Asset Pricing Behaviour with Dual-Beta in Case of Pakistani Stock Market

ATTIYA Y. JAVID and EATZAZ AHMAD

This study investigates the dynamics of beta by the asymmetric response of beta to bullish and bearish market environment on 50 stocks traded in Karachi Stock Exchange during 1993-2007. The results show that the betas increase (decrease) when the market is bullish (bearish). The results however suggest that investors receive a positive premium for accepting down-side risk, while a negative premium is associated with up-market beta. The results suggest that the conditional Fama and French three factor model has performed better than the conditional CAPM when news asymmetry was taken into account compared with the unconditional Fama and French three factor model and the unconditional dual-beta CAPM in explaining the relationship in beta and returns in case of Pakistani market.

*JEL classification:* G12, G15

*Keywords:* Beta Instability, High Market Beta, Low Market Beta, EGARCH Model, News Asymmetry, Fama and French Three Factor Model

The Foreign-Income and Real-Exchange-Rate Elasticities of Bangladesh Exports

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Bangladesh began implementing trade-reform policies in the mid 1980s, leading to a gradual change in its anti-export-policy. Since then the share of exports in her GDP has
been rising steadily with the economy growing at about 5 percent per annum. This growth is associated with structural change in the country’s export composition favouring non-traditional exports, namely garments and frozen foods. This paper specifies and estimates an aggregate export-demand function; deploys Pesaran’s bounds-testing approach to estimate export-elasticities of foreign income and the exchange rate; and tests for the stability of the estimated function. The empirical results, based on annual data for the period 1973–2010, suggest a long-run relationship between real exports and export-weighted foreign real income. Similarly, real exports and the real effective exchange rate of the taka are found to be related. Finally, the results suggest that the dynamic behaviour of exports possesses an error-correction representation. The CUSUM and CUSUMSQ tests suggest no significant instability in the export-demand function. However, the recursive and rolling-regression coefficients indicate that the export-demand function has undergone some structural change since the early 1990s. This is reflected in the decreasing sensitivity of real exports vis-à-vis the exchange rate.

**JEL classification:** C32, F11  
**Keywords:** Exports’ Elasticities, Pesaran’s Bounds Test, Export-demand Stability, Bangladesh

### The Contemporaneous Correlation of Structural Shocks and Inflation-Output Variability in Pakistan

MUHAMMAD NASIR AND WASIM SHAHID MALIK

Monetary policy has changed in a number of ways in the last two decades. Along with other characteristics, modern monetary policy is forward-looking and today central banks, to maintain credibility, respond contemporaneously to structural shocks that might make inflation deviate from the target in future. This study aims at investigating this aspect of monetary policy for Pakistan. Using the modified version of Structural Vector Autoregression (SVAR) developed by Enders and Hurn (2007), the authors have found a weak policy response to supply side shocks as the correlation coefficient between demand and supply shocks is only 0.041. Moreover, the results show that the demand shocks have no significant contribution in output variability. On the other hand, both demand and supply shocks, along with foreign supply shocks, significantly contribute to inflation variability.

**JEL classification:** E31, E42, E52, E58  
**Keywords:** Monetary Policy, Contemporaneous Correlation, Pakistan, Structural Shocks, Vector Autoregression
A Strategic Tool for Managing Intellectual Capital of Pakistan

KAMRAN YOUSEF SANDHU, SULEMAN AZIZ LODHI, and AHMAD ZOGO MEMON

In the post-industrial world, the Intellectual Capital (IC) of nations has become critical for wealth and value creation. In this era of knowledge-based economy, one real challenge that a nation faces is maintenance of its economic growth and its competitiveness in the international market. Policy-makers presently need to have a strategic management tool to measure and develop IC assets of a country. The paper extends the framework of Skandia Navigator [Edvinsson and Malone (1997)] from the corporate to the national level and develops a tool on the extended framework to visualise the intellectual capital of Pakistan.

The Intellectual Capital of a country is indirectly visualised through various indices. These indices change from year to year, not necessarily in a consistent manner, so that having a general view would be baffling. To overcome this limitation, this paper proposes three methods of measuring the change in IC based on Financial Index (FI), Human Index (HI), Process Index (PI), Market Index (MI) and Research Index (RI). These tools produce composite IC indices for Pakistan (2005-2010) that can be useful for the development of national policies.

Keywords: Intellectual Capital Measurement, Knowledge Management, Strategic Management, Pakistan Economy