

## Working Papers For The Year of 2005

**#2005-01 "The Halloween Effect: An Enduring Market Anomaly" Ladd Kochman (Kennesaw State University) and Randy Goodwin (Kennesaw State University)** Monthly stock returns were collected for May-October and November-April from 1926 through 2004. While the average annual return of 15.57 percent from the latter set of months dominated the former set's 9.07 percent and provided some support for the argument that investors should liquidate stocks in May and re-enter the market in November (i.e., after Halloween), results since 1970 furnished a ringing endorsement: 19.45 percent versus 5.87 percent. Such a pattern is a clear exception to the venerable hypothesis that stock prices do not behave predictably.

—Judged best paper in series and winner of \$100

**#2005-02 "Learning by Doing: A Prototyping Experience" Satya Chakravorty (Kennesaw State University) and Richard Franza (Kennesaw State University)** We describe an experience in developing an electric tiedown prototype, which was sold to Q'straint, a tiedown manufacturing company. A tiedown enables physically challenged individuals to operate motor vehicles independently and was developed by repeated applications of the problem solving approach. The prototype was developed by correctly identifying the problem (or opportunity), and relevant information was gathered primarily through cross-functional experience. In applying the problem solving approach, we found that the approach was not always as smooth and sequential as implied by the problem solving literature.

**#2005-03 "Internet Stock Splits" Robert Hendershott (Santa Clara University) and James Tompkins (Kennesaw State University)** This paper examines the market reaction to 1119 stock splits during the Internet boom. We found that while the market reaction to Internet stock split announcements was roughly double the reaction to non-Internet splits, the higher returns were limited to the early part of the boom. By the year 2000, the reactions were indistinguishable. Moreover, we found no abnormal market reaction around the ex-date of Internet stock splits. Our findings are consistent with the existing literature on stock splits that attributes modest positive announcement returns to encouraging information flow. To the extent that stock splits offered exuberant Internet investors an opportunity to overreact to a modestly important event, our results also hint that irrationality may have played a lesser role in the Internet boom-bust than is widely accepted.

**#2005-04 "Innovative Delivery of MBA Business Foundation Coursework: does Integrated Team-Teaching Make a Difference?" Harry Lasher (Kennesaw State University) and George Manners (Kennesaw State University)** Team-teaching is often viewed as a viable alternative to traditional delivery approaches in graduate business programs. However, there is little research to support the benefits of team-teaching from a student learning perspective. This paper demonstrates that student achievement in "downstream" MBA courses is significantly improved when students complete integrated, team-taught business foundation courses.

**#2005-05 "The Impact of an Accounting Simulation on Performance and Perception in Accounting Courses" Steven Smalt (Kennesaw State University)**

**University) and Gary Selden (Kennesaw State University)** The accounting profession has given ever-increasing focus and attention to the effectiveness and nature of accounting education. Executive education struggles with how to make accounting understandable and applicable to those responsible for other functions. Graduates of Executive MBA programs often have a negative perception of accounting before entering. Adult education literature clearly touts the value of simulation, gaming theory and modeling. This empirical study was designed to investigate the effect of integrating an accounting simulation (The Accounting Game) into an accounting course on students' self-reported perceptions as well as on course performance. Additionally, the simulation was instituted as a preparation course for applicants entering an EMBA program.

**#2005-06 "Information, Credit Risk, and Lending Specialization: Evidence from the DIP Lending Market" Kenneth Daniels (Virginia Commonwealth University) and Gabriel Ramirez (Kennesaw State University)** We provide an empirical investigation of lending specialization in the recently developed market for Debtor-In-Possession (DIP) financing. Given that in this market credit risk is drastically reduced, we are able to provide a cleaner test that information considerations are a dominant determinant of specialization in private-market corporate lending. As proposed, we find that in the DIP lending market observable borrower's risk is not a significant determinant of type of lender or loan pricing; however, we still find strong type-of-lender and loan pricing effects. Using three measures of informational economies of scope for financial intermediaries, we find that banks (finance companies), large (small) lenders, and often (occasional) lead-lenders tend to lend to larger (smaller), more (less) transparent firms and at lower (higher) loan fees. We also document the competition dynamics among financial intermediaries in the development of the DIP lending market.

