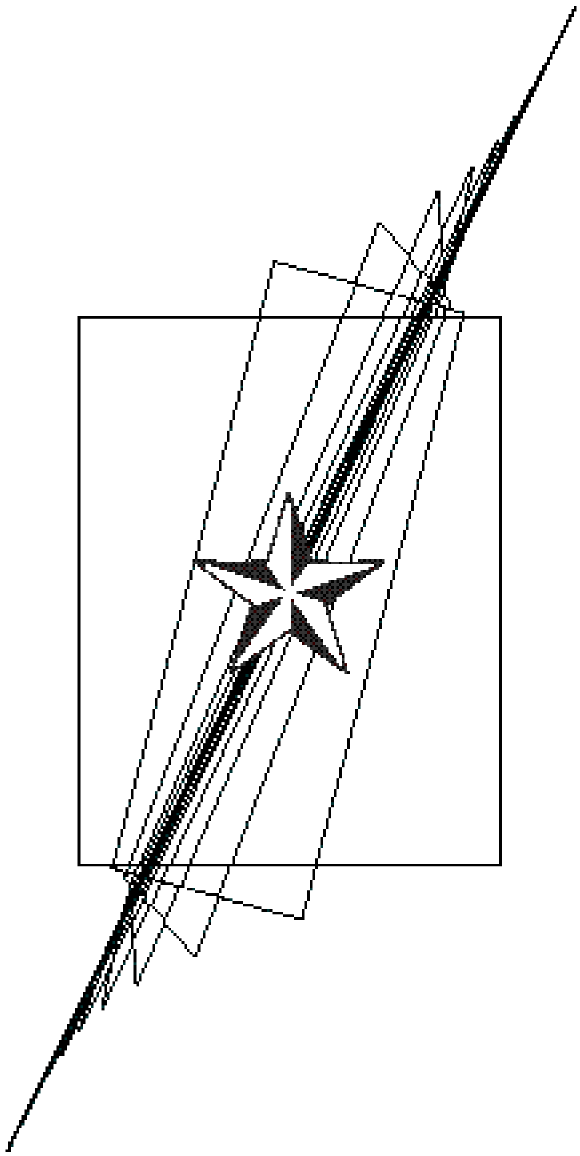

DLSU BUSINESS & ECONOMICS REVIEW

Volume 28 Number 2 • JANUARY 2019

The ***DLSU Business & Economics Review*** (DLSU B&ER) publishes high-quality theoretical, empirical, and methodological research in the fields of accounting, business management, commercial law, economics, finance, and marketing. The DLSU B&ER aims to reach an audience in these six fields and is published biannually (January and July) by De La Salle University, Manila, Philippines. Unless otherwise noted, the ideas, opinions, and conclusions expressed in the DLSU B&E Review are those of the authors and not necessarily those of the Editorial Board of the journal or the management and staff of De La Salle University. It is listed in SciVerse Scopus since 2011, abstracted and Indexed in EBSCO since 2009, and listed in the ASEAN Citation Index. It is also an awardee of the Journal Challenge Grant of the Philippine Commission of Higher Education (CHED).

Annual Subscription Rates: Foreign libraries and institutions: US$60 (airmail). Individuals: US$50 (airmail). Philippine domestic subscription rates for libraries and institutions: Php1,800, individuals: Php1,300. Please contact Ms. Joanne Castañares for subscription details: telefax: (632) 523-4281, e-mail: joanne.castanares@dlsu.edu.ph

ISSN 0116-7111

Published by De La Salle University Publishing House
2401 Taft Avenue, Manila, 0922 Philippines
Telephone: (63 2) 523-4281 / 524-2611 loc 271
Fax: (63 2) 523-4281
Email: dlsupublishinghouse@dlsu.edu.ph
Website: http://www.dlsu.edu.ph/offices/publishing-house/default.asp

The De La Salle University Publishing House is the publications office
of De La Salle University, Manila, Philippines.

DLSU BUSINESS & ECONOMICS REVIEW

Table of Contents

From the Editor

This volume consists of two major parts. The first is a special section on papers in macroeconomics while the second is a collection of articles that were submitted regularly to the journal.

The macroeconomic papers were drawn from the 2nd De La Salle University (DLSU)- National Institute of Development Administration (NIDA) Macroeconomics Workshop held on May 28, 2018 at DLSU, Manila, Philippines.

There are several reasons for publishing the papers from this workshop. First, it is a manifestation of the commitment of the editorial board of the DLSU Business and Economics Review (DLSU-B&ER) to publish topics on contemporary economic and business issues relevant to the ASEAN region. In the past, the journal has released volumes on water, financial integration, and business management. The editorial board believes in continuing this route because such thematic volumes serve as rich resource materials for researchers and students on specific topics since they are written by some of the key analysts on these subjects in the ASEAN region.

Second, the DLSU-B&ER sees a need to continue supporting the DLSU-NIDA workshops because such dialogues of academics from the two leading research institutions in the Philippines and Thailand produce studies on pertinent contemporary economic issues in the ASEAN region. As you recall, the papers in its initial workshop on financial and monetary integration were published in the DLSU-B&ER in 2017.

