976), and Christie 1982). The feedback hypothesis postulates that positive shocks to volatility cause negative returns (Pindyck 1984, and French *et al*. 1987), and Campbell, and Hentschel 1992). This hypothesis relies on the existence of time-varying risk premiums as the link between changes in volatility and returns (Poterba, and Summers 1986).

However, both of leverage effect and feedback hypotheses have been questioned. Papers studying the leverage hypothesis (Schwert 1989) have argued that it cannot fully account for the volatility response to stock price changes. The feedback hypothesis is controversial because it hinges upon a positive correlation between expected return and volatility (Avramov *et al.* 2006).

Recently, behavioral finance provides a convening explanation for the asymmetric volatility effect. This explanation may be derived from psychology of judgment and choice such as the impact of the loss aversion bias and the disposition effect. Disposition effect, first documented by Shefrin, and Statman (1985), suggests that investors tend to hold assets on which they have experienced paper losses, but they tend to sell assets on which they have experienced paper gains. Consequently, for loser stocks, investors subject to disposition effect hold their stocks, resulting in illiquidity for the stock, mainly for negative current returns. If demand shocks cause price changes as in Campbell *et al.* (1993), then these price changes will be more intense due to illiquidity. For winner stocks, disposition investors are willing to sell their shares, making the market more liquid for the stock. Then, volatility should increase less in the presence of demand shocks.

Fewer studies have been interested to the relation between conditional volatility and disposition effect (Cunha 2009, Hibbert *et al*. 2008). In this paper, we test whether the disposition effect leading to asymmetric volatility in the American stocks market during the period of January 1999 to August 2010.

Our sample period is characterized by the occurrence of the current global financial crisis following the advent of the subprime mortgage crisis in the United States. This crisis is considered as one of the most serious and dramatic international financial crises of recent decades. During this turmoil period all indices fall about 30-40% in the period of mid-September to the end of October 2008 (Batram, and Bodnar 2009). The current financial crisis affects considerably the market volatility which has been high during mid 2007-2009, particularly during the 2008 period.

Since the significantly effect of this crisis on volatility, this paper explores the contribution of disposition bias to explaining asymmetric volatility before and during global financial crisis. Disposition effect is estimated using the Grinblatt, and Han (2005) measure for capital gains (losses) based on past prices and stocks turnover.

Thus, this paper makes an original contribution in understanding the asymmetric volatility effect under global financial crisis and adds to the existing literature.

The rest of the paper is organized as follows. Section 2 presents the literature review of asymmetric volatility and disposition effect. Section 3 describes methodology and data. Section 4 reports the empirical results. Section 5 concludes the paper.

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THE ANALYSIS OF THE MANAGEMENT OF ROMANIAN INVESTMENT FUNDS USING ECONOMETRIC METHODS

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Abstract:

The object of this particular research paper is the analysis of all five investment funds in Romania, having five or more years of continuous activity on the Romanian capital market, through 60 monthly probes. Within a context of a macroeconomic environment characterized by uncertainty, a correct assessment of an investment prior to its inception becomes impetuously necessary. The starting point of this research was facilitated by similar studies in the field such as Sinclair (1990) Phoon, Tan (1993), Gallo, and Swanson (1996). The methodology of research includes testing of managerial abilities based on the established models of Jensen (1968), and Henriksson , and Merton (1984). The added value of this paper consists in the inclusion of two other aspects: namely the yield and the global risk associated to the portfolio using the CAPM model and the stationarity analysis of the series based on the Ljung-Box and the Box-Pierce tests. One of the conclusions of this research was that none the fund managers have either "selection ability" or "timing ability". However, risk and return analysis determined that the same group of managers achieved a harmonious grouping of the companies in their respective portfolios. As a result of the analysis performed, all data series were proven to be non-stationary, the funds themselves presenting a type DSP non-stationarity compared to the TSP type non-stationarity of the BET index series. Therefore, we used differentiation for the fund share price value and we have eliminated the trend of the BET index series using the Moving Average.

Keywords: selection ability, timing ability, risk, yield, volatility, stationarity

1. Introduction

The aim of this research was a performance assessment of all five investment funds in Romania with a constant activity on the market of at least five years, using the appropriate methodology in the field, based on econometric models and previous similar studies. The analysis is based on the share price value of the investment funds, the share price value of the companies in the respective portfolios, the BET index, and the ROBOR rate with a maturity of three months.

