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# THE EFFECTS OF FIRM SIZE ON PROFIT RATES IN THE FINANCIAL SERVICES

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## ABSTRACT

*The impact of firm size on firm profit rates has been of interest to economists for several decades. However, this extensive literature deals almost exclusively with manufacturing industries. Empirical consideration of the firm size-profits for firms outside manufacturing, including financial services, is almost non-existent. The purpose of this study is to empirically test the relationship between firm size and profitability for the financial services sector using a data set that covers a broad range of firm sizes. The topic is an important one because recent changes in the legal framework have facilitated a level of merger activity that is unprecedented in the history of the financial services sector. Questions related to the profitability of financial services firms operating at various sizes are integral to an analysis of financial service sector practices and ultimately to an evaluation of overall performance within this important sector. An important contribution of this paper is the testing of both linear and non-linear specifications for the firm size-profitability relationship.*



# **TEACHING PRINCIPLES OF ECONOMICS: INTERNET VS. TRADITIONAL CLASSROOM INSTRUCTION**

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## **ABSTRACT**

*Although still in its infancy, the use of the internet as a means to teach college courses, including economics, is growing. Previous research concerning the level of student learning in economics courses via the internet versus a traditional classroom has been scant and inconclusive.*

*This paper explores the factors that influence student performance in both principles of macroeconomics and principles of microeconomics and compares student achievement in courses taken in traditional classroom settings with those done via the internet. We provide a brief summary of the relevant literature, a description and statistical analysis of our data, and a discussion of our findings. Future ideas for research are noted.*



# TEACHING ENTREPRENEURSHIP TO AT-RISK STUDENTS IN THE MISSISSIPPI DELTA

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## ABSTRACT

*The ASU SIFE Team developed a program that was funded by a grant from the Horizon Institute of Technology. This program offered 32 at-risk students from two Arkansas delta school districts, Newport and South Mississippi Co. an opportunity to explore the role of technology in a free market economic system and to motivate them to pursue careers in the areas of math, science, business, entrepreneurship and technology. We examined the results to determine the effectiveness of the program using raw data, standard regression analysis and loglinear models and determine the significance of 8 factors on success in the program; gender, race, parental income, access to home computer, mother and father's education level, hours of computer use at school, hours of play on computer video games as dependent variables, and school district. The independent variable was the score on the MAME Standardized Test. Of the factors tested on success in the program; race, parental income, mother's educational level access to a computer at home, hours of computer use at school, and hours of play on computer video games were all significant at the .01 level. Only gender and father's educational level were not significant at the .01 level of significance.*

## INTRODUCTION:

An opportunity exists to “brand” the minds of area school children with collegiate aspirations in a hands-on environment. The focus was on children that are from low income, disadvantaged and minority backgrounds and expose them to an educational experience that will promote continued investments in their own human capital by seeking a higher education. The students are frequently left behind unless some intervention takes place. We also planned to help them explore the world of entrepreneurship by making them real decision makers in a business simulation.

This collaborate effort offered a variety of distinct venues that encompass technology and education. Each venue will focus on attracting middle school aged students (6<sup>th</sup> – 8<sup>th</sup> graders) within the Northeast Arkansas area and exposing them to a unique educational experience. Including exposure to math, science, business and technology. Emphasis will be placed on these topics as life and career choices.

We began by selecting two of our more progressive area school districts with a high percentage of at-risk children and asking them to identify and contact children for the program. The two districts selected the participants, provided chaperons and bus drivers for the 4 weekend excursions. A team of 8 SIFE members provided additional chaperons and program coordinators who helped plan and execute the camp. Together these teams planned and executed a program on each of four consecutive Saturdays running beginning October 28, and ending on November 18, 2006.

