

**Annual Report (1999-2000)  
of  
K.J. Luke Chair's Office**

July 2000

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## **I. Service: Out-Reach Activities**

In the area of service, the K.J. Luke Chair involvement extended to numerous out-reach activities with the intention of developing close working relationships with public and private sector institutions, promoting the University of Hawaii, and establishing a credible name for the newly founded Asia-Pacific Financial Markets (FIMA) Research Center. The K. J. Luke Chair's capital market-related research expertise has been in demand from international financial institutions such as Asian Development Bank, Asian Development Bank Institute, Pacific Economic Coordination Council under the umbrella of the Asia-Pacific Economic Cooperation, Organization for Economic Co-Operation and Development, World Bank, World Bank Institute, and World Economic Forum. In addition, the Indonesian Ministry of Finance requested the K. J. Luke Chair to organize a two-day conference on the development of an Indonesian government bond market, which underscores his professional and academic reputation in the area of financial system. Services provided this year by the K.J. Luke Chair Office can be described as the following: program chair, guest speaker, and session chair positions at the numerous important venues itemized below.

- Program Chair for a two-day Conference on the Development of the Indonesian Government Bond Market for Indonesian Ministry of Finance and Indonesian Association of Securities Companies on July 25-26, 2000 in Jakarta, Indonesia. This conference was sponsored by PT Danareksa Sekuritas, PT Bahana Sekuritas, and PT Bank Mandiri. Appendix A contains a copy of the conference program.
- Commentator on Financing the Infrastructure Investment at the 2000 EWC/KDI Conference on "A Vision for Economic Cooperation in East Asia: China, Japan, and Korea," July 31-August 1, 2000, Honolulu, Hawaii
- Guest Speaker on Regionalized Bond Markets at the 2000 Asia Development Forum: From Crisis to Opportunity, hosted by Asian Development Bank, ADB Institute, Institute for Southeast Asian Studies, World Bank, World Bank Institute in Singapore, June 5-8, 2000.
- Lead Speaker on Capital Market Reforms in Asia at a Round Table on Capital Market Reform in Asia organized by the Organization for Economic Cooperation and Development and the Asian Development Bank Institute, April 11-12, 2000, in Tokyo, Japan.

- Guest Speaker at the International University of Japan's New Millennium Lecture Series on April 10, 2000. The topic was "Regionalization of Asian Bond Markets."
- Lead Speaker on the Japanese Government Bond Market at a Workshop on Government Bond Markets hosted Asian Development Bank, March 28-30, 2000, Manila, Philippines.
- Guest Speaker at the Banking Executive Program of Sogang University of Korea on "Merits and Demerits of IMF Rescue Programs for Indonesia, Korea, and Thailand on December 20, 1999 in Seoul, Korea, and at the Korea University AMP Program on January 12, 2000 in Honolulu, Hawaii.
- Speaker at the Breakfast Forum of the Pacific and Asian Affairs Council on "Hawaii's Role for Asian Financial Market Development" on September 30, 1999 at the Plaza Club, Honolulu, Hawaii. This forum was co-hosted by the Plaza Club, the Chamber of Commerce, and the UHM CBA.
- Session Chairs at the Conference on Comparative Study of Financial Liberalization in Asia hosted by the East-West Center, September 23-24, 1999, in Honolulu, HI.
- Lead Speaker on "Areas for Regional Cooperation and Coordination in Financial Sector Reforms" and Moderator at Joint Technical Workshop hosted by Pacific Economic Cooperation Council (PECC), Institute of Southeast Asian Studies (ISEAS), and World Economic forum (WEF) on August 23-24, 1999 in Singapore.

## **II. Academic Research Activities**

The area of academic research activities is designed to serve the academic community and the capital market industry. The K. J. Luke Chair's research activities are comprised of preparation, presentation, and publication of academic papers, capital market policy research reports, and edited books. Additionally, the K. J. Luke Chair's academic research activities include external referee service, supervision of Ph.D. dissertations, and service for academic meetings. Under each segment, the K.J. Luke Chair Office is actively promoting and supporting academic excellence. By continuing to pursue and excel in the academic research activities, the K.J. Luke Chair Office will be successful in promoting the University of Hawaii as a leading research institution.

### Articles and Reports Published

1. "Rising to Asia's Challenge: Enhanced Role of Capital Markets" in *Rising to the Challenge in Asia: A Study of Financial Markets*, Volume 1 (Manila, Philippines: Asian Development Bank, 2000), 107-174.