**#2005-07 "Implementation of Deming's Style of Quality Management: An Action Research Study in a Plastics Company" Satya Chakravorty (Kennesaw State University) and Douglas Hales (Clemson University)** Using seven constructs and four propositions to describe relationships among the constructs, Anderson et al. (1994) articulated a theory underlying Deming's style of quality management—Deming's 14 points. Two subsequent studies examined the four propositions underlying the theory and provided a strong support to the theory. To date, no one has examined whether there is a gap between theory and practice of Deming's style of quality management. This action research describes how Deming's style of quality management is implemented in a plastics company. In doing so, we find that the theory appears to be generally applicable in describing the implementation experience. We provide qualitative observations and support to two propositions—one of which was only partially supported by foregoing studies. We also find evidence of a new relationship between the two constructs and discover the limiting nature of one of the constructs.

**#2005-08 "Evaluating Internet Marketing Software Applications" David Gundersen (Stephen F. Austin State University), Ravi Behara (Florida Atlantic University) and Ernest Capozzoli (Kennesaw State University)** This paper investigates the difficulty which small organizations face when justifying marketing information system technology expense. Four financial criteria are discussed and found to be lacking: return on investment, cost-benefit analysis, operational savings and discounted cash flow. A fifth approach explores how systems should align with and facilitate the accomplishment of core business objectives.

**#2005-09 "Examining the Relationship between CRADA Elements and Government Benefits from Technology Transfer" Richard Franza (Kennesaw State University) and Kevin Grant (University of Texas at San Antonio)**

Technology transfer has become an increasingly important mission of federal laboratories over the past ten to fifteen years with results that benefit the government, private companies, and the nation's economy. The Cooperative Research and Development Agreement (CRADA) is the most commonly used mechanism to perform technology transfer from our nation's federal laboratories to the private sector. The main objective of this research is to determine important CRADA elements—i.e., statements written into the signed CRADA—that are associated with higher benefits to the government. We found that CRADA elements associated with significantly higher government benefits include quantified manpower requirements, the commercial partner's ability to commercialize CRADA technology, CRADA technology market information, quantified copyright royalty rates, and quantified sales royalty rates. CRADA elements associated with significantly lower government benefits include detailed facility requirements and the CRADA technology's stage of development.

**#2005-10 "The Pointspread Market as a Tool for Performance evaluation" Ladd Kochman (Kennesaw State University) and Randy Goodwin (Kennesaw State University)**

Pointspreads have long served to divide the betting public in half and turn transaction fees into generous, risk-free returns for gambling houses. Researchers are now awakening to the fact that pointspreads—as a reliable source of information—can have other important uses. A recent paper linked the rankings of college football teams in the USA Today and AP polls with their performances against the spread. Our study used the same criterion to judge the effectiveness of managers—specifically college football coaches. The result was a pointwise record for the 47 coaches with a (required) minimum tenure of five years and the illumination of the profession's Top 10 and Bottom 10 members. Who's #1? Read the paper.

**#2005-11 "Learned Ethical Behavior: An Academic Perspective" David Gundersen (Stephen F. Austin State University), Ernest Capozzoli (Kennesaw State University) and Rajasree Rajamma (North Texas University)**

Various academic respondent groups were analyzed as to their reactions to 14 short scenarios reflecting ethical dilemmas in higher education relating to research. As hypothesized, academic groups did differ in their views to the dilemmas presented. A second hypothesis showing a linear relationship between the academic achievement of respondent groups and the ethical dilemmas was not supported. It was expected that as respondents gained more exposure to ethical perspectives through further education, they would respond accordingly supporting a correlation effect. Despite significant differences between groups in their assessments to the dilemmas, situational differences other than educational attainment appeared to be most influential. Implications are discussed and call into question whether teaching ethics has any payback.

