

**RISK GOVERNANCE & CONTROL:  
FINANCIAL MARKETS &  
INSTITUTIONS**

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## EDITORIAL

### Dear readers!

It is a pleasure for us to introduce you the new international journal “Risk Governance & Control: Financial Markets & Institutions”. The journal keeps the pace on efforts of the publishing house “Virtus Interpress” in the way of publishing academic papers on governance and control issues.

Since the expansion of the recent global financial crisis the recently established international journal **Risk Governance and Control: Financial Markets & Institutions** has become focused on market-based topics. The Journal has been established to publish high quality theoretical and empirical studies in risk governance and control with application to financial markets and institutions. Its distinctive focus is original, rigorous research with practical applications.

This includes the following areas of specialization:

1. Risk governance and control in the private and public sectors;
2. Finance, financial pricing, financial management;
3. Economics of employee benefits, pension plans;
4. Insurance and insurance regulation;
5. Asymmetric information, moral hazard, and adverse selection;
6. Econometric, actuarial, and statistical methodology;
7. Stock market development and risks;
8. Currency market development and risks;
9. Market for banks development and risks;
10. Financial innovations;
11. Risk capital allocation and risk budgeting;
12. Impact of risk measurement on portfolio allocation;
13. Theoretical development of alternative risk measures;
14. Hedging (linear and non-linear) under alternative risk measures;
15. Credit risk and its valuation.

Both theoretical and empirical submissions are encouraged. Empirical work must provide tests of hypotheses based on sound theoretical foundations.

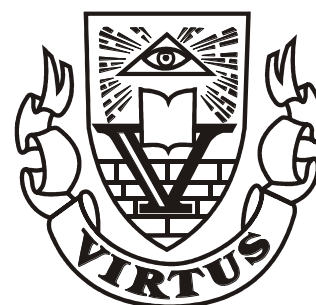
You are welcome to submit the papers to our journal. We take a promise to meet your request regarding the quality in reviewing and publishing!

# RISK GOVERNANCE & CONTROL: Financial Markets and Institutions

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*Rodolfo Apreda*

This paper sets forth another contribution to the long standing debate over cost of capital, firstly by introducing a multiplicative model that translates the inner structure of the weighted average cost of capital rate and, secondly, adjusting such rate for governance risk. The conventional wisdom states that the cost of capital may be figured out by means of a weighted average of debt and capital. But this is a linear approximation only, which may bring about miscalculations, whereas the multiplicative model not only takes account of that linear approximation but also the joint outcome of expected costs of debt and stock, and their proportions in the capital structure. And finally, we factor into the cost of capital expression a rate of governance risk.

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We seek to identify the culpability of banks in resource misallocation in Mexico, Thailand and Turkey. Specifically we provide evidence of an agency problem in the government and banking systems of the three countries. Where governments pass laws and regulations consistent with modern capitalism for the purpose of deceiving investors and others, the door is opened to the use of deposit insurance and repeated promises of regulatory reform to transfer wealth from the efficient to the corrupt.

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***Stefan Schwegeler, Suzette Viviers***

This paper, which is the first in a two-part series, sets out the development of a conceptual model on the variables influencing investors' decisions to use derivatives in their portfolios. Investor-specific variables include: the investor's needs, goals and return expectations, the investor's knowledge of financial markets, familiarity with different asset classes including derivative instruments, and the investor's level of wealth and level of risk tolerance. Market-specific variables include: the level of volatility, standardisation, regulation and liquidity in a market, the level of information available on derivatives, the transparency of price determination, taxes, brokerage costs and product availability.

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***Stefan Schwegeler, Suzette Viviers***

This paper, which is the second of a two-part series, presents the empirical findings of testing a number of variables influencing investors' decisions to use derivatives in their portfolios. Five variables were deemed very important by a sample of 21 experts in the financial services industry in South Africa. These were: the level of information available (including the transparency of price determination); investor's knowledge of different derivative instruments; investor's level of risk tolerance; the level of liquidity in the market; and investor's knowledge of and familiarity with financial markets. Education is required to change negative sentiments regarding derivatives and more regulation is called for, especially in over-the-counter markets.

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***Antonio Affuso***

Public support to firms has been a traditional and important industrial policy measure in many countries for several decades. One of the reasons for public intervention is the existence of market failures or imperfections. Informational asymmetries between borrowers and lenders of funds in particular are used to justify subsidies to firms, especially small and medium-sized enterprises. Within this framework, the main purpose of public subsidies is offsetting market imperfections. This paper makes a contribution to current empirical literature by examining the effects of public funding on credit rationing of small and medium-sized Italian firms. The results suggest that public subsidies reduce the probability of a firm being credit rationing.

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*Fabian Capitanio, Salvatore Di Falco, Felice Adinolfi*

This paper aims to understand the viability of the insurance schemes via estimating both the underlying factors that determine farmers' decision to adopt an insurance scheme against extreme events and the implications in terms of welfare. It uses a very rich farm level panel data from Italy. We have access to information regarding more than 8500 farms followed for 4 years and adopt a comprehensive estimating strategy that controls for the potential endogeneity of the insurance variable. The econometric results show that the insurance is positively correlated with welfare (captured by farm revenues). We also find that farms that have more crop diversification are more likely to adopt the insurance scheme. This may indicate that crop diversification may act as complement for financial insurance and not as substitute.

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*Christoph Van der Elst, Erik Vermeulen*

The paper raises questions as to whether the new risk governance requirements will be able to match the prerequisites for more balanced risk governance as part of the decision making process while fostering business entrepreneurship. Further, to comfort the market it will be necessary to report in accordance with market expectations adequate information about the financial and non-financial risks internal and external risks the companies are coping. Both questions will be addressed in this paper.

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*Nicoleta Bărbuță-Mișu, Vasile Mazilescu*

The bankruptcy prediction of the enterprises is a great interest issue, which has continued such attention to researchers and specialists for several decades. This paper evaluates the risk of bankruptcy of a sample of 20 enterprises acting in the construction sector in Romania, in 2008. The bankruptcy risk is evaluated using 4 models: 2 models very well-known at the international level - Altman model (1968) with 5 variables and Conan & Holder model (1979) - and 2 models created taking into account the specificity of the Romanian business environment: the A model (2000) and the model of determining the financial performance developed especially for features of the enterprises acting in the construction sector (2008). The aim of this paper is to find a link or match between predictive power of the most used multi-factorial models of bankruptcy risk, taking into account the period in which they were created, the specific characteristics of the economy and industry.

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*Mico Apostolov*

The corporate governance issue in Macedonian companies has been brought forward during the recent few years. The main reason is the fact that the privatization process completion of socially-owned and partly state-owned enterprises has put emphasis to the challenge to reasonably regulate relationships established within companies on one hand, and relationships between companies and larger society on the other. All market economies, including those with longest tradition, have faced this kind of challenge so far.

Corporate governance becomes an increasingly important issue for the Macedonian economy. It is being taken with greater consideration by the companies, regulators and government. The strong wave of privatization programs from mid-90' have resulted in an altered business environment, and new legal and institutional frameworks have been established. Indeed, corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to external sources of capital. In this paper we will make attempt to analyze the predominant factors that create prolific corporate governance environment in two terms; a) micro level and macro level.

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