Michael W. Sket

The Composition of Private Capital Flows to Emerging Market Economies

Theory and Empirical Evidence

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Frankfurt am Main, April 2008 Michael W. Sket

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LIST OF ABBREVIATIONS

ABS	Asset-Backed Security
ADF	Augmented Dickey-Fuller (Test)
ADR	American Depository Receipt
AIC	Akaike Information Criterion
AMEX	American Stock Exchange
AR	Autoregressive process
AREAER	Annual Report on Exchange Rate Arrangements and Exchange Restrictions (IMF)
ASEAN	Association of South-East Asian Nations
BIBF	Bangkok International Banking Facility
BIS	Bank for International Settlements
BOP	Balance of Payments
BRIC	Brazil, Russia, India, China
CDO	Collateralized Debt Obligation
CDS	Credit Default Swap
CEECs	Central and Eastern European Countries
CEO	Chief Executive Officer
CIPE	Center for International Private Enterprise
CIS	Commonwealth of Independent States
CNOOC	China National Offshore Oil Corporation
COFER	Currency Composition of Official Exchange Reserves
CSRC	China Securities Regulatory Commission
CSV	Costly State Verification
DCB	Debt Conversion Bond
DF	Dickey-Fuller (Test)
ECB	European Central Bank
EME	Emerging Market Economy
EU	European Union
FDI	Foreign Direct Investment
FE	Fixed Effect (Estimator)
FLIRB	Front Loaded Interest Reduction Bond

GAAP	Generally Accepted Accounting Principles
GMM	Generalized Method of Moments (Estimator)
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GNI	Gross National Income
GNP	Gross National Product
GRS	Global Registered Share
IFC	International Finance Corporation
IIF	Institute of International Finance
IFIAC	International Financial Institution Advisory Commission
IFS	International Financial Statistics (IMF)
iid	independently identically distributed
IIP	International Investment Positions (IMF)
IMF	International Monetary Fund
IPO	Initial Public Offering
ISDA	International Security Dealers Association
IT	Information (and Communication) Technology
ITU	International Telecommunication Union
LDC	Less Developed Countries
LHS	Left Hand Side
LL	Levin-Lin (Test)
LSE	London Stock Exchange
LSDV	Least-Squares Dummy Variable
LTCM	Long-Term Capital Management (Fund)
M&A	Mergers and Acquisitions
MDB	Multilateral Development Bank
MNC	Multinational Corporation
MW	Maddala-Wu (Test)
NAP	Net Foreign Asset Position
NASDAQ	National Association of Securities Dealers Automated Quotations
NBER	National Bureau of Economic Research
NFA	Net Foreign Assets
NFL	Net Foreign Liabilities
NMB	New-Money Bonds
NPV	Net Present Value
NYSE	New York Stock Exchange
ODA	Official Development Assistance

OECD	Organisation for Economic Co-operation and Development
QIB	Qualified Institutional Buyers
OLS	Ordinary Least Squares (Estimator)
OTC	Over the Counter
RE	Random Effect (Estimator)
RHS	Right Hand Side
S&P	Standard & Poor's
SAR	Special Administrative Region (Hong Kong)
SEC	Securities and Exchange Commission
SIC	Schwarz Information Criterion
SUR	Seemingly Unrelated Regression
WACC	Weighted Average Cost of Capital
WBI	World Bank Institute
WEO	World Economic Outlook (IMF)

LIST OF SYMBOLS

A	Real assets
a	Monitoring cost
α	Share of the firm
AP	Asset price
B	Foreign assets
BC	Bankruptcy costs
b	Borrowing
β	Discount factor
C, c_i	Private consumption
C^F	Costs
CA	Current account balance
CF	Cash flow
D	Debt
D^D	Deposits
d_t	Debt-service obligations
d_t^p	Debt-service payments
δ	Depreciation
E	Equity
$E(.)$	Expectations operator
e	Exchange rate
ϵ	Productivity shock; stochastic error term
EX	Exports
F	Finance volume
$F(.)$	Production function
FE	Foreign exchange reserves
FS	Financial slack
G	Government expenditure
G_D	Gains from leverage
g	Rescheduling cost
γ	Reorganization costs
γ_A	Efficiency loss due to asymmetric information

I	Investment
IM	Imports
K	Capital (stock)
K^D	Demand of capital
K^S	Supply of capital
k	First-period investment
k^{CG}	Degree of corporate governance
KA	Capital account balance
k_g	Reorganization costs if operations are resumed
k_q	Reorganization costs if operations are quit
L	Loans, Liquidity
l	Liquidation return
λ	Probability of a liquidity shock
M	Money supply
N	Number of firms
NAP	Net asset position
NFA	Net foreign assets
NFL	Net foreign liabilities
NPL	Non-performing loans
NPV	Net present value
NX	Net exports
ν	Probability of a high output Y_H in $t = 2$
P	Price level
p	Inflation rate
PV_{FD}	Present value of future costs due to bankruptcy
PV_{Tax}	Present value of future tax saved
Π	Nominal profits
π	Probability
$\Phi(.)$	Cumulative distribution function
$\phi(.)$	Density function
ψ	Penalty fee (cost of fund appropriation)
Q	Claim
q	Costs of closing and quitting operations
R	Foreign exchange reserves
r	Domestic interest rate
r^*	World interest rate
r_A	Weighted average cost of capital (WACC)
r_D	Cost of debt

r_E	Cost of equity
ρ	Intermediation costs
ρ_E^S	Discount rate for an all-equity firm
S	Gross national saving
σ	Variance
T'	Net tax saving per US-dollar of interest paid
t'	Marginal corporate tax rate
θ	Proportionality factor
τ_C	Corporate tax rate
τ_{PB}	Personal income tax rate
$U(.)$	Utility function
V	Total value of the firm; value function; market price
v	Asset return,
W, w	Net worth, wealth
X	Pay off
Y	Retained earnings; national income; output
y	Growth rate of output; yield
Y_M	Earnings appropriated by manager
Z^g	Amount paid in good state
Z^b	Amount paid in bad state