**#2005-12 "Will Competitive Bidding Decrease Medicare Expenditures?" Brett Katzman ( Kennesaw State University ) and Kerry Anne McGeary ( Drexel University )**

Recent measures to reduce Medicare spending include the use of competitive bidding in determining reimbursement prices. Several auctions have recently been conducted as part of an experiment by the Center for Medicare and Medicaid Services (CMS) to determine reimbursement prices for Durable Medical Equipment Prosthetics, Orthotics and Supplies (DMEPOS). This paper investigates the

CMS experiment. First, the competitive bidding process is examined on a theoretical level. It is shown that the design of the CMS auctions is inefficient, may actually lead to price increases and may cause decreases in the quality of services. Next, data supporting the theoretical predictions is analyzed. Finally, we suggest switching to a Vickrey-style auction that does not suffer from the problems of the current design.

***\$100 Winner***

**#2005-13 "The Nonsubstitutability of Market Indices and Other Shortcomings of Beta Estimation" Ladd Kochman ( Kennesaw State University ) and Randy Goodwin ( Kennesaw State University )** Correlations between five U.S. large-cap stock indices were calculated for the 2000-2004 period. As expected, the averages were highly positively correlated—ranging from 0.996 to 0.862. However, when each was used to estimate betas for five randomly chosen NYSE stocks, results suggested that near-perfect correlations do not make indices freely substitutable for one another. Additional questions surfaced about the integrity of stock betas.

**#2005-14 "Face Recognition Technology: Applications and Ethical Implications" R.J. Waite ( Troy University ) and Ernest Capozzoli ( Kennesaw State University )** This paper examines biometrics—specifically, the arena of facial recognition. It explores what biometrics is, the technology behind it and some of its current uses. Future applications are addressed as well as the limitations and concerns of critics regarding privacy and reliability. Some possible solutions to problems with biometrics are presented—including industry oversight, legislation and public awareness.

**#2005-15 "The American Manager: Neither Ugly Nor Sore; Crosscultural Differences as Explanations" Kamal Fatehi ( Kennesaw State University ) and Rajaram Veliyath ( Kennesaw State University )** The underlying cultural values and assumptions provide a framework for interpreting events and formulating managerial responses. These assumptions and values prescribe the way individuals perceive, think about and evaluate the world, themselves and others. Many concepts that influence work behaviors and work environments are rooted in cultural values and norms. The meanings attached to and the application of these concepts vary from one culture to another. Such differences have a profound influence on managerial behavior. This paper examines how these cultural differences may sometimes affect mutual perceptions of American managers by their counterparts from other cultural milieus. It also explains American managers' missteps when facing different cultural situations. The managerial implications of these differences are presented in this paper.

**#2005-16 "Internet Pharmaceutical Sales: Attributes, Concerns, and Forecast" Katy Bruckel (Troy University) and Ernest Capozzoli (Kennesaw State University)** Internet pharmaceutical sales continue to skyrocket as healthcare providers and consumers are increasingly relying on the efficiencies and convenience that are available via such transactions. Increasing pressure to reduce health care inefficiencies while maximizing the quality of patient care has been a significant contributing factor to the expanding utilization and success of online pharmaceutical sales. However, with the expansion of such sales, healthcare providers, pharmacy benefit management and insurance companies, and consumers are encountering new opportunities and risks. This paper reviews the attributes and concerns associated

with online pharmaceutical sales and discusses current and pending legislation intended to more effectively manage these parameters.