The data gathering method employed periodic samples from the web sites of the specific funds, The Romanian Stock Market, and the National Bank of Romania. The study is based on 60 monthly probes over a time period of five years, specifically from December 2005 through December 2010. All retrieved data was computed through Excel and SPSS. Similar studies assessing managerial abilities have been performed by various economists worldwide: Henriksson (1984) established that none of the 116 analyzed U.S. funds were endowed with "timing ability". A similar conclusion was drawn by Sinclair (1990) based on a case study of 16 Australian funds, with the notable exception of only one fund which presented the above named ability. Using the same methodology Koh, Phoon, Tan (1993) in Singapore, and Gallo, and Swanson (1996) concluded that none of the fund managers proved "timing ability", but some did display "selection ability."

This research is based on the same methodology employed in the above mentioned studies and is structured into six distinct parts. The first part consists of the starting point of the study. Throughout the second we have tested the efficiency of the Romanian capital market. The two abilities, "timing" and "selection" based on the Jensen's Alpha (1968), and the Henriksson, and Merton (1984) models, were the object of the study in its third section. The CAPM model based on which we determined the correlation coefficients between the stocks, the volatility coefficients, risk and portfolio yield were examined in the fourth part. In the fifth section we tested the stationarity of all series, the last part being left for conclusions.

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CONSIDERATIONS UPON ANGLICISMS IN THE FIELD OF ROMANIAN ECONOMIC LANGUAGE

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Abstract

The new historical context, with all its implications at the political, economic, social, technological, cultural levels has definitely marked language, which began to reflect by its increased dynamism, particularly in its lexical compartment, the current Romanian reality and transformations. The paper tackles the issue of Anglicism in Romanian economic language and emphasises matters concerning the causes and justifications that determined their use to such a great extent during the past decades.

Key words: *anglicisms, vocabulary, borrow, reality, attitude.*

Introduction

The last 20 years of Romanian history marked by the transition from a totalitarian system to a democratic one have left a deep imprint on the political, social, economic, technical, scientific, cultural and day-to-day life of the country. The transition from a planned economy to a free market economy, from a single party system to a multiparty one, from censorship to freedom of speech and expression, in a word, the transition from dictatorship to democracy entailed profound changes in all areas, illustrated by vocabulary - the most unstable of all language compartments. [Graur, (1978: 5)]

As long as changes in vocabulary are parallel with the society's evolution, the Romanian lexicon has been unquestionably marked by the new historical context, which began to mirror the current Romanian realities and transformations. New words that were absent before appeared concurrently with the object or concept they defined. [Graur, (1978: 6)] Under these circumstances, year after year, with each change in any of the areas mentioned, Romanian has stepped up to the otherwise normal process of borrowing foreign words, keeping up with the new realities of the material and spiritual life.

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ENVIRONMENTAL POLLUTION AND ECONOMIC DEVELOPMENT: EXPLAINING THE EXISTENCE OF AN ENVIRONMENTAL KUZNETS CURVE

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Abstract

In this paper we examine the concept of an Environmental Kuznets Curve (EKC) hypothesis in a critical way aiming to justify its existence as well as to propose policies compatible with sustainable development. For this reason, we make use of a data set on CO_2 emissions for 32 countries over a 36 year time period. For this balanced panel database, we apply a number of econometric methods to estimate the income-environment relationship. Our results indicate the existence of N-shaped relationship between economic development and pollution. However we show that the turning points calculated by panel data analysis may not reveal the actual turning points valid for individual countries. In our case and using different countries from different geographical regions we found a mixture of monotonic or inverted U-shape or N-shape behaviour. Countries are heterogeneous with different stochastic regression coefficients. This implies that the use of the total N-shape income-environment relationship by policy makers may be misleading with serious policy ineffectiveness implications.

Keywords: Environmental Kuznets Curve; Panel Data; CO_2 emissions.

JEL Classification: Q56, O20, C23.

1. Introduction

Kuznets (1955) showed that during the various economic development stages, income disparities first rise and then begin to fall. Degradation tends to be higher in many middle income countries in comparison to less developed countries. The environmental Kuznets curve (hereafter EKC) hypothesis proposes that there is an inverted U-shape relation between environmental degradation and per-capita income. In this paper, we examine the concept of an environmental Kuznets curve in a critical way with an eye towards proposing policies compatible with sustainable development. Environmental damage seems to be lower in the most developed countries compared to many middle-income countries and higher in many middle-income countries compared to less developed countries.

