

INDEX

- Agency theory, 112–113
- AQR. *See* Asset quality review (AQR)
- ARMA model, 95
- Asian financial crisis, 214
- Asian firms, 214
- Asian markets, 64, 66, 68–69, 75, 84
 - monthly stock returns for, 69
- Asset pricing model
 - capital asset pricing model (CAPM), 89–90
 - intertemporal, 66
 - Sharpe-Lintner CAPM, 89–90
 - five-factor, 105–106
 - intertemporal capital, 66
- Asset quality review (AQR), 202
- Asymmetric capital gain taxes, 29, 44, 55–56
- Asymmetric taxation, 29
- Autoregressive conditional
 - duration (ACD) model, 164–165
- Autoregressive conditional
 - heteroskedasticity (ARCH) model, 163
- Banco Bilbao Vizcaya Argentaria* (BBVA), 257
- Banco de Crédito e Inversiones* (BCI), 256
- Bank leverage decisions, 232–233
- Bank of Mongolia (BoM), 110
- Bank performance (Chile, Colombia, and Mexico)
 - commercial loans, consumer loans, and housing loans, 271
 - data and methodological study, 262–268
 - in emerging markets, 258
 - hypotheses development, 259–262
 - net income and administrative expenses, 273
 - nonperforming loans, 269–270
- Bank's leverage behavior
 - following a SCR/UCR change, 242–243
 - near a SCR or UCR change, 239–242, 245–246
- Bank-specific factors, 205
- Barclays Bond Index, 21–22
- BBVA. *See* *Banco Bilbao Vizcaya Argentaria* (BBVA)
- BCI. *See* *Banco de Crédito e Inversiones* (BCI)
- Bond
 - bondholder, 34–35
 - investors, 32
 - pricing, tax effects on defaultable, 28
 - See also specific types of bonds*
- Bond market
 - catastrophe, 1–2
 - treasury, 157–158
- Bond market, cat, 5–7
 - and consumption growth rates, 3
 - performance of, 3
 - quantitative evaluation
 - calibration, 13–17
 - cat bond returns, 17–18, 19
 - habit sensitivity, 24–25
 - market price of cat risks, 18–21
- Bond prices, effects of microstructural factors on government, 157–158
- Bond spreads, 2–4

- Book-to-market ratio (B/M),
90–91
- Breusch–Godfrey test,
95–96
- Buy-and-hold trading strategy,
29–30, 33–34
- Capital asset pricing model (CAPM),
89–90
intertemporal, 66
Sharpe-Lintner CAPM,
89–90
- Capital gain, 28, 30–31, 55, 56
long-term, 31, 32
and losses, 31
short-term, 31, 32
tax penalty on, 44–45
- Capital gain tax, 31
asymmetric, 29, 44, 55–56
rate, 30
- CAPM. *See* Capital asset pricing
model (CAPM)
- Catastrophe bond market, 1–2, 9
- Catastrophic risks, market price of, 20
- Cat bond, 16
feature of, 5
individual, 2–4
origination, 5
portfolio using, 2
quantitative evaluation of, 2
returns, 17–18, 19
vs. corporate bonds, 21–24
- Cat bond market, 5–7
and consumption growth rates, 3
performance of, 3
quantitative evaluation
calibration, 13–17
cat bond returns, 17–18, 19
habit sensitivity, 24–25
market price of cat risks,
18–21
- Cat risk, market price of,
18–21
- CFP. *See* Corporate financial
performance (CFP)
- Chile
economy, 256
GDP of, 256
macroeconomic indicators, 263
worldwide business indicators,
265
worldwide governance indicators,
266
- CO-AR
estimation, 91–95
estimator, 91, 92, 96–99, 101,
103–105
method, 98–99, 101–103, 105
- Cobb-Douglas technology, 225
- Cochrane-Orcutt transformation, 91
- Colombia
Central Bank, 256–257
economy, 256–257, 264
International Monetary Fund
(IMF), 256–257
macroeconomic indicators, 263
worldwide business indicators, 265
worldwide governance indicators,
266
- Commercial banks, non-performing
assets (NPAs) of, 201–202
- Conflict of interest argument,
232–233, 234
- Constant relative risk aversion (CRRA)
preferences, 4, 9, 18
- Corporate bonds, 28, 32
coupon payments on, 30
investors, income tax rate, 46
returns, 28
vs. cat bonds, 21–24
- Corporate financial performance
(CFP), 109–110, 111
measurement, 115–116
vs. Corporate social responsibility
(CSR), 116, 117
- Corporate governance, 214
- Corporate social responsibility (CSR),
109–110, 111
altruistic, 116
correlation tests, 131–134
descriptive statistics, 128–131

