Module essay

Article: Latin America's Anti-Corruption Leaders: "Corruption Always Fights Back

The purpose of the article is to uncover the implications of corruption in Latin America and the reforms needed for controlling them. The article evaluates the policy measures and actions taken for controlling corruption in Latin America. It also highlights the weaknesses of the policies and the negative impact of institutions relations with political parties and governments.

A qualitative methodology is used in the article that interviews with anti-corruption leaders; Sergio Moro, Claudio Gonzalez and Jose Ugaz. The interview technique emphasized on asking questions on corruption and appropriate measures for controlling it. The answers of the anti-corruption leaders are recorded for considering future changes. The process involves discussion of various corruption events and its impacts. The policies are evaluated for identifying the weaknesses and failures. Sergio Moro is a federal judge having experience of conducting corruption investigations in Brazil. Jose Ugaz is a former chair of Transparency International, and Claudio Gonzalez is a co-founder of Mexicanos Contras.

Hypothesis: Institutional connections with government weaken anti-corruption measures.

The analysis of the interview and responses of the participants depicts that anti-corruption agencies lack authority and independence that is required for controlling corruption from Latin America. Strong bonds of the institutions with political agents protects them against the laws. Removing corruption is a time taking a process that depends on the approval of policies. Moro stated, "the government would take steps to approve general policies to reduce incentives and opportunities for corruption” (AQ). This depicts that continuous support from the state will increase the likelihood of ending corruption. The findings reveal that public opinion also impacts the anti-corruption measures. Today people are more aware of corruption, so it is appropriate for implementing strict regulatory policy. People are themselves frustrated about corruption and support the state's decisions for approving strict regulations. To improve the performance of the anti-corruption agencies they demand independence. Moro suggests that "you need independent prosecutors, some level of independence for the police. The police should not be just a branch of the government. You also need a strong demand from civil society and the general public against corruption because these politicians are very powerful" (AQ). A certain degree of independence will allow these bodies to work neutrally that will increase the probability of controlling corruption. The influence of political parties has always undermined the concepts of fairness and neutrality in operations.

Reflection

I think that the article did not include adequate facts for supporting the claims. The article could provide a better picture of the current structure by highlighting recent cases where firms proved of corruption gained release due to strong political relationships. It could also provide an estimated time of eliminating corruption from Latin America with the adoption of the strict policy.

The paper raises the following questions:

How anti-corrupt laws can practically eliminate government connections with corrupt institutes?

How anti-corrupt reforms made independent and eliminate the state's intervention?

Article: How Business is Done in the Developing World: Deals versus Rules

The article covers the themes of regulation of firms in developing countries. It examines the difference between doing a business estimate of compliance and actual distribution of experience times. Institutional decisions are influenced by the application of the laws that can be strict or can bend according to the needs. The article also uncovers the impacts of corruption on firms regulations, performance and profitability.

An enterprise survey method is used for determining the impact of regulations and formal policy on firms. Questionnaires and interviews are conducted with randomly selected firms in urban areas. The questions inquire about the firms about their operations, and face-to-face interviews reveal how firms perceive obstacles encountered by businesses. Quantitative information is acquired from the owners and senior managers for exploring how regulatory procedures are implemented and related costs. Corrupt practices such as bribes, gifts, and meetings with the government officials are also inquired. The enterprise survey targets 130,000 firms across 35 countries based on the Regional Program of Enterprise Development (RPED) in Africa Business Environmental and Enterprise Performance (BEEP) for European firms and Central Asia. Effects of labor regulations are also considered for estimating the role of rules. Doing business survey ask questions from firm experts.

Hypothesis:

Regulations and regulatory compliance have a significant relationship with firm's performance.

Firm’s performance is affected by changes in policy implementation.

Theory of the facts is used for explaining the events and the narratives in the paper. The findings are based on the assumption of heterogeneity of regulatory compliance in countries. The findings confirm significant correlation of corruption with the firm's regulations, regulatory compliance, and profitability. Political connections of firms in developing countries also influence stock market valuation. Firms use their profits for blocking future reforms in post-communist countries where institutions are in flux. Corruption is a common practice that causes deviations in the reported compliance. Flexibility in policy implementation generates larger rents. The results further indicate that the de jure and de facto policy diverge causes different impacts. It is revealed that states policy may be different from the implemented policy. Rule bends are the results of the negotiations. The results also depict a linear relationship between firms regulations and Doing Business assessments. The comparison of the DB and Enterprise Survey (ES) indicates that the higher or lower response does not move the enterprise value. Doing business has a significant correlation with an operating license that varies in regions as in Panama it take nine days and Venezuela 143 days. Reforms that change Doing Business indicators also affect the investment climate. The results of the study confirm that variability in policy implementation influence the firm's performance. This is because the decisive shifts in the policy implementation affect investors expectations and the expected rate of growth. The decline in profits may discourage investors from making future investments. The governments that adopt a neutral set of rules acts more in favor of companies. A level playing field is an effective tool for providing equal business opportunities to firms.