Third, there is also a felt demand for analysis of macroeconomic issues done by sectors other than the investigations made by economists from central banks and finance ministries. There is a perception that the latter's analyses are subject to policy bias emanating from their respective government agencies. To address this and provide alternate perspectives, there should be a forum where research by academics on macroeconomic issues can be discussed and its outputs publicly disseminated.

The theme on the special section of this volume is the role of fiscal and monetary policies in the economy. Beyond the usual stability concerns, fiscal policies are also meant to stimulate economic activities and address market failures. But aside from its conventional roles, the effects of economic policies pursued by the government may extend beyond targeted sectors and national boundaries. In addition, there are inter-temporal dimensions in these economic policies. These tasks and other concerns are discussed in the papers in the special section.

On macroeconomic outcomes, the paper on **Deep Habits and Taxes: A Simulation Study** by **Lawrence Dacuycuy** introduced the formation of habits on specific consumption categories in modelling the impact of fiscal policies on macroeconomic outcomes. This novelty was forwarded in the light of recent consumption taxes in the Philippines that were targeted on specific commodities. In the presence of deep habits, these fiscal shocks can alter pricing mechanisms of firms. The author concludes that based on a simulation technique utilized, fiscal policies predict macroeconomic outcomes. Specifically, reduction in income taxes stimulate national income and private consumption while consumption taxes can lower private consumption because of excessive mark-ups in the context of deep habits.

Meanwhile, the paper on **Are Filipino Smokers More Sensitive to Cigarette Prices due to the Sin Tax Reform Law?: A Difference-in-Difference Analysis** by **Myrna A. Austria and Jesson A. Pagaduan** continued the discussion on the impact of fiscal policies on the consumption of a specific commodity with deep habits but emphasized the efficacy of fiscal policy as a tool in addressing asymmetric information. Using econometric analysis, the authors conclude that cigarette consumption is indeed price inelastic. Moreover, the increase in excise tax in cigarettes has decreased its consumption. The econometric results of the study are consistent with the predicted outcomes in a simulation discussed in the previous article. This study likewise reiterates how fiscal policy can be utilized as a measure in addressing market failures particularly those associated with internal and external effects of cigarette smoking.

The article on **The Role of Fiscal Policy in a Natural Disaster-Prone Economy** by **Dickson Lim,** on the other hand, shows the usefulness of fiscal policy as a stabilizing measure in the light of natural disasters. Using DSGE modelling, the author has shown that when fiscal policy is used in tackling supply dislocations caused by natural disasters it can re-establish the normal track of an economy. Thus, beyond demand management, fiscal policy can be a tool for economic stability by focusing on supply reconstruction.

On the implicit impacts of economic policies, the article **Measuring Fiscal and Monetary Policies Spillovers in ASEAN** by **Thi Mai Lien Dau and Yuthana Sethapramote** employed Global Vector Auto Regression (GVAR) model in appraising the influence of fiscal and monetary policies beyond its normal domestic targets. These economic policies do indeed flow to other spatial boundaries. The authors conclude that fiscal policies within the region are more felt than monetary policies and can affect the level of output and inflation in ASEAN capitals. Because of the magnitude of these spillovers as well as their adverse effects the authors reiterate the need for coordination in crafting macroeconomic policies among the countries in the region in the light of an increasingly interdependent ASEAN economies.

Still on the impact concerns of economic policies, the paper **How does the Thai Stock Market Respond to the Monetary and Fiscal Policy Shocks?** by **Suthawan Prukumpai and Yuthana Sethapramote** shows that monetary policy shocks affect the equity market more than fiscal policy changes. The key conclusion of the study is that monetary policy has a stronger and lingering impact on real output and stock market compared with fiscal policy. However, fiscal policy may also influence stock prices in the short run through changes in interest rate, reflecting crowding out. This may imply the need to temper the effects of economic policies on the equities market since any adverse effect may compromise the attractiveness of the stock markets to foreign as well as domestic players.

On a different light, the paper **Can Government Bond Replace Rational Bubbles? The Empirical Investigation on Singapore and Thailand** by **Athakrit Thepmongkol and Pichet Kaytanyaluk** probes on the role of fiscal policies in stabilizing the economy in the light of potential crisis associated with bubbles of private equities. In this context, the authors tested the ability of government bonds to displace private asset bubbles. The authors conclude that government bonds issued in Singapore display the capacity of replacing asset bubbles but not those issued in Thailand. One interesting result is that government bonds exhibiting ability to collect taxes and with rates of return do supplant bubbles. This may imply that fiscal discretion can improve the quality of government bonds and may strengthen the role of fiscal policy in arresting instability caused by asset bubbles.