Module #1 began with students taking a pretest version of the test of Marketing, Accounting, Management and Economics [MAME], which became the basic instrument for our study. This



session was under the guidance of Dr. Larry R. Dale Sam Walton fellow from the department of economics in conjunction with SIFE student Carla Benson. We then proceeded to present a SIFE developed Power point presentation called “Economics and Free Enterprise”, which provided basic information on the free enterprise economy. We introduced the concept of economics and then proceeded to explore the market, command and traditional economic systems. Our focus quickly turned to the Market system, where consumers and producers interact to determine prices and quantities sold through something called “dollar voting”. Next we introduced students to the natural, capital and human resources used to produce goods or services. Then we talked about the mixed nature of the economy of the USA with input from government and traditions, but a dominance of consumers led production through various markets. We ended the first program by showing the film “The Kingdom of Mocha”, which reviewed all of the concepts previously covered. Mocha has a maturing market economy. Cousin Henry’s invention of the automobile is the rage. Demand escalates and a big boom begins on Mocha. Everything is going great until the village is ravaged by a storm which causing inflation as supplies become scarce. Big Daddy interferes by imposing a price and wage freezes, which causes a recession. Neighboring countries take advantage of the recession and lack of production by selling Mocha its exports. The islanders convince Big Daddy that if the freeze is lifted that Mocha will start producing and selling goods again in a free market. Pablo has to go further and further to find sources of wood fuel. This causes his prices to escalate making villagers angry. Pablo convinces Big Daddy that taxing him more will actually reduce fuel supplies and Pablo finds ways to cut costs bringing supplies in line with incomes again.

The film covers basic economic vocabulary such as: Supply, demand, markets, Price, Productive resources [natural, capital, human], entrepreneur, production, consumer, producer, goods and services. It also reviews the basic tenants of a free enterprise economic system with producers providing a good or service that consumer’s need or want; with very little interference from government.

Module #2 Finance and accounting under the leadership of dr. Henri Torres module 2 was designed to aid students in development of their Annual Report. Henri and his team were in charge of the Accounting and bookkeeping records of the camp. The Finance module included a balance sheet and income statement using computer software. Students learned about assets, liabilities and stockholders equity as part of a balance sheet. The income statement included : revenue from sales, costs of goods sold and operating items covered. This became a series of presentations based on overheads developed by the team.

Module #3 Business law was led by Module #4 Planning and Management was directed by Dr. Sandra Bevill and Allan Decker, SIFE alumni . This module included learning about and using the basic excel program to calculate budgets and create graphs that would appear in our annual report. All of this led to individualized help in producing and printing our professional looking annual report.

Module #4 was directed by dr. Torres in Marketing that looked at the role of advertising in getting consumers to notice your product. The best product in the world is a flop if nobody knows about it. Students used computer programs to create an advertising brochure about their company and the great product that it produced and sold. Each module of instruction was conducted in a computer lab setting where students developed a business that made and sold Tye Dye T-shirts, socks and shoelaces with the use of basic technology business solutions. The experience was fun, profitable and memorable for the attendees. Students developed an annual report, kept track of their income and eventually showed a profit of 14% on sales of over \$3,700 in sales. We pointed out that corporations would have paid half of their profit, on average, for corporate taxes. We gave half our profit to the two school districts for a total of \$600 to provide technology software for the schools involved in the project. The rest was returned to the students in one of three forms wages, commissions and dividends. By a vote of all stockholders wages were set at \$1 per Saturday, \$2 for officers. Commission equal to 25% of sales on each item for every student. Dividends were

awarded each stockholder. Everyone in the group was provided with 10 shares of stock at \$1.00, which they paid back from their income. In addition students bought an additional 224 shares when they found out that they would receive dividends on each share of stock they owned. Ownership of stock. Shares in the company, entitled then to one vote. Thus every share they owned gave them some decision making power in the company. A dividend of 33 % was paid on each one dollar share of stock purchased. We also had awards for the top three sales persons and other productivity awards for individual performance and creativity.

Students spent half their time in learning modules and half their time creating their product; Tye-Dye T-Shirts, socks and shoelaces. Students learned how to create a PowerPoint presentation for the Stockholders meeting and closing ceremonies of the camp.