A number of alternative theories of the economy-environment relationship exist and are presented in Everett et al. (2010). Namely, the *limits theory* defines the economy-environment relationship in terms of environmental damage hitting a threshold beyond which production is so badly affected that the economy gets smaller. The *new toxics view* relies on the idea that emissions of existing pollutants are decreasing with further economic growth but the new pollutants substituting for them increase. This view questions the existence of turning points and considers the possibility that environmental damage continues to increase as economies grow (Everett et al., 2010). Similarly the *race to bottom theory* states that international competition initially leads to increasing environmental damage, up to the point when developed countries start reducing their environmental impact but also export polluting activities to poorer countries. The net effect, in the best case scenario, is a non-improving situation. Finally, the *Porter's Hypothesis* refers to growth and environment as a false dichotomy and finds that well-designed environmental policy can increase R&D into resource efficient products and processes, resulting in improved business competitiveness and profitability (Everett et al., 2010).

Empirical formulations of the environment-income relationship and the exploration of the EKC hypothesis rely on the econometric specifications that consist of an environmental damage indicator as depending on an economic variable representing economic development like GDP/c in level, square and cubic values as independent variables. Due to lack of data different variables have been used so far in empirical modeling to approximate environmental damage like air pollutants (SO_X, NO_X, CO_2, PM10, CO, etc.), water pollutants (e.g. toxic chemicals discharged in water, etc.) and other environmental indicators (e.g. deforestation, municipal waste, energy use, urban sanitation and access to safe drinking water).

This paper is organized as follows. Section 2 discusses the existing theoretical and empirical work. Section 3 comments on the reasons for justifying an EKC, while section 4 presents the econometric models used in this study. The empirical evidence is presented in section 5. The final section concludes the paper.

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A WIN-WIN MONETARY POLICY IN CANADA

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Abstract

The Lucas critique has exposed the problem of the trade-off between changes in monetary policy and structural breaks in economic time series. The search for and characterization of such breaks has been a major econometric task ever since. We have developed an integral technique similar to CUSUM using an empirical model quantitatively linking the rate of inflation and unemployment to the change in the level of labour force in Canada. Inherently, our model belongs to the class of Phillips curve models, and the link between the involved variables is a linear one with all coefficients of individual and generalized models obtained by empirical calibration. To achieve the best LSQ fit between measured and predicted time series cumulative curves are used as a simplified version of the 1-D boundary elements (integral) method. The distance between the cumulative curves (in L^2 metrics) is very sensitive to structural breaks since it accumulates true differences and suppresses uncorrelated noise and systematic errors. Our previous model of inflation and unemployment in Canada is enhanced by the introduction of structural breaks and is validated by new data in the past and future. The most exiting finding is that the introduction of inflation targeting as a new monetary policy in 1991 resulted in a structural break manifested in a lowered rate of price inflation accompanied by a substantial fall in the rate of unemployment. Therefore, the new monetary policy in Canada is a win-win one.

Keywords: structural break, inflation, unemployment, labor force, modeling, Canada

JEL classification: E3, E6, J21

1. Introduction

The Bank of Canada was one of the first worldwide to announce the policy of inflation targeting between 1 and 3 percentage points per year (Bank of Canada 2010). This objective was originally articulated in 1988 and this new monetary policy was formally introduced in 1991. The goal to retain the level of price inflation in the designated range may introduce a measurable disturbance in a given economy and affect the links between major macroeconomic variables, as was explicitly indicated by Lucas (1976). Then, the basis of price inflation targeting might be corrupted since inflation sensitivity to other macroeconomic variables may change. In this case, one would have observed "structural breaks" in the relationships between such macroeconomic time series as inflation and unemployment (or some other measures of economic activity), i.e. sudden changes in the related empirically derived coefficients (Hostland 1995).

In this paper, we quantitatively estimate and statistically characterize the evolution of several deterministic relationships between inflation and unemployment in Canada. One of our major objectives is to reveal and better estimate in time and amplitude the structural break potentially associated with the introduction of inflation targeting. For this purpose, we have adapted from physics and engineering the method of boundary elements in its simplified form of cumulative curves, which is complementary to the econometric techniques based on dynamic and differentiated time series. In some cases, the dynamic approach is subject to type I spurious regression damaging the estimation of actual links between time series (Chiarella, and Gao 2002).