Aside from inter-spatial impacts, economic policies also have inter-temporal impacts. Such impressions are the topics of the last two papers in this special section. The article **On Implementation Delays, Marginal Costs and Price Dynamics: A Theoretical Note with Implications for the Philippines by Lawrence Dacuycuy, Dickson Lim and Mariel Monica Sauler** and another article **Legal Setbacks, Disbursement Sudden Stops, and Fiscal Stimulus: An Empirical Characterization of a Recent Philippine Fiscal Experience** by **Lawrence Dacuycuy and Mariel Monica Sauler** show the effect of delays and interruptions of fiscal shocks on the economy. The former article traces the theoretical implications of such temporal kinks. The authors conclude that delays may affect cost and pricing as well as the productivity of the firms that are dependent on public investments. Such results may lower national output. Meanwhile, the monetary response to inflationary pressures is to increase interest rate that in turn channels savings to more efficient projects.

The latter article meanwhile is a simulation study using DSGE modelling on the impact of these delays on fiscal multipliers. Interestingly, government social programs with recurring features exhibit higher fiscal multipliers compared with intermittent government expenditures. With disbursement irregularities public expenditures with lower multipliers are further reduced.

As mentioned earlier, the second part of this volume consists of papers submitted on a regular basis to the journal. The topics discussed in these articles cover some issues on finance and government policies.

The article **Time-Varying Weather Effects on Thai Government Bond Returns** by **Anya Khanthavit** is an attempt in providing a different perspective on assessing the effects of weather on asset returns. In the light of the problem of misspecification and unrealistic results accompanying fixed-effect assumption in evaluating the impact of weather on asset returns, the author offered the use of state-space model which allowed the effects to vary daily. The author concluded that the effects of weather on asset returns are indeed fluctuating over time. The significant effects, however, are short-lived and do not display annual patterns. Thus, fixed-effect assumption that breaks the sample into short-sub-samples is not enough to prevent significant effects from being averaged out.

Meanwhile, the article **How does Value Relevance of Accounting Information React to Financial Crisis?** by **Karl Louis Eugenio, Phobe Mitch Ailarie Parel, Katrina Marie Reyes, Keith Brian Yu and Cynthia Cudia** examines whether value relevance of accounting information differ before, during, and after the financial crisis in 2008. The financial indicators covered in the study include book value, earnings per share and operating cash flows. When taken individually, these financial indicators have value relevance during the crisis. However, when these financial indicators are combined together, the value relevance of accounting information during the crisis becomes insignificant. Thus, financial information during crises may lead to sub optimal decisions for investors as this information becomes unreliable with the loss in their incremental value.

Related to the value of accounting information, the article on the **Impact of Cash Holding on Foreign Institutional Holding in Large Manufacturing Companies in India: An Empirical Study** by **Souvik Banerjee** considers the relevance of accounting information to foreign investors. The author concludes that foreign investors have higher holdings in companies with high cash holdings and lower leverage. Thus, prudent financial management particularly on cash holdings can serve as a signal on the profitability of the company and may attract foreign investors.

Agency problems do abound in the corporate world. To address this, regulatory agencies have implemented policies meant to address this asymmetric information by making the membership of board of directors as varied as possible and allowing membership of independent shareholders in audit committee. The test of the efficacy of such government regulations is the main objective of the article **Regulatory Changes, Board Monitoring and Earnings Management in Nigerian Financial Institutions** by **Ishaq Ahmed Mohammed, Ayoib Che-Ahmad and Mazrah Malek.** The authors conclude that expanding the independence of the members of the board and engaging a share holder in the audit committee tends to repress earnings management.

Another policy of the government is on the pricing of rice. The article by **Ceasar Cororaton ad Krista Danielle Yu** on **Assessing the Poverty and Distributional Impact of Alternative Rice Policies in the Philippines** traces distributional effects of various trade policies on rice. The authors used CGE modelling in evaluating the poverty impact of various measures in rice pricing. The authors conclude that the imposition of tariffs on rice imports can generate favorable effects on income distribution and poverty reduction compared with the effects of the current policy on quantitative restrictions.

Still on government policies but addressing social issues, the article **Anticipating Ageing and Prospecting Pension for Retirement Wellbeing** by **Roberto Javier, Mitzie Irene Conchada and Melvin Jabar** proposes the need to improve current insurance and pension system in the Philippines. This is being proposed given the huge discount rate employed by young individuals in valuing inevitable events of retirement and its consequences based on the results of in-depth interviews. Aside from increasing this discount rate with awareness campaigns the government can help mitigate the consequences of ageing by improving the insurance system providing universal pension to ageing individuals.

At this point I would like to thank all the contributors of this volume for elevating the level of academic discourse in the field of macroeconomics, financial management, corporate governance and public policies in our journal. Special thanks as well to our growing pool of reviewers for their service and dedication to this academic ritual.

The DLSU-B&ER has been rated by SCImago recently as one of the leading journals in economics and business in the Asiatic region. This achievement has been attained by various factors including the publication of relevant topics in business and economics written excellent researchers utilizing of state-of the art methodologies and the keen assessment by dedicated reviewers. With this recognition may I request our contributors and readers to continue the conversation.

Tereso S. Tullao, Jr.
Editor-in-Chief