- disclosure, 118–120
 - content analysis, 114–115
 - effect of CSR on profitability, 112
 - indicators, 121
 - measurement, 117–122
 - of CSR index, 114–115
 - in Mongolian banking sector, 112
 - multiple regression analysis result, 135–140
 - regression models, 124–128
 - reputation ratings, 115
 - robustness tests, 140
 - testable hypotheses, 122–124
 - themes, 113–114
 - theories, 112–113
 - vs. corporate financial performance (CFP), 116, 117
- Corporate social responsibility disclosure (CSR), 120–121
 - content analysis, 114–115
- Corporate social responsibility qualitative disclosure (CSRQD), 112, 121–122
- Corporate social responsibility reporting disclosure (CSRRD), 112, 120–121
- CRAs. *See* Credit rating agencies (CRAs)
- Credit-constrained entry, 227–228
- Credit constraint, 224
- Credit rating, 231–232
- Credit rating agencies (CRAs), 232, 233–234, 235, 241–242, 248–249
- CRHIGH (CRLOW), 241–242
- CRHOL, 243
- CRIG, 242, 244
- CRRA preferences. *See* Constant relative risk aversion (CRRA) preferences
- CRSG, 242, 244
- CSR. *See* Corporate social responsibility (CSR)
- CSR. *See* Corporate social responsibility disclosure (CSR)
- Defaultable bond pricing, tax effects on, 28
- Default-free bonds
 - tax-timing option values of equilibrium prices and, 41–45
 - prices and, 38–41
- Default risk, 28, 41
 - effect of, 28–29
 - impact of, 59
 - sensitivity of tax-timing option values to, 47–51
- “de minimis” OID, 30–31
- Discount bond, 34, 44–45
- Domestic market, empirical estimations, 73–76
- Downside risk, 64, 67, 68, 73–74, 75
- Dynamics of returns, volatility, and trades, 159–163
- Economic policy uncertainty (EPU), 63–64, 65, 67, 69, 75
 - evidence of international EPU influence, 77
 - indexes, 69
 - for markets, 71–72, 73
 - time effects of, 81–84
- Economic primitives, exogenous risk and, 7–9
- Efficient market, 91–92
- EGSF. *See* Employment Generation Support Fund (EGSF)
- Emerging markets, bank performance in, 258
- Empirical estimation, implications for, 56–59
- Employment Generation Support Fund (EGSF), 123
- Endogenous firm entry, 223
 - as propagation mechanism, 226–228

