Financial Research Insights: Synthesis of Recent Researches in the Field of Finance

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The world has become one small village with the advancement in technology. Increased use of technology in the fields of finance has integrated economies of different countries. This has made financial system of any country more vulnerable to the event happening in different countries. Every major event in any country can affect entire world's financial markets due to fast information circulation and cross border investments. Though, better and fast availability of information has increased market efficiency.

Financial field has seen many new developments in the last few decades. Increased number of participants in financial system, introduction of many new financial instruments, increase in investment opportunities, and integration of different financial markets have given rise to many new challenges faced by the investors or researchers. In the era of globalization, different foreign investors are entering in the domestic market and domestic investors are going global and it has become very challenging task for the financial managers to cope with the fast changing and growing financial markets without updated information.

The discussion presents a summarized review of recent researches in the field of finance. Few researches related to emerging issues in the financial market have been reviewed and discussed.

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Price Volatility

In the wake of technological involvement in the every field, field of finance doesn't remain unaffected. Technological advancement in the global financial market makes prices of the traded instruments more fluctuating then earlier, which in turn makes researchers find the factors responsible for price volatility different products traded in financial markets such as commodities majorly currencies, shares etc. either or its impact of the on the markets and economy as a whole. In this regard Pen, Y.L., & Sevi, B., (2018) conducted a study to understand the cause of the excess co-movement of commodity prices. The co-movement exists even after adjusting the impact of fundamental factors of commodity markets. Using a large approximate factors model the researcher studied the probable factors that are the determinants of excess of co-movement in commodity prices. Relation of the factors 'Financialization of the commodities, growth of emerging economics, the recent world financial crisis, inflation, and the adoption of biofuels' with co-movement of commodity prices was studied. Out of these factors growth of emerging economies and inflation contribute to the excess of co-movement. Intensity of speculative activities in commodity markets was also studied as a factor to lead excess co-movement. Researcher concluded that the speculative activities act as determinant of co movement of commodity prices and return. Then there is another research conducted by Gyntelberg, J., Loreton, M., & Subhanij, T., (2018), which states that Exchange rates are affected by number of factors and a study conducted in stock, bonds, foreign exchange markets of Thailand, concluded that investor's private information related to stock markets determines fluctuation in exchange rate. Large FX orders capital flows, which are due to investors' transaction in the stock markets, have lasting impact on exchange rates. The FX order capital flows that reflect investors' private information about the future performance of individual firms and corporate as a whole, affects the exchange rate, this effect is permanent. In contrast with this capital flows due to transaction done in local government bond market does not affect the exchange rates. Kumar, S., (2017) yet another study that focuses on examining the long run relation between gold price and inflation. Though the study used Whole Sale Price Index (WPI) & Consumer Price Index (CPI) to measure inflation it majorly focuses on finding out the long run dynamic relation between WPI and gold price. The finding suggests that the co-integration between WPI and gold prices has declined in Indian Context, owing to the decrease during 1990s to 2000 and mind 200 onwards an increase in WPI gold beta. The study also examined the effect of different macroeconomic factor on gold prices and found that WPI gold beta has a negative and significant relation with real effective exchange rate, and that gold can be used in replacement of paper currency because rupee is affected by inflation in the country. This is also the reason why gold is demanded to hedge against the inflation. WPI gold beat also has negative relation with interest rate changes hence these changes can be used to predict WPI gold beta. The study supports reduction in share of gold in a country's reserve assets. It Also suggests discouraging the use of gold prices to anticipate inflationary pressure in the economy.

The study suggests a new framework for multivariate time varying volatility. The model was tested by simulation study and empirical studies. Simulation studies revealed that the model has many well-known properties of covariance dynamics, which supports the potential advantages of the model. Yet empirical evidences do not support the suitability and potentiality of the model against some of the well-known models. Asset allocation test and VaR estimation test suggests that the model can outperform the existing models as far as forecasts are concerned. Han, C., Park, F. C., & Kang, J., (2017).

Financial markets of different countries of the world are integrated with the technology that information can reach to the farthest part of the world in a few seconds this has motivated researchers to review the impact of such information on stock prices; Finke, C, & Weigert, F., (2017) conducted a study on the relation of value related foreign information and stock prices of the firms worldwide. The researcher found out that foreign information has significant effect on firm's value and stock prices. In the sample taken by the researcher they found out that the firm with highest foreign information has higher stock price in comparison with the firms with lowest foreign information. Probable factors for this effect were also studied and the researcher concluded that his effect is particularly more on small firms, firms with low institutional investors, high idiosyncratic volatility and the firms which have major amount of sales in countries with different languages. The effect is larger in the countries, which has investors who are domestic bias or segmented equity markets. Return spread in countries is higher following the months in which domestic investors didn't pay much attention to foreign information.

