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ABSTRACTS

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Dr. Patrycja Chodnicka-Jaworska

Dr. M. Veysel Kaya

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“ESG as a Measure of Credit Ratings”

“Special thanks to keynote speakers”

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Impact of Board Composition and Monitoring on UK Bank Performance

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Abstract

This paper examines the effects of board composition and monitoring on the performance in the UK banking sector from 2000 to 2014. To get preliminary results, this study uses pooled OLS model. It further employs the fixed effects (FE) and random effects (RE). Two-step system generalized method of moments (SGMM) is employed to check the robustness of the results. The study finds CEO duality, CEO pay and board size to have a positive and significant effect on performance of the UK banks. However, board independence and female directors on board have a negative and significant influence on bank performance. Further analysis using sub-samples divided into pre-financial crisis, during the financial crisis and post crisis reinforce the robustness of our findings. Overall, this paper sheds light on the effects of within-board governance on performance and support the multi-theoretical framework that draws from the insights of agency and stewardship theory.

Keywords: Agency Theory, Stewardship Theory, Corporate Governance, Board Composition, Board Monitoring, Performance

Jel Codes: G34, G32, G21

An Application Using Blockchain for Banking Systems¹

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Abstract

Blockchain is a shared, immutable ledger for recording transactions, tracking assets and building trust. Nowadays, blockchain has become one of the most popular technologies not only in computer science but also in the field of finance. Since blockchain users' data can be kept private and safe, it became one of the desired technologies. Normally, in the bank sector companies or producers can use checks for payments which can be used in long-term. In that situation, producers may need to apply to banks for loans. On the other hand, when the producers and suppliers deal with a product exchange, they may need a notary for confirmation. To get a loan from a bank, they can be asked to show deal documents and other documents related to their assets and payments. Gathering documents and approving loans take a lot of time. Many people in the World draw loans and the majority of them are producers and suppliers. Blockchain technology can be safer and more trustable than current banking systems. This study was prepared since blockchain can be a favorable solution to deal with large document stacks and thanks to this technology drawing loan process can become faster. In this research, we aim to come up with a new perspective for banking systems by developing a blockchain application. Within the scope of this study, a software named *Supplier Finance (Ver_1)* is suggested as a useful tool for the banking sector.

Keywords: Blockchain, Banking, Bill, Loan, Notary

Jel Codes: E51, G21, H81

¹ **Acknowledge:** This study was presented as a Senior Design Project at Ihsan Doğramacı Bilkent University, Computer Sciences Department in 2019.

The Impact of Macroprudential Policy Instruments on Financial Stability²

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Abstract

After the Great Financial Crisis of 2007, macroprudential policy gained in recognition as a crucial tool for attaining financial stability. The aim of this paper is to investigate whether specific macroprudential policy instruments can influence credit growth rate, house price growth rate, cyclical fluctuations of the economy, and hence financial stability. We use the fixed effects and the random effects panel regression models to test the following three hypotheses for six euro area economies (Belgium, Cyprus, Germany, Spain, Ireland and Netherlands) during time span 2015 Q1 to 2018 Q4: Macroprudential policy instruments (common equity tier 1 ratio; loans to deposits ratio; non-deposit funding as percentage of total funding; leverage ratio; interconnectedness ratio; and coverage ratio) enhance financial stability, as measured by credit growth (H_1), house price growth (H_2) and cyclical fluctuations of the economy (H_3). Our empirical results suggest that, of the investigated macroprudential policy instruments, common equity tier one ratio, coverage ratio, and interconnectedness ratio exhibit the expected impact on credit growth and cyclical fluctuations of the economy. Moreover, common equity tier one ratio, loans to deposits ratio, and leverage ratio exhibit the expected impact on house price growth. The non-deposit funding ratio does not exhibit the expected impact on any of the response variables. As such, we can only partly confirm our three hypotheses.