- Endogenous risk premia and sensitivity parameters, 9–13
- Environmental, social, and governance (ESG) ratings, 113–114
- Equilibrium prices and tax-timing option value, of default-free bonds, 41–45
- Equity price, 156
- Ethical Investment Research Service (EIRIS), 113–114
- Exogenous risk and economic primitives, 7–9
- Extent of Disclosure Index, 258
- External habit, formation preferences, 8
- Fama and French (FF) three factor model, 90–92
asset pricing model, 105–106
- FBRs. *See* Fitch's Bank Individual Ratings (FBRs)
- Federal Reserve System, 157
- Federal taxes, 32
- Fed's policy, 157
- Financial assets, transaction data for, 156
- Financial crisis, Asia, 214
- Financial Industry Regulatory Authority (FINRA), 2
- Financial Regulatory Commission, 110
- Financial sector, hypotheses development, 262
- Financial Times Stock Exchange (FTSE), 64
- FINRA. *See* Financial Industry Regulatory Authority (FINRA)
- Firm entry, endogenous, 223
as propagation mechanism, 226–228
- Fitch's Bank Individual Ratings (FBRs), 233, 237, 238, 241–242
- Fixed-income markets, 156
- Fixed income, Merrill Lynch fixed income database, 24
- Flexible-price model, 223
- Forced liquidation, 28–29
- Foreign banks, 255–256, 257, 258–259, 260–261, 270
- Foreign ownership of banks, hypotheses development, 262
- French Financial Security Law, 215
- FTSE. *See* Financial Times Stock Exchange (FTSE)
- GARCH. *See* Generalized autoregressive conditional heteroscedasticity (GARCH)
- GAR tests. *See* Gradation among rating (GAR) tests
- GDP, 29, 202, 203, 256, 262–264
- GEDGARCH- M process, 84
- Generalized autoregressive conditional heteroscedasticity (GARCH)
effect, 159
model, 64–65, 73–74, 75
- Generalized error distribution (GED), 68
- Gifted rating scales (GRS) test, 90–91
- Gradation among rating (GAR) tests, 244
- Growth rate of the economy (GR), 210
- GRS test. *See* Gifted rating scales (GRS) test
- Illiquidity problem, 242
- IMF. *See* International Monetary Fund (IMF)

- Impulse response
 - analysis, 196
 - function, 164–166, 179–187
- Income tax rate, for corporate bond investors, 46
- India non-performing assets (NPAs), trends in, 203
- Inflation (INF), 210
- Information-based trading, 158, 159
- Informed trading, 158, 159, 161–162, 166–167, 178, 179
 - differential effects of, 194
 - impact of, 196
 - intensity of, 196
 - proportion of, 190, 196
- Informed volatility, 191
- Institutional development, hypotheses development, 262
- Institutional investors, 242
- Insurance-linked security, 5–6
- Interdealer trading, 157
- Interest rate volatility, changes in, 46–47
- International Fund for Agricultural Development (IFAD), 123
- International Monetary Fund (IMF), 256–258
- Intertemporal capital asset pricing model, 66
- Intertrade arrival time, 164–166
- Investor, 9, 28
 - bond, 32
 - buy-and-hold, 33, 34
 - corporate bond, income tax rate for, 46
 - with external habit formation preferences, 8
 - institutional, 242
 - risk-aversion, 65
 - uninformed, 231–232

See also specific types of investor
- Investor-pay model, 234–235
- IRS, 31
- Issuer-pay business model, 234–235
- Japanese markets
 - listed subsidiaries in, 213, 214–215
 - data and sample selection, 216–218
 - hypothesis development, 215–216
 - logistic regression analysis, 219–221
 - univariate analysis, 218–219
- Katrina (2005), 2–4, 6, 18–19, 21
- Kinder, Lydenberg, and Domini (KLD), 113
- Kolmogorov–Smirnov test, 134
- Labor supply, product variety and extensive margin on, 227
- Laissez-faire approach, 256
- Lehman Brothers, 5
- Liquidation, forced, 28–29
- Listed subsidiaries in Japanese markets, 213, 214–215
 - data and sample selection, 216–218
 - hypothesis development, 215–216
 - logistic regression analysis, 219–221
 - univariate analysis, 218–219
- LM test for serial correlation, 95
- Macroeconomic determinants, 204
- Macroeconomic factors, 204–205
- Macroeconomic indicators, 263
- Market microstructure models, 161
- Market microstructure theory, 161–162, 192–194
- MDH. *See* Mixture of Distribution Hypothesis (MDH)
- Mexico
 - banks in, 258
 - macroeconomic indicators, 263
 - worldwide business indicators, 265
 - worldwide governance indicators, 266