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The researcher concluded that the effect of foreign information is due to negligence of investors towards foreign information. Everything that is traded gets affected by price volatility because of the fluctuation brought by Global scenario these day, Blau, B. M., (2017) conducted a study to find out whether speculative trading contributes to high levels of volatility in Bitcoin. The study has presented the price dynamics of Bitcoin, and found that prices of Bitcoin has gone up to $1,132.26 from that of few cents in the beginning by the end of 2013, which then fall almost 60%low of its value. These unusual price variations indicate presence of asset bubble but there was no significant speculative trading contributing to this value change of Bitcoin. Research found no association of speculative trading and the high value of Bitcoin.

Trends in Financial Markets and Return predictability

The other most researched thing in finance is return predictability, following few researches focus on this aspect of financial market after all finance is for wealth maximization for the investors and economy as whole. Cuzean, J., Hasler, M. (2017) concluded that return predictability focuses in bad times the research was conducted to find out what may be the probable reasons for this. The researcher argued that the returns predictability concentrates in bad times because of the counter cyclical disagreement spikes. These disagreement spikes are due to the use of different models to assess uncertainty by different agents in the economy. The researchers proposes that there are two types of agents in the economy one Agent A who views the economy in continuous term i.e. in the Grey Shades, and the other Agent B who views economy in a discrete term i.e. black and white. Due to this difference, the assessment of the uncertainty by these agents is different. In the efficient market same news is available to both the agents, which they interpret differently owing to their model and the state of economy. They suggested that Agent A and Agent B interprete the available news in the same manner in good times of the economy but in normal times small good news makes Agent B overreact and in bad times small bad news makes agent B underreact. This causes disagreement among the agents regarding uncertainty. This result in disagreement spikes which are countercyclical. This disagreement creates time series momentum, and commands risk premium. Hence return predictability concentrates in bad times. To predict return some researchers studied that how does the trading across the borders affect local return in domestic stock markets. Hiremath, G. S., (2017) examines the effect and behavior of international portfolio flows on local returns in emerging equity market. After Liberalization and integration of international markets, many foreign investors looking at underdeveloped economics as prospective markets, which resulted inflow of money from developed to emerging economies. The researcher studied that foreign flows in the emerging market do not affect the returns on the equity market and level of market efficiency. It also doesn't weaken the economies because prudential regulations, gradualist approach to liberalization and better monitory policy protect the economy from the negative effect of outflows from the economy. Hence the current framework of these three factors is recommended by the results of the study. The study recommended using long memory models for forecast, pricing options and management of risk.

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Global Investors & Domestic Markets

Investors have been at the center of the finance they are affected and can affect the financial market positively and negatively. So this field also being researched much. Banarjee, S., & Murali (2017) stated that banks in India are under stress because of business cycle and foreign exchange rate volatility. Effect of foreign exchange rate, foreign capital flows and GDP output gap is negative on NPA of public sector banks, different types of ownership banks are affected by Net FII and exchange rate. Banks are also affected by business cycle, hence it is concluded that whole banking sector is affected by macro economic factors except for inflation (specific to the research) and that changes in internal and external macro economic factors, raise concern for banking sector in India. Lerner, J., Schoar, A., Sokolinki, S., & Wilson, K (2018) found out that Angel Investor has developed in the past decade for funding new start-ups and projects. Angel investors have good features of venture capital funding, they take due diligence in assessment of potential investments, provide mentorship to start-ups, fund new entrepreneurs, sometimes act as outside directors to the firm, besides this unlike VCs, it is less exposed to agency problem, apart from the advantages listed, angel investors also has some disadvantages entrepreneurs and angel investors are exposed to idiosyncratic funding risk, and angel investors are usually risk averse, besides Lack of professional expertise to understand complex technologies, lack of suitable and supporting culture and infrastructure in countries might pose a challenge for the start-up, as angel investors only provide funding. However angel investors are popular way of funding startups.

In a study of impact of angel investors across 12 countries, US angel investors are found to have positive impact on startups performance, growth and survival. This impact is consistent irrespective of the nations' entrepreneur friendliness. Angels globally apart from US have positive impact on ability of the firm to obtain funding on later stages, they play an accreditation role to the start-up. Further, the study found out that the firms apply self-selection criteria on themselves and those who are established, don't need much financing for the start-up apply for angel investing. Those who are at early stage and need huge funding don't apply for angel investing, because they don't expect receiving funding from angel groups. The rationale might be Angel investors are more risk averse.