Keywords: Macroprudential policy, macroprudential instruments, systemic risk, financial stability

Jel Codes: E58, G28, E60, E44

² **Disclaimer:** The views and opinions expressed in this paper are solely those of the authors and do not in any way reflect the official policy, position or opinion of the Faculty of Economics and Business, University of Maribor or of Credit Suisse Group AG.

Winners and Losers of the COVID-19: An Empirical Analysis of the NASDAQ-100

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Abstract

The aim of this paper is to present empirical evidence of the impact of the announcement of the COVID-19 pandemic on technology firms. This study focuses on technology companies due to the importance that this sector has acquired in this period, especially due to the digital transformation that many companies and citizens have been forced to implement due to restrictions caused by the pandemic. As a secondary objective, this work analyzes the impact of the announcement of the COVID-19 pandemic on the rest of the Nasdaq-100 sectors. The methodology used is the event study. We also use Ordinary Least Squares (OLS) regression to observe possible significant differences in the reactions of the analysed sectors. Our findings evidence different behaviours in the sectors of the Nasdaq-100. Specifically, only those shares from the technology sector had a positive and significantly reacted to the COVID-19 announcement. These conclusions are significant for agents of the economy in order to better decisions.

Keywords: COVID-19, Financial market, IT sector, Nasdaq-100

Jel Codes: G01, G12, G14, L86

Corporate Governance and Agency Theory

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Abstract

Agency theory and stewardship theory deal with the relationship between the owner and management in modern corporations. Explaining, describing and concretizing the relationship between the agent and the principal and finding an effective contractual relationship between the agent and the principal is the goal of agency theory. The aim of this paper is to clarify the function of principal as owners and agents as managers, to define the basic goal of principals and agents, to determine the complexity of their relationship and conflicts that may arise between them and to define the core of agency theory, all in the context of corporate governance.

Keywords: Corporation, management, corporate governance, the agent, the principal

JEL Codes: G30, G39, G40.

The Role of University Faculties in Regional Development³

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Abstract

Universities play an important role in economic development. This role is often called as the third mission that was investigated in the scientific literature through studies examining this role on the level of universities. The present article approaches this research at the level of individual faculties. Our database includes annual reports of selected faculties of Slovak universities for the years 2008 and 2016. The aim of the article is to find out, what activities aimed at fulfilling the third role of universities - participation in the development of the region - they perform. We investigated individual activities in regional development from a territorial and thematical point of view. Our findings confirm differences in development activities when comparing faculties located in Bratislava and located outside the capital city of Slovakia. Based on the performed analysis, it can be stated that non-technical departments show better activity in the field of regional development than technical faculties. The most frequently used activities were measures promoting additional education and cooperation with internships based on student fellowships. Hence, Slovakian statistics are still very low when compared to other European countries. Slovakian universities should place greater emphasis in this regard and introduce better measures to support regional development.

Keywords: Regional development, third role of universities, universities, education, research and development

JEL Codes: I2, I25, R58, O3.

³ **Acknowledgements:** This contribution was supported by the Scientific Grant Agency VEGA under the contract No.1/0605/19 – “New roles of universities in regional innovation systems”.

Can Internet Use and Cellular Subscriptions Explain the ICT Trade between Turkey and Its Trade Partners within the Gravity Model?

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Abstract

It is recognized that innovation enhances the economic performance of countries. Exports of information and communication technologies (ICT) is one of the innovation indicators. The number of internet users and cellular subscriptions in a country can be considered as the variables that enable both the creation of information that will provide ICT production and, in terms of the product range, the generation of demand for ICT imports. The gravity model, which relies on Newton's law of gravity, has been a workhorse in the investigation of trade flows among the countries. Therefore, the current paper uses the gravity model to estimate the ICT trade between Turkey and its trade partners. Two datasets and four models that take into consideration internet users and cellular subscriptions are constructed for the analyses. The empirical findings show that internet users and cellular subscriptions have positive effects on both ICT exports and imports, with cellular subscriptions having the highest impact.