**#2005-17 "Identity Theft and the U.S. Postal Inspection Service" Richard Brody (University of South Florida), Dana Hermanson (Kennesaw State University) and Matthew Hoffman (U.S. Postal Inspection Service)** Identity theft ("ID theft") is a significant and rapidly-growing problem in the U.S. with an estimated annual cost of \$53 billion. This paper describes the role of the U.S. Postal Inspection Service in investigating such crimes and provides insights based on large-scale investigative efforts by the Postal Inspection Service. We find that ID-theft rings can be extremely complex and that the successful investigation of such crimes requires effective cooperation among a host of parties—including law enforcement agencies and the private sector.

**#2005-18 "Bottleneck Management: Theory and Practice" Satya Chakravorty (Kennesaw State University) and Brian Atwater (Utah State University)** Advocates of TOC believe that bottlenecks restrict an operation's ability to make money and that the best way to maximize income is to fully exploit the bottleneck. Almost all TOC literature focuses on situations where 100% bottleneck utilization is applied. Based on our action research, we find that the optimal level of bottleneck utilization is less than 100% and that any attempt to increase utilization beyond the optimal level brings disastrous results for door-shop operations. We find that effective bottleneck management is critical to improve and maintain the performance of door-shop operations. Further, we develop a deeper understanding of how to design shop operations and provide insights for practicing managers and academics, which could be beneficial for managing such operations.

**#2005-19 "The Impact of Regulatory Accounting Procedures on Saving and Loan Financial Reporting: An Historical Perspective" Ernest Capozzoli ( Kennesaw State University )** This paper explores the outcomes of regulatory accounting procedures (RAP) on the savings and loan industry in Mississippi . Despite an increase in regulatory efforts in the 1980s, the S&L industry experienced significant failures and lack of liquidity. This paper presents an argument that RAP contributed to the problem on a nationwide level.

**#2005-20 "Investment Opportunities and External Monitoring as Moderators of the Relationship Between Director Stock-Based Compensation and Firm Performance" James Cordeiro (SUNY at Brockport), Rajaram Veliyath (Kennesaw State University) and Jane Romal (SUNY at Brockport)** Research on the efficacy of stock-based compensation for outside directors has documented a weak or non-existent relationship with firm performance. It is possible, however, that other variables might influence the relationship between these variables. Using a sample of 450 Standard & Poor 500 firms over the 1995-1997 period, we show that the use of director stock options and grants ratios was more strongly associated with positive performance in firms with (1) higher investment opportunities and (2) weaker external monitoring.

**#2005-21 "Electronic Government in the Southeast: An Evolving Opportunity ?" Ernest Capozzoli ( Kennesaw State University ) and David Gundersen ( Stephen F. Austin University )** This paper explores the impact associated with budgetary shortfalls in the state of Alabama and Georgia . Specifically, it assesses the impact of budgetary shortfalls and the extent to which

county governments have used the Internet to conduct business in a more productive manner within the state. The paper describes and contrasts each state's current level of e-government deployment in the conduct of county business along with demographic data.

**#2005-22 "Explanation and Misrepresentation in the Laboratory: Shame on You" Lucy Ackert (Kennesaw State University), Bryan Church (Georgia Tech) and Ping Zhang (University of Toronto)** We report the findings of an experiment designed to examine the effect of opportunity to provide an explanation for inaccurate results and predictability of behavior on managers' reporting bias and investors' ability to decipher such bias. We find that the manager reports with an upward bias a majority of the time. The magnitude of the bias, however, is lessened considerably when the manager's reporting behavior is unpredictable *and* the manager has an opportunity to explain inaccurate (biased) reports. The data suggest that, under such conditions, the manager seeks to avoid reporting inaccurately and having to choose an explanation. We contend that the manager's behavior is affected by the anticipation of shame associated with having to explain biased reports. We also find that the investor adapts to the manager's behavior and, strikingly, anticipates that explanation dampens reporting bias. ***\$100 Winner***

