Journal of International Money and Finance 69 (2016) 1–4

Contents lists available at ScienceDirect

Journal of International Money and Finance

journal homepage: www.elsevier.com/locate/jimf

Introduction to the tribute – Jim Lothian special issue

1. Introduction

In the fall of 2015, a conference hosted by the Gabelli School of Business at Fordham University and the *Journal of International Money and Finance* was held in New York to honor the career of Dr. James R. Lothian for his distinguished service to the profession. This conference drew a number of excellent academicians who shared their research and motivated the participants to reconsider their own approaches to finance, a fitting tribute to Jim's career. The papers presented at the conference were selected for inclusion in this special issue honoring Jim, and after a very thorough review process, I am pleased to see them here in print.

The papers in this special issue are characteristic of Jim's over 25 years as the editor of the *JIMF*: they are serious, innovative, and provocative. These papers honor all of the versions of Jim Lothian there are.

There is Jim Lothian the student of Milton Friedman, George J. Stigler, and Theodore W. Schultz, who received his PhD from the University of Chicago and who rose to Vice-President of Research at Citibank before transitioning back into academia.

There is Jim Lothian the Fordham University Professor, who holds the Toppeta Family Chair in Global Financial Markets and is a Distinguished Professor of Finance, and who has served the university community for over 25 years.

There is Jim Lothian the researcher, who has published over 70 papers, has presented innumerable times, and who is known throughout the field as a serious, innovative, and provocative thinker.

There is Jim Lothian the colleague, who is known as much for the generosity of his intelligence as he is for the rigor of his thinking.

There is Jim Lothian the award-winning educator, who continues to fight the good fight for theory and who is especially committed to the teaching of undergraduates.

There is Jim Lothian the founder and director of the Frank J. Petrilli Center for Research in International Finance, which supports scholarly research in international finance, fosters interaction between the academic and the business communities, and adds recognition to the research being done at the Gabelli School of Business.

And there is, of course, Jim Lothian the editor, who for over 25 years led the *Journal of International Money and Finance* to its current place of prominence atop the field.

Jim's paper in the special issue is a fitting tribute to his tenure as the editor of the *JIMF*. In it, he considers three historical periods in the context of the relationship between prices levels and exchange rates in order to determine the success of the purchasing-power-parity (PPP) relation as a

http://dx.doi.org/10.1016/j.jimonfin.2016.11.001
0261-5606/© 2016 Published by Elsevier Ltd.

long-run equilibrium condition (Lothian, 2016). Jim acutely parses his date and finds that PPP is quite a useful approximation, thereby offering new inroads into our understanding of exchange rates.

The other papers in this special issue follow Jim's both in attention to detail and scope of ambition. Evans and Rime (2016) show why order flows are important drivers of spot exchange rate dynamics by using a decomposition for the depreciation rate, which shows that order flows will appear as proximate drivers when they possess significant incremental information about future rate differentials, risk premiums, and/or long-run exchange rate levels.

Meslier, Morgan, Samolyk, and Tazari (2016) estimate the benefits of geographic diversification for bank risk and return for U.S. bank holding companies, and they assess whether such benefits depend on bank size. While risk reduction strategies differ from very large banks to small banks, their results indicate that small banks and very large banks could still benefit from further geographic diversification.

Lim and McNeils (2016) examine the dynamic paths of key variables under recurring real and financial shocks under three scenarios: removal of zero lower bound (ZLB), quantitative easing at the ZLB, and the use of endogenous tax-rates rules for consumption and labor income at the ZLB. Their results show that fiscal tax-rate rules can be as effective as quantitative easing in times of prolonged crises due to negative shocks.

Yan, Phylaktis, and Fuertes (2016) examine the role played by cross-border equity, bond and bank credit flows versus international trade and how this has affected transmission of the U.S. financial crisis to equity markets worldwide. Their results indicate that the crisis is mostly transmitted through bank credit rather than portfolio flows and international trade.

Ince, Papell, and Molodtsova (2016) use data from 1973 to 2014 to evaluate short-run out-of-sample predictability for eight exchange rates in relation to the U.S. dollar. They find strong evidence in favor of the Taylor rule fundamentals model alternative against the random walk null, however, the evidence of predictability is weaker with the Taylor rule differentials model, and even weaker with the traditional interest rate differential, purchasing power parity, and monetary models.