Keywords: ICT trade, internet use, cellular subscriptions, gravity model

JEL Codes: C21, F14, O30

Impact of Insurance Tax on Decision Making of Households in the Slovak Republic with Focus on Digital Era Challenges⁴

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Abstract

The era of digitalization brings many new challenges. Some of the new technologies, can cause partial extinction of some insurance products. On the other hand, digitalization can create many new insurance products, as far as digitalization is changing what insurers cover (cyber-attack, loss of the virtual data). In addition to these changes, in Slovakia we face also changes in taxes paid by insures. According to the European Union law, financial services, including insurance and reinsurance transactions supplied by insurance brokers and insurance agents, are exempted from the VAT. However, across the EU Member States, we have been witnessing a growing trend of introduction of other taxes to substitute VAT in the field of insurance and reinsurance services.

Our research is motivated by the effort to estimate the possible impacts of insurance tax from the perspective of households. The effect, that tax can have on household's demand depends on a slope of the demand curve which in turn heavily depends on the price elasticity of demand. Furthermore, elasticity of demand curve can be affected by degree of necessity of product. We presume that the slope of demand curve might be changed by the effects of digitalization. If digitalization cause, that some of insurance products would no longer have high degree of necessity (car insurance may be no longer necessary if autonomy cars of the future, would have very low number of car accidents), then coefficient of elasticity in case of that insurance products would be higher number. Higher absolute value of elasticity coefficient means, that demand would react more aggressively to the same price changes. This leads us to rise a research question whether substitution of VAT exemptions by insurance tax or its alternatives does lead into the shifts of tax burden from insurance companies to insured households, which can be further reflected to a reduction in amount of policyholders. To explore this question, we measure a slope of the demand curve, while for estimation purposes a regression analysis method is employed.

The results of our work provide evidence of shifting of the insurance tax burden on demand side. However, by reason of steep slope of demand curves (inelastic demand), increase in prices, caused by the shifts of insurance tax burden on insured households is likely not to affect the amount of policyholders in a wide range. Our results also provide summarization of possible scenarios, how these insurance products can be affected by the digitalization in the future.

Keywords: Insurance tax, elasticity of demand, regression analysis, tax incidence

JEL Codes: D10, G22, H22, K34, Q11

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Results and Trends of the Prosecutor’s Office of the Republic of Bulgaria in Combating Crime

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Abstract

The purpose of this Report is to present the operations of the Prosecutor’s Office of the Republic of Bulgaria for the first six months of 2020, based on indicators characterising the performance of its main statutory functions. One of the essential factors in the first six months of 2020 was the unprecedented COVID – 19 pandemic which required the adoption of measures and decisions of the competence of the PORB (the Prosecutor’s Office of the Republic of Bulgaria) which directly reflect the effective exercise of the indictment function and the protection of the rule of law and of the public interest.

Keywords: Prosecutor’s Office of the Republic of Bulgaria (PORB), results, combating crime, trends

JEL Codes: K00, K13, K14

The Bulgarian Public Prosecution Office as a Leading Institution in Bulgaria

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Abstract

The article aims to present the activities of Bulgaria's Public Prosecution Office in terms of the initiation, movement and completion of inquiry files and cases in the first half of 2020, for key indicators describing the performance of its statutory functions. The productivity of their efforts is directly proportionate to the pro-active stance of citizens, including that of victims, in seizing the Public Prosecution Office, and it is also a function of the exercise of functional competencies by other government authorities as regards crime detection, investigation and proving by investigation authorities, the administrative law enforcement and referral activities of control bodies, the operations of the penitentiary authorities, etc.