Foreign Currency Market

Lots of trading and increased export import across border after LPG, foreign currency market has witnessed many developments during the past few decades. Therefore foreign currency market is among the most researched area in the field of finance. Koijen, R.S.J., Moskowitz, T.J., Pedersen, L.H., & Vrugt, E. B., (2017) stated that 'Carry' can be defined as the future (synthetic future) returns of an asset when price remains unchanged. The research suggested that return from a security could be disintegrated in Carry, Expected price appreciation and unexpected shock. The researchers are of the opinion that Carry is directly observable. Research used carry to test different asset pricing theories. Relation of carry with Expected return and prices appreciation has been studied for different asset classes like equity, options, commodities, credit, and bonds. The researcher found that the 'Carry' can be used to forecast the future returns in cross section

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and time series in the sample they studied, a carry trade that turns a long high-carry asset and a short low-carry asset earns more return with Sharpe ratio of 0.8 annually on average and a diversified carry strategies portfolio will earns Sharpe ratio1.2 across all asset classes. Reddy, R., Rossanov, N., Ward, C., (2017). A studied currency carry trade & found out that the countries which specializes in exporting raw goods tend to have higher interest rates in comparison to the countries which export finished goods because such countries on an average have lower interest rate. With the help of a model the researcher proved that this difference results in average return on currency carry trade strategies. The researcher developed the model in which domestic production protects the countries from global productivity shocks. Data in the paper supported these predictions.

Hedging & Derivatives Market

More trading in foreign exchange market increased the risk in cross border trading in financial market; hedging and derivative are recent developments to mitigate the risks available in the market. Therefore it attracts researchers' attention Gilje, E. P., Taillard, J. P., (2017) carried out a study on Oil and Gas industry in Canada and US, to find out the channels with which hedging affects the firm value. The effect of hedging on firm value has been studied. The researcher found out that the firms with higher leverage ratio at the beginning of the basis risk shock are mostly affected by hedging in firm value, price and investment. Study also found out that the first order reasons for hedging are reducing the probability of financial risk and mitigating underinvestment (which was proposed by literature already existing for the research). Hsiao, Y. J., Tsai, W. C., (2018). Studied & found out a positive correlation between financial literacy and participation in derivatives market. The study was conducted to determine whether there is any significant effect of financial literacy with participation in derivatives market in Taiwan. The result emphasized that people with more knowledge regarding the financial instruments are more likely to participate in derivative markets as the derivative contract are complex and financial knowledge makes the individual understand and purchase the derivative contracts, resulting in less entry barriers for them. This effect remains majorly unchanged, as far as issues of accessibility and measurement errors are considered. The study also measure the impact of different socio-demographic factors such as household wealth, age, gender, residential location, individual risk attitude, information sources, asset-specific categories of knowledge, average annual personal income, marital and employment status, and educational back-ground. The results showed that out of these factors, household wealth, gender, information sources, and residential location have effect on participation in derivative markets.

Governance & Financial Crimes

More expansion has resulted in more risks, hence ensuring investors wellbeing is on the priorities of government and regulatory bodies, and many researchers focus on governance and financial crimes. Curti, F., & Mihov, A., (2018) stated that Countries with higher governance standard tend to have better fraud recovery, & concluded by a study conducted on the relationship between governance and fraud recovery not only this, the study also stated that there is a positive correlation between economic development and governance standard in a country and developed countries have stronger governance system. The study presented the empirical evidence to support that countries with good country governance have higher fraud recovery rate among bank holding companies. The study found that legal and governing system has important role in country's economic and financial development, hence it has impact on business climate. Countries with better governance will tend to have better sources of finance as they have better governance against financial crimes and money lost due frauds can be recovered easily.

Pay Inequality

This is another issue in not only in financial field but in other fields also; therefore few researchers found this area to be researched in the wake of eliminate any kind of discrimination form the market. Mueller, H. M., Ouimet, P. P., & Simintzi, E., (2017) conducted a study to examine the relation of pay inequality with firm's performance and valuation, and does pay inequality is priced by stock market. The result showed that the large firms tend to have more pay inequality between the top and bottom level hierarchy. Those who hire more talented managers have more pay disparities. Increase in firm's size has no significant impact on within-firms pay inequality but the gap between the pay of two hierarchy levels in the firm widens with increase in firm's size. This particularly happens in the firms where managerial skills are important. Increase in firm size has a positive relation with pay of higher-level hierarchy, where as lower-level hierarchy is either remains unaffected or decreases with increase in firm size. Firm's growth also increases pay disparity not only top and bottom level jobs but within various top-level jobs. Research also found out that the pay disparity is incentive provisions for the firm, as firms with pay disparity resulted to have better operating performance and better valuation, which indicates that the pay disparity has positive association with operating performance and firm's value.

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