**#2005-23 "An Under Bias in the Football Betting Market: Fact or Fiction?" Ladd Kochman (Kennesaw State University) and Randy Goodwin (Kennesaw State University)** Betting that total points in a football game will go over or under the Las Vegas number prompts the question whether that number has been inflated to adjust for the betting public's alleged preference for offense and, in turn, the *over*. If bettors do overbet the over, regular profits should accrue to those betting under the total. Our investigation spanned the 1995-2004 National Football League seasons and found that betting under produced an unimpressive wins-to-bets ratio of 50.4 percent. The lone nonrandom ratio that was not year-specific was the 52.7-percent mark for National Football Conference games over the 2000-2004 years. Once again the market for wagers on football games proved to be remarkably efficient.

**#2005-24 "How Problem-Solving Really Works" Satya Chakravorty ( Kennesaw State University ) and Douglas Hales ( Clemson University )** Over the years, many researchers have proposed theoretical models of problem-solving. These models work a problem in a recursive, stepwise and rational manner. Through our professional experience and an action research study, we discovered fundamental differences between what these models describe and what actually happens when problems are solved in a real world setting. Assisting with a process improvement experience in a plastics company, we discovered that when a problem is properly identified, the problem-solving generally follows the theoretical models. However, when a problem is difficult to identify, problem-solving proceeds in a non-recursive and seemingly irrational manner. Non-recursive problem-solving increases average time of problem-solving and, as such, production cost. We find that the relationships among problem-solving steps are much more complex than implied in existing literature. Incorporating this new understanding into process improvement training reduced the variability of problem-solving time from 44 to 21 minutes.

**#2005-25 "A Prototype Economic Model of a West China Province " Donald Grimes ( University of Michigan ) and Penny Prime ( Kennesaw State University )** As the Chinese economy modernizes and becomes market-oriented, it is becoming imperative for its policy planners to have tools that can guide their

decision-making. In this paper we propose to develop several key analytical equations with the eventual goal of supporting an operational regional model for Sichuan province. The plan for model construction is to combine input-output techniques with econometric equation estimation so that the model captures the structural interactions of the economy while allowing for dynamic responses over time. Particularly important in modeling the Chinese regional economy successfully is the recognition of the large agricultural base of its workforce as the economy strives to industrialize and the critical transportation issues in a large, continental economy.

**#2005-26 "Socially Beneficial Mergers: A New Class of Concentration Indices" Brett Katzman (Kennesaw State University)** The most prominent industry concentration index—the Herfindahl-Hirschman Index (HHI)—yields a higher concentration level in response to any merger between firms—thus implying that any merger will decrease the social welfare. Although HHI is the index used by the Anti-trust Division of the U.S. Department of Justice, its merger implications are not fully embraced by the anti-trust authorities; in practice, the Anti-trust Division allows many mergers—especially among smaller firms—which clearly cannot be justified on the basis of HHI. We propose a class of concentration indices that is in line with the spirit of the Anti-trust Division’s merger policies and consider different theoretical models which indicate that the Anti-trust Division is justified in allowing such mergers as they counter the market power of dominant firms.

**#2005-27 "Enterprise Risk Measurement: An Empirical Analysis of Factors Associated with the Extent of Implementation" Mark Beasley (North Carolina State University), Richard Clune (Kennesaw State University) and Dana Hermanson (Kennesaw State University)** This study examines factors associated with the stage of Enterprise Risk Management (ERM) implementation at a variety of U.S. and international organizations. Based on data gathered from 123 organizations, we find the stage of ERM implementation to be positively related to the presence of a chief risk officer, board independence, CEO and CFO apparent support for ERM, the presence of a Big Four auditor, entity size, and entities in the banking, education, and insurance sectors. We also find U.S. organizations to have less-developed ERM processes than international organizations.

