

**Donor Motivation of Inter-Temporal Foreign Assistance to Nepal**

B. Mak Arvin<sup>1</sup> and Zafar Kayani<sup>2</sup>

**Abstract**

This paper asks what motivates Western donors to provide foreign aid to Nepal. Results reveal existence of both donor interest and recipient need considerations in the disbursement of aid to this country over the period 1981 to 2005. Donors' desire for promotion of commercial opportunities, their general economic affluence, as well as Nepal's per capita GDP are all significant determinants of aid. On the other hand, neither Nepal's economic growth nor its people's political freedoms and civil liberties bear a significant relationship to the level of assistance it receives.

**JEL Classifications:** F35, F14, O19

**Keywords:** donor motivation, foreign aid, Nepal

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# **Income Inequality Convergence in the Development of European Countries**

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## **Abstract**

This paper examines how income inequality varied as new countries joined the European Union. We consider a convergence test of contributions to international income inequality of 32 European countries over the period 1989-2002. The results indicate a weak convergence of contributions to inequalities. The average speed of inequality convergence gets lower as the number of countries in the union increases. We also find that the effect of technological inequalities is significant and depends on the level of wealth of a country. Taking into account the heterogeneity of behavior through the convergence parameter suggests that the speed of inequality convergence varies across countries.

**JEL Classifications:** C23, O47, O57

**Keywords:** inequality, convergence, European countries

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# Estimation of Demand Systems Based on Elasticities of Substitution

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## Abstract

This paper develops a model for demand-system estimations, whose coefficients are own-price Marshallian elasticities and elasticities of substitution between goods. The model satisfies the homogeneity, symmetry and, eventually, adding-up restrictions implied by consumer theory. It is primarily useful for the estimation of the demands of several goods of the same industry or group of products. The characteristics of the model are compared to other existing alternatives (logarithmic, translog, AIDS and QUAIDS demand systems). The model is finally applied to estimate the demands for several carbonated soft drinks in Argentina, and its results are presented together with the ones obtained with the other estimation methods.

**JEL Classifications:** C30, D12, L66

**Keywords:** demand systems, elasticity of substitution, carbonated soft drinks

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# **Predictability of Technical Trading Rules: Evidence from the Taiwan Stock Market**

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## **Abstract**

Using the Taiwan Stock Exchange Weighted Index from the first trading day in 1975 to the last trading day in 2007, we investigate the predictability of two popular technical rules (variable-length moving average and trading range breakout) in the Taiwan stock market and assess its bearing on market efficiency. Our results show that, for the two rules, returns from buy signals are generally higher than those from sell signals. In addition, they exhibit considerable predictive power over 1975-1985 and 1986-1996 but become less effective over 1997-2007. These results suggest that the financial reform and liberalization measures (particularly the QFII system) implemented since the early 1990s have contributed, to a certain extent, to the improved efficiency of the Taiwan stock market.

**JEL Classifications:** G14, G15

**Keywords:** variable-length moving average, trading range breakout, financial reform and liberalization measures

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# **Market Psychology and Aggregate Stock Returns: Evidence from Australian Consumer Sentiment**

Chien-Ting Lin<sup>1</sup>, Chia-Cheng Ho<sup>2</sup> and Hisn-Jung Hsieh<sup>3</sup>

## **Abstract**

We present evidence that consumer sentiment has a direct effect on excess aggregate stock returns. We also trace the source of this positive effect and find that public perception over the next year's economic condition is the most important determinant for the stock market. Our findings remain conclusive even in the presence of other well known risk-based factors. The evidence thus supports behaviour finance theory that incorporates both psychological judgement and systematic risks. However, we do not find that past stock returns are influential on current sentiment nor do we find current sentiment Granger-cause subsequent stock return.

**JEL Classifications:** G12, G14

**Keywords:** consumer sentiment, behaviour finance, stock returns

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# **Socioeconomic, Health and Behavioural Determinants of Obesity in Europe**

Agelike Nikolaou<sup>1</sup> and Dimitrios Nikolaou<sup>2</sup>

## **Abstract**

In this study we investigate the impact of various socioeconomic, health and behavioural conditions on the prevalence of obesity in nine EU countries using the “European Community Household Panel” Dataset. The effect of those factors on obesity is estimated separately for males and females using a model that follows the standard normal cumulative density function (probit). Our findings indicate that low socioeconomic profile as well as bad health leads to a higher body mass, while smokers are less likely to be obese. These findings follow more or less an analogous trend for the nine European countries and hold for both sexes, appearing, though, to be more consistent for the females.

**JEL Classifications:** C23, I12, I18

**Keywords:** obesity, socioeconomic status, panel data

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# **A Gravity Model for Components of Imports**

Yener Kandogan<sup>1</sup>

## **Abstract**

This paper develops a gravity model to explain different components of imports. It is shown that specific variables from competing trade theories affect each component differently: As economic sizes or relative factor endowments become similar, the volume of intra-industry imports, especially that of its horizontal component increases. Furthermore, the typical variables of an extended gravity model have different impact on each component: Colonial relations are important determinants of inter-industry imports whereas cultural proximity based on religion and language plays a more crucial role in determining intra-industry imports. Overall, the significance of these different effects suggests that the proposed decomposition of imports into its components removes a widespread but unnecessary restriction in the gravity models.

**JEL Classifications:** F10, F14

**Keywords:** Horizontal and vertical intra-industry trade, cultural proximity, religion

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## **Is the CAPM *Dead* or *Alive* in the Brazilian Market?**

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### **Abstract**

The central purpose of this work is to test the Sharpe-Lintner-Black Capital Asset Pricing Model in the Brazilian equity market. We have concluded that the CAPM is *dead* in the Brazilian equity market because, besides using the market premiums to explain the panel equity premiums, there are also some anomalies, such as, the firm size, the equity price-to-book value, the dividend yield, and the price-earnings ratio. Furthermore, by using the recent panel cointegration FMOLS (fully modified OLS) estimator, this paper corroborates the Fama & French three-factor model (1992, 1993). This work finds also two new three-factor models to explain the local market that satisfy the non-arbitrage condition. These results are important for the purpose of asset pricing and hedging in the Brazilian equity market.

**JEL Classification:** G12

**Keywords:** asset pricing, panel CAPM, Fama and French's three-factor model, style indexes

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# **Analysis of the Behavior of the New Zealand Dollar Exchange Rate: Comparison of Four Major Models**

Yu Hsing<sup>1</sup>

## **Abstract**

The purpose of this paper is to compare four major exchange rate models. Based on the value of adjusted  $R^2$ , the uncovered interest parity model performs best, followed by the purchasing power parity model using the relative PPI, the Mundell-Fleming model, and the monetary model. The unexpected negative sign of the relative money supply in the monetary model and the unexpected negative sign of real money supply and the domestic interest rate in the Mundell-Fleming model suggest that more study is needed to examine the behavior of exchange rate fluctuations for the New Zealand dollar.

**JEL Classification:** F31

**Keywords:** purchasing power parity, uncovered interest parity, monetary model, Mundell Fleming model

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