- Microstructure theory, 155–156, 161, 166, 194
- Mincer-Zarnowitz method, 192
- Minority shareholders, 214
- Mixture of Distribution
Hypothesis (MDH) model, 162–163
- Monetary policy, 157
- Mongolia
bank performance from 2009 to 2012, 130
CSR–CFP relationship, 111
CSR in Mongolian banking sector, 112
domestic market shares of Mongolian banks, 111
financial system, 110
stock market, 116
- Multiple trading dates, 52–56
- Natural disasters, 2–4, 15–16
- Net interest margin (NIM), 126
- Nonbank financial institutions (NBFIs), 110
- Noncorporate taxpayers, 31
- Non-performing assets (NPAs), 202–203, 204, 205, 207–210
of commercial banks, 201–202
data, 205
hypotheses, 207
model and methodology, 206–207
policy implications, 210
of public sector banks (PSBs), 202
trends in India, 203
- Non-performing loan (NPL), 112, 126
- NPL. *See* Non-performing loan (NPL)
- NYSE stocks, 156
- OID. *See* Original issue discount (OID)
- On-the-run issues
estimation for return VAR of, 171–175
estimation for volatility VAR of, 175–178
VAR estimation for, 178–179
- Optimal cutoff level, in short-term trading region, 55–56
- Optimal tax-timing model, 29
- Optimal trading strategy, 34–36
- Ordinary interest income, 31
- Ordinary least square (OLS) estimation, 91
- Original issue discount (OID), 30–31
- Over-the-counter (OTC) dealers, 156–157
market, 156–157
- PCA. *See* Prompt corrective action (PCA)
- Personal taxes, 59
- Pooled ordinary least square (POLS) model, 206–207, 209
- Premium bond, 34–35
- Price
contribution and efficiency, 193
dynamics, 155–156
efficiency, 190–192
and tax-timing option value of default-free bonds, 38–45
- Productivity-hours worked puzzle, 224, 229
- Product variety, 224
and extensive margin on labor supply, 227
- Prompt corrective action (PCA), 232–233
- Public sector banks (PSBs), 201–203
non-performing assets (NPAs) of, 202

- Real business cycle (RBC) model,
224, 230
dynamics and mechanism,
228–229
frictionless RBC model with no
entry, 224–225
- Real effective exchange rate (REER),
210
- Real GDP (RGDP), 204
- Related party transaction (RPT), 214
- Return and trade process, 160–161
- Return index (RI), 68
- Return on asset (ROA), 112,
115–116, 126
- Return on equity (ROE), 112,
115–116, 126
- Risk aversion hypothesis, 73–74
- Risk-aversion investors, 65
- Risk-return relation, in stock
markets, 64
- ROA. *See* Return on asset (ROA)
- Robustness tests, evidence of global
EPU influence, 77–81
- ROE. *See* Return on equity (ROE)
- RPT. *See* Related party transaction
(RPT)
- Rural Poverty Reduction Program,
123
- Savings and credit cooperatives
(SCCs), 110
- SBIF. *See* *Superintendencia de Bancos
e Instituciones Financieras*
(SBIF)
- SCCs. *See* Savings and credit
cooperatives (SCCs)
- SCRs. *See* Solicited credit ratings
(SCRs)
- Security
insurance-linked, 5–6
zero-beta, 1–2
- Sensitivity, of tax-timing option
values to default risk,
47–51
- Shareholders, minority, 214
- Sharpe-Lintner CAPM, 89–90
- Short-term trading region, optimal
cutoff level in, 55–56
- Solicited credit ratings (SCRs),
232–233, 234–237,
248–249
data and summary statistics,
237–238
hypotheses development, 234–237
method for examining a bank's
leverage behavior, 239–244
robustness tests, 246–248
- Special purpose vehicle (SPV), 5
- Spread regressions, 192–194
- Spurious regression, 91–92, 96,
105–106
CO-AR estimator in, 92–95
- SPV. *See* Special purpose vehicle
(SPV)
- State-price density process, 9
- STI. *See* Straits Times Index (STI)
- Stock market
positive risk-return relation in, 64
risk, 65
- Stock prices
impact of EPU on, 66
index, 69
- Stock returns
for Asian markets, 69
excess, estimation of, 74, 76, 78,
79, 80, 82
for markets, 70
robustness test of excess, 83
- Straits Times Index (STI), 64
- Structural break
by conducting CO-AR
estimator, 96
in finance, 96
25 Size-B/M Portfolio with, 99
25 Size-Inv Portfolio with, 101
32 Size-OP-Inv Portfolio with, 106
25 Size-OP Portfolio with, 103
- Subdebt spreads, 232–233
- Subsidiaries, listed. *see* Listed
subsidiaries in Japanese
markets

