

ADVANCES IN INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT

Volume 8

Cheng Few Lee

ADVANCES IN INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT

ADVANCES IN INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT

Series Editor: Cheng Few Lee

ADVANCES IN INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT VOLUME 8

ADVANCES IN INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT

EDITED BY

CHENG FEW LEE

Department of Finance, Rutgers University, USA

2001



JAI An Imprint of Elsevier Science

Amsterdam - London - New York - Oxford - Paris - Shannon - Tokyo

ELSEVIER SCIENCE Ltd

The Boulevard, Langford Lane Kidlington, Oxford OX5 1GB, UK

© 2001 Elsevier Science Ltd. All rights reserved.

This work is protected under copyright by Elsevier Science, and the following terms and conditions apply to its use:

Photocopying

Single photocopies of single chapters may be made for personal use as allowed by national copyright laws. Permission of the Publisher and payment of a fee is required for all other photocopying, including multiple or systematic copying, copying for advertising or promotional purposes, resale, and all forms of document delivery. Special rates are available for educational institutions that wish to make photocopies for non-profit educational classroom use.

Permissions may be sought directly from Elsevier Science Global Rights Department, PO Box 800, Oxford OX5 1DX, UK; phone: (+44) 1865 843830, fax: (+44) 1865 853333, e-mail: permissions@elsevier.co.uk. You may also contact Global Rights directly through Elsevier's home page (http://www.elsevier.nl), by selecting 'Obtaining Permissions'.

In the USA, users may clear permissions and make payments through the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, USA; phone: (+1) (978) 7508400, fax: (+1) (978) 7504744, and in the UK through the Copyright Licensing Agency Rapid Clearance Service (CLARCS), 90 Tottenham Court Road, London W1P 0LP, UK; phone: (+44) 207 631 5555; fax: (+44) 207 631 5500. Other countries may have a local reprographic rights agency for payments.

Derivative Works

Tables of contents may be reproduced for internal circulation, but permission of Elsevier Science is required for external resale or distribution of such material.

Permission of the Publisher is required for all other derivative works, including compilations and translations.

Electronic Storage or Usage

Permission of the Publisher is required to store or use electronically any material contained in this work, including any chapter or part of a chapter.

Except as outlined above, no part of this work may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the Publisher.

Address permissions requests to: Elsevier Science Global Rights Department, at the mail, fax and e-mail addresses noted above.

Notice

No responsibility is assumed by the Publisher for any injury and/or damage to persons or property as a matter of products liability, negligence or otherwise, or from any use or operation of any methods, products, instructions or ideas contained in the material herein. Because of rapid advances in the medical sciences, in particular, independent verification of diagnoses and drug dosages should be made.

First edition 2001

Library of Congress Cataloging in Publication Data

A catalog record from the Library of Congress has been applied for.

British Library Cataloguing in Publication Data

A catalogue record from the British Library has been applied for.

ISBN: 0-7623-0798-6

The paper used in this publication meets the requirements of ANSI/NISO Z39.48-1992 (Permanence of Paper).

Printed in The Netherlands.

CONTENTS

vii
ix
xi
1
19
39
57
67
95
109
133

BIASES IN USING JENSEN'S ALPHA Yexiao Xu	161
MARKET TIMING SKILL, EXPECTED RETURNS, AND MUTUAL FUND PERFORMANCE Jason T. Greene and Charles W. Hodges	183
DYNAMIC HEDGE WITH FORECASTING: A MARTINGALE APPROACH Chin-Shen Lee	205
MEASURING THE INTEREST RATE RISK OF BONDS WITH EMBEDDED OPTIONS	203
Steven V. Mann and Pradipkumar Ramanlal	231
TWO-FACTOR JUMP-DIFFUSION INTEREST RATE PROCESS: AN EMPIRICAL EXAMINATION IN TAIWAN MONEY MARKET	
Shih-Kuo Yeh and Bing-Huei Lin	255
CROSS HEDGING AND VALUE AT RISK: WHOLESALE ELECTRICITY FORWARD CONTRACTS	•00
Chi-Keung Woo, Ira Horowitz and Khoa Hoang	283
USING MICROSOFT EXCEL AND DECISION TREES TO DEMONSTRATE THE BINOMIAL OPTION PRICING MODEL.	
John C. Lee	303

LIST OF CONTRIBUTORS

Paul Brockman Department of Accountancy, Hong Kong

Polytechnic University, Hong Kong

Robert Brooks Royal Melbourne Institute of Technology

(RMIT), School of Economics and Finance,

Australia

Chuang-Chang Chang Department of Finance, National Central

University, Taiwan

Marc Chopin Department of Economics & Finance,

Louisiana Tech University, USA

San-Lin Chung Department of Finance, National Central

University, Taiwan

Ronnie J. Clayton Jacksonville State University, USA

Robert Faff Royal Melbourne Institute of Technology

(RMIT), School of Economics and Finance,

Austrailia

Tan Pooi Fan Royal Melbourne Institute of Technology

(RMIT), School of Economics and Finance,

Australia

Asim Ghosh Department of Finance, Saint Joseph's

University, USA

Jason T. Greene Department of Finance, J. Mack Robinson

College of Business, Georgia State

University, USA

Shantaram P. Hedge Finance Department, The University of

Connecticut, USA

Charles W. Hodges Department of Finance, J. Mack Robinson

College of Business, Georgia State

University, USA

Lisa Kramer Department of Economics, University of

Toronto, Canada

John C. Lee JP Morgan and Chase Company, USA

Susan M. Managiero Assistant Professor of Finance,

Pace University, USA

Matthew R. Morey Department of Finance, Pace University,

USA

Yiuman Tse School of Management, Binghamton

University (SUNY), USA

H. D. Vinod Department of Economics, Fordham

University, USA

Chi-Keung Woo Energy and Environmental Economics, Inc.,

USA

Yexiao Xu School of Management, University of Texas

at Dallas, USA

Maosen Zhong Department of Business Administration, The

University of Texas at Brownsville, USA

EDITORIAL BOARD

James S. Ang
The Florida State University

Christopher B. Barry Texas Christian University

Stephen J. Brown New York University

Edwin Burmeister Duke University

Carl R. Chen
The University of Dayton

Ren-Raw Chen Rutgers University

Son N. Chen
National Chengchi University,
Taiwan

Cheol S. Eun Georgia Institute of Technology

Jack C. Francis

Baruch College

Chin-Wen Hsin Yuan-Ze University

Dong Cheol Kim Rutgers University

Stanley J. Kon Smith-Breedan Associate, Inc.

Yun Lin National Taiwan University

Scott C. Linn University of Oklahoma

William T. Moore University of South Carolina

R. Richardson Petti University of Houston

C. W. Sealy
University of North CarolinaCharlotte