We also ran a standard regression analysis and a loglinear model to examine the following 8 independent variables to see which were significant predictors of success on the MAME [y-dependent variable]; gender [GEN], race [RC], age [AG], fathers education [FE], mothers education [ME], owned a home computer [HC], use of a computer at school [SC], hours playing video games [HV]. This is expressed in the functional relationship;

$$Y = X1 \text{ GEN} + X2 \text{ RC} + X3 \text{ AG} + X4 \text{ FE} + X5 \text{ ME} + X6 \text{ HC} + X7 \text{ SC} + X8 \text{ HV}$$

Of the independent variables examined we discovered that the following were significant at the .01 level of significance; age, mother's education level, owning a home computer, use of a computer at school. Some of these elements were expected. Age should prove to be a factor with older students doing better on the test than younger students. The students ranged in age from 10 to 14. Owning a computer would improve scores on computer and technology questions. We pulled those and looked at them separately. Students with home computers had a mean score on those questions of 83% as compared to 71% for those without a computer. A similar pattern existed in students who spent more time playing video games or using the computer at school.

The class consisted of 51% Female students, 49% Male students. We discovered that gender, contrary to the conventional wisdom, was not a significant predictor of success in the program. Young girls were as interested in business and economics as were boys when presented in this format,

The racial mix was 61.7% African-American Students, 28% Caucasian students and 11 % Hispanic and Asian. Race was also not significant at the .01 level. Children from minority backgrounds were just as enthusiastic about making money as were whites.

Despite the fact that almost all of the children came from low-income families with 83% eligible for the free lunch program, 42% had and used a computer at home. Having a computer at home and playing games on the computer were both significant variables. In terms of computer use at school 61% of the children said they spent more than two hours per week on the school computer, with 11% more than 6 hours per week.

In parental education level 18 % of the children's father and 35% of the mothers had a college education. The average education of the mothers was 14.5 years and the fathers 13 years. The mother's educational level was significant at the .01 level and the father's was not. This may be a result of the fact that 64% of the children came from a one parent household usually headed by a mother. The mothers influence seems to be greater on these children than that of the father.

Our students showed a marked improvement that was statistically significant at the .01 level as compared to the national norm on the test. The pretest mean performance at the 62 percentile was well below the national norm of 72 percentile, but well above the posttest performance at the 91 percentile.

The school district was not significant, this may be due to the fact that both districts include students from their economics classes and their students had some familiarity with the subject before coming to the workshop.

They also showed greater interest in technology. Most important students over whelming expressed interest in obtaining a higher education 83%, and a willingness to study hard to make that dream possible by 77%. This was a marked improvement over the pre-camp survey with only 22% saying they planned to go to college. We believe that our project succeeded in training students to be skilled entrepreneurs and taught them to appreciate the economic system that makes such a dream possible.

One of the participants expressed it this way. "I learned that success comes from hard work and learning basic information."

The one surprise is that the mother's level of education was significant but not the father's. One explanation is that the mother has more influence over a child's attitude toward education and there fore toward their achievement level.

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Factor	Raw Data	Correlation
Gender [Dummy Variable]	Female 61% Male 39%	.135
Age	10-7.7%; 11-19.2% ;12-34.6% 13-23%; 14-15.3%	*.002
Race	African-Amer. 78.7% White 18% Hispanic 3.3%	.270
Mothers education in years	Mean 14.33 yrs 85% completed High School 35% College Graduate	*.0016
Fathers education in years	Mean 13	.09

Table 1 Raw Data and Regression Statistics		
Factor	Raw Data	Correlation
	82% completed High School 18% College Graduate	
Uses Computer at home	42% Use home Computer	*.0007
Hours spent on School computer per week	Less than 1-38% 2-5 hrs- 50% More than 6 11%	*.0023
Plays Video Game	28% more than 2 hrs per week 24% Less than 2 hrs more 1	*.004
Pretest Mean on MAME	58%	
Post Test Mean on Mame	72%	
Difference between pre and post test means	+14%	
No significant difference exists between the data derived by using the standard correlation matrix or the F and T-Tests, and that derived from the loglinear model. * significant at the .01 level		