Brounen, Koedijk and Pownall (2016) look at behavioral factors which lead households toward saving and financial planning. They find that an individual's propensity to save decreases with age and is higher among the financially literate, and that saving behavior varies across generations and is significantly dominant among Baby Boomers.

Wu, Erdem, Kalotychou, and Remolona (2016) analyze the channels for the cross-border propagation of sovereign risk in the international sovereign debt market, wherein they identify sovereign credit events as extraordinary jumps in CDS spreads. They find that the immediate effects of such events have been primarily a regional phenomenon and the longer term spillover effects can often be global in scope.

Cakici, Tang and Yan (2016) investigate the size, value, and momentum effects in 18 emerging stock markets during the period 1990 to 2013. They find that size and momentum strategies generally fail to provide superior returns. However, a value effect exists in all markets except Brazil, as value premiums tend to move positively together across different markets.

Deli (2016) examines the dynamic impact of capital maintenance on key aggregates through the depreciation rate. She finds that two factors are crucial for short term effects of Total Factor Productivity and Investment-Specific shocks: first, the marginal efficiency of maintenance and its connection with the rate of utilization, and second, the interplay between the intertemporal effect of maintenance and the substitution effect between maintenance and utilization.

Chatterjee, Chidambaran, and Goswami (2016) develop a theoretical framework to explain several unique characteristics of the Special Purpose Acquisition Company (SPAC) design, such as the prevalence of unit offerings and the use of equity and warrants in the founder's contract. They show that warrants play a distinct role in lowering the level of risk of the firm selected for acquisition and that the equity grant given to the SPAC founder pre-commits the shareholders and the firm to a pre-determined level of underpricing for the non-standard SPAC IPO process.

Liu, Zhang, and Fang (20160 investigate the impact of deposit insurance scheme on banks' credit risk, which is a predictor for failure. They measure bank credit risk by using the credit default swap (CDS) spread and find that banks in countries with explicit deposit insurance systems have higher CDS spreads. Their results suggest that strict bank regulation could reduce the undesirable impact of deposit insurance, that more deposit insurance seems to help stabilize volatile markets, and that the adverse

impact of deposit insurance on bank credit risk is more pronounced for banks with low asset quality and low liquidity.

Becchetti, Ciciretti and Paolantonio (2016) compare characteristics of banks' specialization (cooperative versus non-cooperative) globally during a time span that includes the global financial crisis. Cooperative banks display higher net loans/total assets ratios, lower shares of derivatives over total assets, and lower earnings volatility than commercial banks. They also document that, in a conditional convergence specification, the net loans/total assets ratio is positively and significantly correlated with value added growth in some manufacturing sectors.

Ma, Sun, Waisman and Zhu, 2016 study how state ownership affects the post-merger performance of Chinese acquirers, and find that state owned acquirers (SOEs) experience a significantly larger long-term performance improvement following mergers compared to their non-state-owned counterparts (NSOEs). The results indicate that state intervention in the form of capital market liberalization and alleviation of governance problems, combined with political connections and privileged access to financing, may have a positive effect on M&A performance that outweighs the inefficiency cost of state ownership in China.

Devereux and Dwyer (2016) examine the output costs associated with banking crises using cross country data by examining which variables help to predict output changes after a banking crisis using Bayesian Model Averaging. They find that the output losses are positively related to prior economic conditions for developed economies, whereas factors such as having a stock market and deposit insurance are more important for low-income economies.

Francis, Hasan, and Kostova, 2016 assess the importance of industry peers for a firm's own decision making strategy. They find that, similar to U.S. firms, foreign firms follow their peers when they make financial policy decisions. A standard deviation increase in peer firms' average leverage leads to about a 5 percentage points increase in a firm's own leverage. Firms are more likely to follow their peers when investor protection laws are weak, when creditor rights laws are strong, and when equity markets are more developed.

Chen (2016) establishes a theoretical model to study the relationship between credit market competition and bank capital. It is shown that credit market competition reduces banks' incentive to hold capital, that deposit insurance results in lower bank capital levels, that regulating bank capital improves welfare, and that the socially optimal capital requirement should be less strict if the credit market is more competitive.

I thank the editor of the *JIMF*, Kees Koedijk, and his staff for his extensive support. I thank all of the authors, discussants, reviewers, organization committee members led by Clayton Lamar, and of course, Fordham University for their significant efforts and help. And I thank Jim for blazing the way for us all.

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