2. "In the Eye of the Asian Financial Maelstrom: Banking Sector Reforms in the Asia-Pacific Region" (co-authored with Maria Socorro Gochocco-Bautista and Soo-Nam Oh) in *Rising to the Challenge: A Study of Financial Markets in Asia*, Volume 1 (Manila, Philippines: Asian Development Bank, 2000), 49-106.
3. "The Feasibility of Creating the Mortgage-Backed Securities Markets: An Overview" (co-authored with Renato E. Reside and Yutaka Shimomoto) in *Mortgage-Backed Securities Markets* (edited by S. Ghon Rhee and Yutaka Shimomoto)(Manila, Philippines: Asian Development Bank, 1999), 3-63.
4. "Quoted and Effective Spreads on Taiwan Stocks" (co-authored with C. J. Wang) in *Advances in Pacific Basin Financial Markets* Volume 5 (Greenwich, Conn: JAI Press, 1999), 145-158.
5. "The Effects of Trading Methods on Volatility and Liquidity: Evidence from the Taiwan Stock Exchange," (co-authored with Rosita P. Chang, N. K. Huang, and S. Z. Shu), *Journal of Business Finance & Accounting* 26 (January/March 1999), 137-170.'
6. *A Parameter Study For KLSE's Surveillance Information System* (Kuala Lumpur, Malaysia: Kuala Lumpur Stock Exchange, August 1999).

#### Edited Books Published

1. ***Rising to the Challenge in Asia: A Study of Financial Markets*** (Manila, Philippines: Asian Development Bank, 2000)
 

Volume 1:	An Overview Report
Volume 2:	Special Issues
Volume 3:	Sound Practices
Volume 4:	People's Republic of Korea
Volume 5:	India
Volume 6:	Indonesia
Volume 7:	Republic of Korea
Volume 8:	Malaysia
Volume 9:	Pakistan
Volume 10:	Philippines
Volume 11:	Thailand
Volume 12:	Socialist Republic of Viet Nam
2. ***Mortgage-Backed Securities Markets*** (co-edited with Yutaka Shimomoto)(Manila, Philippines, Asian Development Bank, February 2000).

#### Presentation of Academic Papers

“The Effects of Conversion from American- to European-Style Options on Price Discovery Process of Nikkei 225 Index” (co-authored with Rosita P. Chang and Masahiro Yoshikawa), presented at the *Eleventh Annual Asia-Pacific Futures Research Symposium* hosted by Chicago Board of Trade, Hong Kong Futures Exchange, and Hong Kong Baptist University, February 21-22, Hong Kong and the *2000 PACAP/FMA Finance Conference* held in Melbourne, Australia July 6-8, 2000.

“The Impact of Daily Price Limits on Information Asymmetry, Order Imbalance, Noise and Informed Trading: Empirical Evidence from the Kuala Lumpur Stock Exchange,” (with Soon-Huat Chan), presented at the *1999 Financial Management Association Meeting*, Orlando, Florida, October 6-9, 1999.

“The Role of Transaction Costs in Explaining the Deviations from the Interest Rate Parity,” (Co-authored with Rosita P. Chang and Sean Reid), presented at the *1999 Financial Management Association Meeting*, Orlando, Florida, October 6-9, 1999.

“Price Discovery Process on Regular Trade and Cross Trade Markets: Empirical Evidence from the Jakarta Stock Exchange,” (co-authored with Rosita P. Chang and Mamduh Hanafi) presented at the *Eleventh Annual PACAP Finance Conference*, Singapore, July 8-10, 1999.

“A Re-visit to Interest Rate Parity Theorem with Transaction Costs,” presented at the Economics Department Workshop, University of Hawaii, on February 11, 2000.

### Papers under Review

The following papers have been under review by leading academic journals in the areas of finance and accounting:

- "Taxes and Horizontal Corporate Group (Keiretsu) Affiliation: Empirical Evidence from Japan," (co-authored with Piman Limpaphayom)
- “The Impact of Daily Price Limits on Information Asymmetry, Order Imbalance, Noise and Informed Trading: Empirical Evidence from the Kuala Lumpur Stock Exchange,” (with Soon-Huat Chan and Kenneth Kim)
- “A Re-Visit to Interest Rate Parity Theorem with Transaction Costs” (co-authored with Rosita P. Chang, Snag-Hyop Lee, and Sean F. Reid)

- “The Effects of Conversion from American- to European-Style Options on Price Discovery Process of Nikkei 225 Index” (co-authored with Rosita P. Chang and Masahiro Yoshikawa)

#### Academic Paper Review

1. Journal of Finance
2. Case Research Journal

#### External Referee Service

- a. Promotion of Dr. Dean Leistikow, Fordham University
- b. Promotion of Dr. Yiuman Tse, Binghamton University
- c. Promotion of Dr. Fauzias Mat Nor, Universiti Kebangsaan Malaysia

#### Supervision of Ph.D. Dissertations

Soon-Huat Chan (1999)  
Chun-Lin Liu (2000)

#### Service for Academic Meetings

Review Committee, The *Twelfth PACAP/FMA Annual Meeting* and the *Third Annual Meeting of the Pacific-Basin Financial Management Society*, July 8-10, 2000, Melbourne, Australia.

Review Committee, The *Eleventh PACAP/FMA Annual Meeting* and the *Second Annual Meeting of the Pacific-Basin Financial Management Society*, July 8-10, 1999, Singapore.