**#2005-28 "Home Bias and the Exposure Heuristic: Experimental Evidence" Lucy Ackert (Kennesaw State University) and Bryan Church (Georgia Tech)** Despite the potential gains from international diversification, empirical evidence documents a home equity bias. We use an experimental method to examine whether real information differences or domestic optimism drives behavior. Our participants, all of whom reside in the U.S., have greater exposure to the U.S. than to other countries and, absent other information, are inclined to invest in U.S. assets. Our results are consistent with the use of an exposure heuristic whereby an individual chooses an asset that has greater exposure, in the absence of negative information. Furthermore, we find no evidence of over-optimism in domestic securities.

**#2005-29 "Is Exchange Risk Priced Beyond Intertemporal Risk?" Ines Chaieb (McGill University), Stefano Mazzotta (Kennesaw State University) and Oumar Sy (Dalhousie University)** Recent conditional tests show that exchange risk is priced in integrated international markets. However, these results are typically obtained assuming that international risk does not matter. We test an intertemporal international asset-pricing model where the investment opportunity set is dynamic. Using a conditional orthogonalization approach, we investigate whether

the exchange risk is priced once the market and intertemporal risks are fully taken into account. We find that, in addition to the market and intertemporal risks, the exchange risk is an important determinant of risk premium. We also find that the intertemporal risk, which is often overlooked in the literature, is priced.

**#2005-30 "Auditor Risk Assessment: Insights from the Academic Literature" Robert Allen (University of Utah), Dana Hermanson (Kennesaw State University), Thomas Kozloski (Wilfrid Laurier University) and Robert Ramsay (University of Kentucky)** To contribute to the Public Company Accounting Oversight Board (PCAOB) project on risk assessment in financial statement audits, we draw on the academic literature to offer insights and conclusions on the risk assessment process. We use the PCAOB's recent briefing paper on risk assessment as the organizing framework for our literature review. Overall, we believe that the results of academic research are consistent with the PCAOB's apparent consideration of formalizing and adding guidance to the auditor's risk assessment process.

**#2005-31 "Auditor Risk Assessment: Insights from the Academic Literature" Robert Allen (University of Utah), Dana Hermanson (Kennesaw State University), Thomas Kozloski (Wilfrid Laurier University) and Robert Ramsay (University of Kentucky)** To contribute to the Public Company Accounting Oversight Board (PCAOB) project on risk assessment in financial statement audits, we draw on the academic literature to offer insights and conclusions on the risk assessment process. We use the PCAOB's recent briefing paper on risk assessment as the organizing framework for our literature review. Overall, we believe that the results of academic research are consistent with the PCAOB's apparent consideration of formalizing and adding guidance to the auditor's risk assessment process.

**#2005-32 "Board Structures Around the World: An Experimental Investigation" Ann Gillette (Kennesaw State University), Thomas Noe (Tulane University) and Michael Rebello (Tulane University)** We model and experimentally examine the board structure-performance relationship. We look at single-tiered boards, two-tiered boards, insider-controlled boards and outside-controlled boards. We find that even insider-controlled boards frequently adopt institutionally preferred rather than self-interested policies. Two-tiered boards adopt institutionally preferred policies more frequently but tend to destroy value by being too conservative—frequently rejecting good projects. Outsider-controlled boards, both when they have multiple insiders and only a single insider, adopt institutionally preferred policies most frequently. In those board designs where the efficient Nash equilibrium produces strictly higher payouts to all agents than the coalition-proof equilibria, agents tend to select the efficient Nash equilibria. **\$100 Winner**

**#2005-33 "A Cross Cultural Perspective for Information Systems Development Outside the U.S." Ernest Capozzoli ( Kennesaw State University )** The Internet has changed the process associated with information systems development. However, despite the width and depth of recent technological innovations, a systems developer must understand the cultural implications of creating systems for use outside the United States . This paper explores the cultural implications of systems development and identifies areas for further consideration for international systems development.