Reflection

I think that the paper is well represented and the author has managed to use an appropriate framework for determining the relationship between regulations and business performance. The author managed to minimize bias by relying on the enterprise survey and targeting larger firms. The article must consider how financial returns of the firms are affected by policy changes or deviation on regulations.

The paper raises the following questions:

Should firms choose target countries with strict or flexible regulations?

Do strict regulations undermine firms profits?

Article: Currency choices in Valuation: An approach for emerging markets

The article aims at determining how currency valuations impact multinational companies that make investments in the emerging markets. The cash flow is expressed in strong currency like dollars but sales and expenses and generated in domestic currency. The two traditional methods used for determining the fair value include; forecasting cash flow and capital in strong currency like a dollar or in domestic currency. The DCF value for the former is estimated in the dollar and domestic currency for the later.

The theoretical framework adopts the theory of Purchasing Power Parity (PPP) for explaining the functions of currency. The theory suggests calculating the accurate value of the currency that could be different from its current market value. It is an effective method for comparing the exchange rate between countries as it allows comparing princes in different currencies. The central premise of the PPP states that the conversion of currency keeps the costs of goods and services the same everywhere. The idea established by PPP states that the exchange rate and price level between countries must remain the same. This indicates that the same cost must be incurred on the product after accounting exchange rate and effects of the economy. Relative PPP is used for estimating the differences between the exchange rate of two countries for determining the appreciation or inflation rate.

Hypothesis: valuation in domestic or foreign currency generates identical values.

The hypothesis is accepted because, “exchange rate and inflation rate are forecasted consistently and once the inflation differential rate is considered in the cost of capital expressed in domestic currency, both methodologies yield identical fair values” (Dumrauf). Another technique employed for adopting fair value is by assuming that the constant real interest rate and inflation rate are rising for obtaining a nominal interest rate. It is appropriate to express cash flow in the dollar and use a DFC model for the estimation of fair value.

An appropriate way for predicting the exchange rate in emerging markets is by adjusting spot rates of the bonds issues in domestic and dollar currencies. Predicted exchange rate reveals the expected market appreciation or depreciation rate. Parity theories can be utilized for considering the macroeconomic variables essential for the financial projections. For minimizing the risks of devaluation the model discounts nominal free cash flow to nominal cost of capital. It is assumed that the value will not change if the analysis is performed in domestic or foreign currency. Same currency is used for estimating the cash flow and cost of capital. WACC performs valuation by discounting cash flow in domestic currency. The fair value of the domestic currency is then divided by the sports exchange rate. This gives the fair value in foreign currency (dollars). The adjustment of the inflation rate gives a differential inflation rate. This gives the terminal value for adjusting the long-term growth rate. The concept of Interest Rate Parity (IRP) is applied that explains, “expected change in exchange rates between those two countries equals the difference in interest rates between two countries” (Dumrauf). Forward exchange rate is equal to spot exchange rate under the assumptions of PPP and IRP. Inflation rate. Bonds have a higher yield that is nominated in domestic currency. Yield equation is thus used for forecasting exchange rate for each year.

Reflection

I think that the paper is well represented as it attempts to provide practical solutions of currency valuations in emerging markets. The author succeeded in proposing the solution for obtaining fair values in the emerging markets. I still believe that the paper has some limitations such as it did not consider the impacts of undervaluation and overvaluation. Purchasing power parity theory has some biases such as it include traded goods only that makes it a narrow measure. Another limitation of the paper is that the PPP implies that for the forecast period the real exchange rate remains constant. The inflation rate is high in the emerging markets compared to the developed countries so this can affect the valuation of currency.

The paper raises the following questions:

Do valuation in domestic or foreign currency generates identical values only under assumptions of parity theory and purchasing power parity?

Is this concept valid for emerging markets only?

Work Cited

AQ. "Article: Latin America's Anti-Corruption Leaders: "Corruption Always Fights Back." 2018.

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