### **III. Teaching Activities**

Under the area of teaching, the K. J. Luke Chair played an instrumental role in offering Asian Finance courses at three levels of academic programs: Ph.D., MBA, and undergraduate programs. As a result, the University of Hawai'i became the very first academic institution in the United States (probably in the world as well) to achieve this goal. In addition to this recent teaching accomplishment, the K. J. Luke Chair has been assisting the UH/CBA in designing a one-year M.S. program in Finance focusing on Asian capital markets. Based upon its strategic location and FIMA Research Center's research thrust, the UH/CBA should be able to upgrade its academic reputation to the next level of excellence.

During the 1999-2000 academic calendar year, the K.J. Luke Chair taught the courses listed below and was designated as an Economics Graduate Faculty to support Ph.D. dissertation research in the Economics Department.

Managerial Finance (MBA Level)  
Advanced Asian Capital Markets (MBA Level)  
Asian Finance (Undergraduate Level)

Graduate Faculty in Economics (October 1999)

#### **IV. Asia-Pacific Financial Markets (FIMA) Research Center**

The establishment of the Center was officially approved by UH President and Chancellor Kenneth P. Mortimer on December 13, 1999. The overall objective of the center is to spearhead both academic and policy research on financial markets development in the Asia-Pacific region, integrating the academic and practitioner viewpoints. In order to accomplish this objective, the following activities were completed or are in progress during the Center's first year of establishment:

1. **K. J. Luke Working Paper Series** was recently launched with working papers available on our website, [http://www2.Hawaii.edu/~fima/working\\_papers.htm](http://www2.Hawaii.edu/~fima/working_papers.htm), and in hard copy.
2. Formation of FIMA Research Center's Board is currently in Progress. The following contacts have accepted invitations for participation on the board:

Mr. Ali Abdul-Kadir, Chairman, Securities Commission, Malaysia  
Mr. Junji Asano, President, Toyo Keizai Inc., Japan  
Mr. Paul Chow, Chief Executive Officer, HSBC Asset Management Hong Kong Ltd.  
Mr. Mas Achmad Daniri, President Director, Jakarta Stock Exchange, Indonesia  
Mr. Mohd. Azlan Hashim, Executive Chairman, Kuala Lumpur Stock Exchange, Malaysia  
Mr. Herwidayatmo, Chairman, Capital Market Supervisory Agency, Ministry of Finance, Indonesia  
Mr. Yoshiaki Kaneko, Managing Director, Tokyo Stock Exchange  
Mr. C. Y. Lee, Chairman, Taiwan Stock Exchange  
Mr. Chang Bae Park, Chairman and CEO, Korea Stock Exchange  
Mr. Mitsuo Sato, Senior Advisor to Dai-ichi Life Research Institute and former president of the Asian Development Bank  
Mr. Yannes H. Naibaho, Chairman of Indonesian Association of Securities Companies  
Mr. A. Natakoesoemah, President Director, Surabaya Stock Exchange, Indonesia

Dr. Prasarn Trairatvorakul, Secretary-General, Securities and Exchange Commission, Thailand

Mr. Alec Tsui, Chief Operating Officer, Stock Exchange of Hong Kong

Mr. Vicharat Vichit-Vadakan, President, Stock Exchange of Thailand

Mr. Chi-Huei Yao, Chairman, Chinese Securities Association, Taiwan

3. Web pages for the FIMA Research Center are now completed. The website is designed to explain the purpose, programs offered, upcoming events, and working papers offered through the FIMA Research Center. Refer to <http://www2.hawaii.edu/~fima/>.
4. Memorandum of Understanding was signed on April 5, 2000 between the FIMA Research Center and the Indonesian Securities Companies Foundation (APEI) to establish joint research and executive training programs focused on Indonesian capital markets.
5. Memorandum of Understanding signed on November 29, 1999 between the Chinese Securities Association and the APFMRC for the creation of the joint the K. J. Luke Financial Executive Program and a joint international executive MBA program.
6. Negotiation with the Korean academic associations in the finance area was concluded for the organization of the 2001 Annual PACAP/FMA Finance Conference in Seoul, Korea, July 5-7, 2001. The FIMA Research Center will serve as an organizer.
7. First Visiting Scholar: Mr. Hiroshi Yoshida started his research program with the Center from January-May, 2000.

#### **V. *Pacific-Basin Finance Journal***

The FIMA Research Center is also the home of this premier academic journal, which publishes the highest quality theoretical and empirical research on financial markets of the region. The following achievements were accomplished by the Pacific-Basin Finance Journal:

1. Issues 7.3/4, 7.5, 7.6, 8.1, and 8.2 were published, which includes special issue topics such as Market Microstructure (7.5) and the Asian Crisis (8.2).
2. 121 manuscripts were received by the journal office and, after an extensive review process, 24 were accepted for publication to date. This acceptance rate also includes invited papers for special issue 8.3/8.4 on the 11<sup>th</sup> Annual PACAP/FMA Singapore Conference award papers.

3. Journal's Best Student Award to three best Beta Gamma Sigma Finance Area Inductees on November 20, 1999 at the Hale Koa Hotel:

Joycelyn Ku  
Ivy So  
Sherwin Louie

4. The Journal's web site is: <http://www2.Hawaii.edu/~fima/pbfj.htm>

**Appendix A**  
**The Program of the Jakarta Conference**