Having estimated with the 1D boundary elements method a number of statistically reliable deterministic models of inflation and unemployment (Kitov, and Kitov 2010) we are able to find the trade-off between these variables, which may be best expressed in cumulative values (integrals). Page (1954) introduced a technique for univariate time series, which comprises the statistical basis for our empirical approach. This is a well-known CUSUM (cumulative sum) control chart. We use essentially bivariate and trivariate deterministic model with nonstationary time series and have to calibrate the model together with testing for structural breaks. Therefore, it is instructive to plot both (measured and predicted) times series instead of their demeaned difference. However, all statistical inferences related to the CUSUM method can be applied one-to-one to the model residual.

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FINANCIAL DEEPENING AND ECONOMIC GROWTH IN THE EUROPEAN TRANSITION ECONOMIES

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Abstract:

Various effects of the financial deepening came to the centre of academics as well as policy-makers discussions during last four decades especially in relation to the financial sector development. Together with financial liberalization and international financial integration economists focus their attention to the financial deepening especially due to its potential effects on the real economy. Perspective of the fast and sustainable economic growth at the end of the 1990s increased an attractiveness of the European transition economies (ETE) for the foreign investors that resulted in increased foreign capital inflows to ETE. International capital inflows (especially debt and portfolio capital flows) stimulate financial deepening through higher demand for financial services. As the underdeveloped financial markets obviously constrain domestic capital mobilization, the international financial integration is considered to be very useful vehicle in fostering financial sector advancement. One of the most discussed areas related to the overall effects of the financial deepening is a bi-directional relationship between financial development and economic growth. It is generally expected there is a positive effect of financial development on economic growth. On the other hand especially some country-specific institutional characteristics and different policies may significantly distort positive incentives of the financial deepening.

In the paper we analyze the main aspects of the financial deepening in ten ETE in the period 2000-2010 using vector error correction model (VECM). In order to meet this objective we implement a multivariate cointegration methodology introduced by Johansen (1988, 1991) and Johansen and Juselius (1990) to estimate the relationships between financial depth indicators and real output in the selected group of countries. To find the order of integration of endogenous variables we test the time series for the unit root presence. In order to determine cointegrating (long-run) relationships, we follow a Johansen cointegration procedure to perform the trace test and maximum eigenvalue test. We also test the direction of the causality relationships between financial depth indicators and real output using linear Granger causality test. Using the estimated VEC model, the dynamic responses of the endogenous variables to the money stock, domestic bank deposits and domestic bank loans one standard deviation shocks are computed for each country from the group of ETE.

Keywords: financial deepening, economic growth, vector error correction model, granger causality, impulse-response function

JEL Classification: F43, G14, G15, O16

1. Introduction

Various effects of the financial deepening came to the centre of academics as well as policy-makers discussions during last four decades especially in relation to the financial sector development. Together with financial liberalization and international financial integration economists focus their attention to the financial deepening especially due to its potential effects on the real economy. Size of the financial sector is usually closely related to the overall economic performance of the country. It seems the higher is the per capita income in the country the faster is the growth in the financial assets.

Perspective of the fast and sustainable economic growth at the end of the 1990s increased an attractiveness of ETE[1] for the foreign investors that resulted in increased foreign capital inflows to ETE (Stiglitz 2000; Rose 2005). As a result many countries from the group worsened their international debt position. While the effects of the foreign direct investments are well described in the present literature, the role of the portfolio investments is typically underestimated. It is typically the result of the low developed domestic financial markets in ETE (Buiter,Taci 2002; Blanchard 1984). In

[1] To the informal group named as European transition economies we consider new European Union member countries - the former central planning economies including Bulgaria, Czech republic, Estonia, Lithuania, Latvia, Hungary, Poland, Romania, Slovak republic and Slovenia.

addition to this obvious trend, changes in the external capital portfolio structure reflected the progress in the domestic economic, institutional and financial system reforms, increasing the reliance of foreign investors to allocate more direct and portfolio equity investments in those countries. In comparison with the old EU member countries the effects of the international capital flows in ETE doesn't necessarily reach the generally expected intensity, while the overall outcome can be distorted or even opposite (Edwards 2001; Edison, Ross, Luca, Torsten 2002; Bekaert 2005).

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