- Superintendencia de Bancos e Instituciones Financieras* (SBIF), 256
- Swiss Re Cat Bond Indices, 2, 6
- Tax
- capital gains, 31
 - effects on defaultable bond pricing, 28
 - penalty on capital gain, 44–45
 - regime, 46–47
 - rules, 32
 - scenarios, 37–38
- Taxation, asymmetric, 29
- Tax environment, 30–32
- Tax laws, 31–32, 34
- US, 28, 46
- Taxpayers, noncorporate, 31
- Tax-timing model, optimal, 29
- Tax-timing option
- effects of ignoring
 - on estimation of default probability, 56–58
 - on estimation of implied tax rates, 58–59
 - value, 29–30
 - of default-free bonds, 38–45
 - to default risk, 47–51
- Tax treatments, 28
- asymmetric, 60
- TFP shock. *See* Total factor productivity (TFP) shock
- 32 value-weighted Size-OP-Inv Portfolio, 103–105
- Three factor model, Fama and French (FF), 90–91
- Time duration, 164, 194–196
- coefficients of, 179
 - effect of, 161–162, 174–175
 - stochastic process of, 164
 - between trades, 163, 175
 - VAR model with, 160
- Total factor productivity (TFP) shock, 224, 228–229, 230
- Trading
- dates, multiple, 52–56
 - information-based, 158, 159
 - intensity, 156, 159
 - interdealer, 157
 - of treasury securities, 157
- Transaction costs, 168
- effects of, 45–46
- Transactions, for on-the-run treasuries, 171
- Treasury
- bond market, 157–158
 - bond returns, 166–167
 - intraday transactions for on-the-run, 171
 - price adjustment, 158
 - returns, 158
 - security, 157, 167, 168
- Treasury market, 156, 157–158
- information-based trading in, 159
 - issues in, 158
- 25 value-weighted Size-B/M portfolio, 96–98
- 25 value-weighted Size-Inv portfolio, 98–101
- 25 value-weighted Size-OP portfolio, 101–103
- UCRs. *See* Unsolicited credit ratings (UCRs)
- Uninformed investors, 231–232
- Unsolicited credit ratings (UCRs), 232–233, 248–249
- data and summary statistics, 237–238
 - hypotheses development, 234–237
 - method for examining a bank's leverage behavior, 239–244
 - robustness tests, 246–248
- US tax laws, 28, 46

- Value-at-risk (VaR), 68, 75, 81, 84
- Vector autoregressive (VAR) model,
 - 159, 160, 161–162, 163, 164, 166–167
 - estimation
 - for off-the-run issues, 178–179
 - for return VAR of on-the-run issues, 171–175
 - for volatility VAR of on-the-run issues, 175–178
- Volatility
 - decomposition, 187–190
 - and spread regressions, 166–167
 - informed, 191
 - VAR model, 162
 - and volume process, 161–163
- WACD model, 165
- Wash sale, 31–32
- Weibull autoregressive conditional duration (WACD) model, 184
- Weibull distribution,
 - 164–165
- Weighted price contribution (WPC), 190–192
- Weighted price contribution per trade (WPCT), 190–192
- World Bank, 258, 259, 261–262
- WPC. *See* Weighted price contribution (WPC)
- WPCT. *See* Weighted price contribution per trade (WPCT)
- Zero-beta securities, 1–2