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The equity premium puzzle: empirical evidence for the "Korea Discount"

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Abstract

This study examines the cost of equity capital (COC) and the factors that influence the COC of listed Korean companies, and compares the COC of Korean companies with that of companies from 31 selected countries. The major research question is whether companies that are listed in an emerging market have a disadvantage as they are underpriced through a higher COC (as compared with companies that are traded in developed markets). Consistent with the "Korea Discount," we find that the COC is significantly higher for Korean companies than for companies in other countries after controlling for other relevant factors. However, the "Korea Discount" has significantly eased in recent years.

JEL Classifications: G00, G18, M20

Keywords: Analysts' forecasts; cost of capital; firm characteristics; Korea Discount; Korean stock market

Income inequality and structures of international trade

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Abstract

The effects of trade openness on within-country income inequality in developing countries are found to be inconclusive in existing literature. This study proposes a "threshold effect" to address this issue. We argue that when exports benefit a large portion of population, it is more likely to decrease income inequality within a country; otherwise, increasing exports will likely increase the income inequality. Using a data-set of 55 developing countries from 1981 to 2005, we find that if the employment share of manufacturing industry is above (below) a threshold, the increase in the share of manufactures exports reduces (increases) the within-country income inequality.

JEL Classifications: D31, F16, O15

Keywords: Within-country income inequality; trade openness; manufacturing sector employment; developing countries