**#2005-34 "Not So Fast! Who Says the Market for Sports Bets Is Efficient?" Ladd Kochman (Kennesaw State University) and Randy Goodwin (Kennesaw**

**State University )** In response to speculation that creative betting rules might succeed where mechanical rules have not, 120 inventive strategies were applied to National Basketball Association games between 2001 and 2005 to test the efficiency of point spreads. Thirty-two rules boasted wins-to-bets ratios that were significant at  $p < 0.10$  while 13 of those were significant at  $p < 0.05$ . To the myriad researchers who have concluded that the market for bets is efficient, we say *not so fast*.

**#2005-35 “Integration and Ethical Perspectives for Information Systems Management” Ernest Capozzoli (Kennesaw State University), Robert Winsor (Loyola Marymount University) and Sheb True (Kennesaw State University)**

The current business environment can be described as turbulent, full of uncertainty and highly competitive. Competitive forces and advances in technology impose changes upon an organization at accelerating rates. One significant change is an increase in systems integration activities across the organization. The purpose of this paper is to provide a discussion of key issues associated with the process of linking and aligning business strategies, IS strategies and ethical concerns for multiple stakeholders.

**#2005-36 “Assessing Internal Audit Quality: Views from Internal and External Auditors on the Importance of the Sourcing Arrangement” Audrey Gramling (Kennesaw State University) and Scott Vandervelde (University of South Carolina)**

This study experimentally tested the influence of the source of the internal audit function (IAF)—in-house vs. outsource—on both the internal and external auditors’ evaluation of the quality of the IAF and found that for three of the four measured IAF quality characteristics, there was no difference in the assessment of the IAF between internal and external auditors regardless of the source of the IAF. However, what separates the two groups of auditors and can lead to disagreements over IAF quality is the discovery that internal and external auditors operated at different levels of objectivity in their respective assessments—a difference that internal and external auditors must acknowledge and eliminate.

**#2005-37 “Who Is Really Protecting Its Citizens’ Privacy?” Kim Clayton (Troy University) and Ernest Capozzoli (Kennesaw State University)** This paper explores and compares the Internet privacy legislation of the U.S. and the European Union. It concludes that the U.S. government monitors the Internet activities of its citizens just as closely as does the EU—adding that the EU is just more open about its surveillance. The authors remind readers that while the Internet has given the world unlimited information, it continues to erode privacy to a greater extent than most people believe.

**#2005-38 “Foreign Exchange Options and Returns Based on Correlation Forecasts: Evaluation and Two Applications” Olli Castren (European Central Bank) and Stefano Mazzotta (Kennesaw State University)**

We evaluate the forecasting ability and the bias and efficiency properties of option-implied and return-based correlations. We use a unique data set consisting of 12 years of daily data of foreign exchange and on over-the-counter currency option prices of developed countries. For the seven currency pairs we consider, we find that implied correlations forecasts are generally reliable and often efficient and unbiased. However, predictions using both implied and returns-based correlations provide the highest adjusted  $R^2$ s—explaining up to 52 percent of the realized correlations. We then apply the correlation forecasts to two policy-relevant topics: the impact on

cross-currency co-movement of interventions on the JPY/USD exchange rate and scenario analysis for the euro effective exchange rate index.

**#2005-39 “E-Banking: A Channel Transformation in Progress” Stephanie Sullivan (Troy University), Jamee Stiffler (Troy University) and Ernest Capozzoli (Kennesaw State University)** This paper reviews the shift from brick and mortar to electronic transactions in the banking industry—focusing on issues of convenience, security, competition, integration, success, benefits and future trends.

**#2005-40 “Panel Vector Autoregression under Cross Sectional Dependence” Xiao Huang ( Kennesaw State University )** This paper studies the fully modified FM) estimation of panel vector autoregression (VAR) under cross sectional dependence when the time dimension of the panel is large. We extend factor analysis in previous studies to vector process and give the asymptotic distributions of the estimated factors and factor loadings. FM estimation is used to obtain the parameter estimates in panel VAR. We use simulation to study the performance of various estimators.

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