

GERMANY/HONG KONG JOINT RESEARCH SCHEME

THE PROJECT REPORT

(for Project Completion)

Project Number: G_HK019/11

Title

Liquidity constrained firms and international trade

Particulars

	Hong Kong team				German team	
Name of Project Co-ordinator (with title)	Professor Wong Wing-keung				Professor Udo, Broll	
Name of Co-Investigator (if any)						
Institution or Institutional affiliation	<input type="checkbox"/>	CityU	<input type="checkbox"/>	HKU	<input type="checkbox"/>	Dresden University Of Technology and University of Augsburg Others: _____
	<input type="checkbox"/>	CUHK	<input type="checkbox"/>	HKUST		
	<input checked="" type="checkbox"/>	HKBU	<input type="checkbox"/>	LU		
	<input type="checkbox"/>	HKIEd	<input type="checkbox"/>	PolyU		
Other project team members (if any)						

Funding Period

	1 st year	2 nd year (if applicable)
Start Date	1 January 2012	
Completion Date	31 December 2012	

Objective(s) as per original application

1. We plan to show that an under-hedge may be optimal for the exporting firm although the currency futures market is unbiased.
2. We plan to show that overcoming financial constraints in satisfying margin calls increases exports.
3. We plan to show that a gradual widening of financial markets may have an adverse effect on trade flows depending on the prudence aspect of preferences.
4. We plan to investigate the behaviour of the management when they face more than one hedging positions.
5. We also plan to investigate the behaviour of the management when they possess different types of utility functions, say, for example, they are risk averse, risk seeking, their behaviours follow prospect theory, and their utility function is reversed S-shaped.

Details of Report [Please attach relevant document(s)]

) Outline of proposed research and results obtained

The proposed research is fruitful. We complete the objectives and obtain the following paper published:

1. Udo Broll, Wing-Keung Wong, Mojia Wu, 2011, Banking Firm, Risk of Investment and Derivatives, Technology and Investment 2, 222-227.
2. Udo Broll, Wing-Keung Wong, Mojia Wu, 2012, Banking firm and two-moment decision making, the 19th Annual Conference of the Multinational Finance Society June 24 - 27, 2012, Kraków, Poland.

We have been working on another paper:

3. Broll, U., Egozcue, M., Welzel, P., Wong, W.K. 2013, Optimal Output for the Regret-Averse Competitive Firm Under Price Uncertainty, working paper.

This project will be completed soon and we will then submit our paper for publication.

ii) Significance of research results

In this project, we use the mean-variance and stochastic dominance approaches to develop the theory for Banking Firm, Risk of Investment and Derivatives. The economic environment for financial institutions has become increasingly risky. Hence these institutions must find ways to manage risk of which one of the most important forms is credit risk. In this paper we use the mean-variance (mean-standard deviation) approach to examine a banking firm investing in risky assets and hedging opportunities. The mean-standard deviation framework can be used because our hedging model satisfies a scale and location condition. The focus of this study is on how credit risk affects optimal bank investment in the loan and deposit market when derivatives are available. Furthermore we explore the relationship among the first- and second-degree stochastic dominance efficient sets and the mean-variance efficient set.

iii) Research output

We obtain the following paper published:

Udo Broll, Wing-Keung Wong, Mojia Wu, 2011, Banking Firm, Risk of Investment and Derivatives, Technology and Investment 2, 222-227.

In addition, we obtain the following working paper:

Udo Broll, Wing-Keung Wong, Mojia Wu, 2012, Banking firm and two-moment decision making, the 19th Annual Conference of the Multinational Finance Society June 24 - 27, 2012, Kraków, Poland.

Broll, U., Egozcue, M., Welzel, P., Wong, W.K. 2013, Optimal Output for the Regret-Averse Competitive Firm Under Price Uncertainty, working paper.

iv) Potential for or impact on further research collaboration

This project generates good potential for further research collaboration. There will be many extensions we could do and we have started a new research project. In order to assist our collaboration, we have applied another grant from Research Grants Council of Hong Kong (RGC) Germany/HK Joint Research Scheme and we plan to apply for more grants from Research Grants Council of Hong Kong (RGC) in the future to support our research.