# **GUO'S DUMMY SPECULATION: BLIND INVESTMENTS ON RISING OR FALLING STOCKS**

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## **ABSTRACT**

*This paper simulates the stock market, during the bull market period, and attempts to speculate and profit from buying stocks with a sharp drop in excess of 10% and those with a sharp increase of 10% in daily stock prices. Using the descriptive analysis, coefficient of correlation and optimal scaling of regression, the results statistically showed that speculating in stocks with a daily drop of more than 10% will have an overall positive return, while speculating in stocks with a daily rise of more than 10% will have an overall negative return. It also proved a significant correlation between the stocks' earnings per share (EPS) and their returns. The significant regression models, between the EPS and returns, showed that EPS is an important indicator for the return in this speculation, under such a scenario. Although, this study needs to be replicated during the bear market period, it does provide some very interesting results.*



# A PILOT TEST OF CONSTRUCTIVIST-BASED VIRTUAL ECONOMICS LEARNING MODULES

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## ABSTRACT

*We report performance results from a pilot test of Constructivist-based virtual economics learning modules in Texas senior high school economics classes. The two research questions were: 1) do the digital modules improve learning on selected economic concepts and 2) do the learning modules improve comprehension over more conventional declarative teaching?*

*Twenty-four digital online modules, designed using Constructivist learning theory, were pilot tested on 572 public senior high school economics students in Texas. Teachers had prior received training on the modules, the online Test of Economic Literacy and the experimental design. Treatment classes worked on either the Macro or the Micro modules over a two to three week period. Control classes received their scheduled lessons. Both treatment and control groups answered 10 items from the online Test of Economic Literacy Form A as a pre-test and Form B as a post-test. Schools were classified as high or low socio-economic level based on the percentage of economically disadvantaged students. Teachers were classified as experienced if they taught economics for five years or more and inexperienced if fewer than five years.*

*We find that the online Constructivist-based modules provide an option for students to learn basic economics in a graphical context. The modules positively and significantly increased student post test performance for inexperienced teachers. Schools with a high socio-economic level showed statistically significant performance increases for treatment and control classes. Post-TEL mean scores for treatment classes also were greater than the post-TEL mean score for control classes, but not significantly. Experienced teachers played a role in the significant improvement of post TEL scores in control classes.*





# **GOVERNMENT SPENDING, MONEY SUPPLY AND ECONOMIC GROWTH: EVIDENCE FROM THAILAND**

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## **ABSTRACT**

*Demand management policies concentrate on the management of money supply and government expenditures. Controlling money supply will affect the level of liquidity in the financial market, and thus alters private spending. A change in level of government spending directly affects aggregate demand in the economy. The notion that more government expenditures can stimulate growth is controversial. The focus of this study is to examine the relationship between government expenditures and economic growth even though money supply is included as part of demand management policies. Several researchers use Granger causality test to determine whether government expenditures cause economic growth or economic growth causes government expenditures. Previous empirical studies give different conclusions. The results from Thailand show that aggregate government expenditures cause economic growth, but economic growth does not cause government expenditures to expand. In other words, there is a unidirectional causality between government expenditures and economic growth. Further investigation using the ordinary least square method shows that government spending and its one-period lag variable impose a highly significant impact on economic growth, which confirms the results from causality test.*



# IS THERE A GAP BETWEEN WHAT WAS TAUGHT AND WHAT STUDENTS SHOULD KNOW ABOUT ECONOMICS?

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## ABSTRACT

*This paper assesses U.S. students' knowledge of basic economics. In particular, we would like to know how much students learned about economics from high school. To answer this question, we adopted the Harris Interactive survey questions used to conduct an online survey of economic and personal finance literacy in 1999 and again in 2005. These surveys were conducted on behalf of the National Council on Economic Education (NCEE). The survey questionnaire consists of 24 questions, four of which are on personal finance. The survey is administered to 33 students in the first college-level economics course in a small, private university in Upstate New York. Our survey results are then compared to the larger sample by Harris Interactive to benchmark the performance of our sample group. This study reports and analyzes the results of our survey, and uses them to design future research on this and related topics.*