Keywords: Bulgaria's Public Prosecution Office, leading institution, prosecutor general, achievements, results

JEL Codes: K00, K13, K14

COVID-19 Pandemic Uncertainty Shock Impact on Macroeconomic Stability in Ethiopia⁵

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Abstract

This study investigated the impact of COVID-19 pandemic uncertainty shock on the macroeconomic stability in Ethiopia in the short run period. The World Pandemic Uncertainty Index (WPUI) was used a proxy variable to measure COVID-19 Uncertainty shock effect. The pandemic effect on core macroeconomic variables like investment, employment, prices (both food & non-food prices), import, export and fiscal policy indicators was estimated and forecasted using Dynamic Stochastic General Equilibrium (DSGE) Model. The role of fiscal policy in mitigating the shock effect of coronavirus pandemic on macroeconomic stability is also investigated. The finding of the study reveals that the COVID-19 impact lasts at least three years to shake the economy of Ethiopia. Given that the Ethiopian economy heavily relies on import to supply the bulk of its consumption and investment goods, COVID-19 uncertainty effect starts as supply chain shock, whose effect transmitted into the domestic economy via international trade channel.

The pandemic uncertainty shock effect is also expected to quickly transcend to destabilize the economy via aggregate demand, food & non-food prices, investment, employment and export shocks. The overall impact of COVID-19 pandemic uncertainty shock is interpreted into the economy by resulting under consumption at least in the next three years since 2020. Therefore, the government is expected to enact incentives/policy directions which can boost business confidence. A managed expansionary fiscal policy is found key to promote investment, employment and to stabilize food & non-food prices. A particular role of fiscal policy was identified to stabilizing food, transport and communication prices. The potency of fiscal policies in stabilizing food, transport and communication prices go in line with the prevailing reality in Ethiopia where government has strong hands to control those markets directly and/or indirectly.

This suggests market failure featuring COVID-19 time, calling for managed interventions of governments to promote market stabilities. More importantly, price stabilization policies of the government can have spillover effects in boosting aggregate demand by spurring investments (and widening employment opportunities) in transport/logistics, hotel & restaurant, culture & tourism and export sectors in particular.

Keywords: Covid-19; macroeconomic instability; Ethiopia; economic uncertainty; fiscal policy.

JEL Codes: B22, E62, E6

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Factors for the Successful Implementation of Self-Dependant Training During the Educative Process

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Abstract

An important task of the military education system is the quality professional training of officers for the formations of the country's Armed Forces, building psychological readiness and abilities for professional and competent performance of official duties. According to the law on higher education, training is carried out in specialized higher education institutions, whose role is to prepare personnel necessary for the country's defense and national security for the various levels of government (tactical, operational and strategic). The education acquired in the military educational establishments of the Republic of Bulgaria corresponds to the requirements of the European legislation and the normative regulation of the country. It provides graduates with the necessary qualifications, including vocational education, professional knowledge, skills and experience, competence to practice skills and their application in practice, as well as competencies representing a set of interrelated knowledge, skills and attitudes necessary to perform the military profession. . The provision of interaction between the military educational establishments and the users of personnel from the system of the Armed Forces of the Republic of Bulgaria is of key importance for the connection of the military education with the practice. In this way, students will learn what they need to know and can about their future realization in the field.

Keywords: Education, training, cadets.

JEL Codes: I20, O10, P00

Independent Training of the Cadets

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Abstract

Priorities in the development of military education are the continuous improvement of military training, the establishment of a leadership model of education aimed at building military leaders for all command levels, and foreign language training. An important aspect of the military education system is the training of cadets, including the study of the laws, nature, content and principles of organizing communication and information support of the command and control system in the preparation and conduct of hostilities, non-war operations and implementation of tasks related to liquidation of the consequences of disasters and accidents. It is organized to provide the necessary knowledge, to develop abilities and create the necessary work habits, to create conditions for further realization of the officers by increasing their language training and to provide initial theoretical knowledge for work in a military environment.

Keywords: Military education, training, cadets.

JEL Codes: P00, I20, O10

The Crisis Unit Created in Premiere in the Institute of Mother and Child of Moldova

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Abstract

The COVID-19 pandemic is considered a major global problem, which is also affecting the national level. Thus, this article substantiates the need for efficient management as well as the undertaking of prompt response measures to the COVID-19 outbreak within the IMSP Mother and Child Institute. The aim of the paper is to highlight the strengths and weaknesses, but also the threats and opportunities of creating a crisis cell in republican medical institutions. So, the basic objective is the activity of the crisis cell within the IMSP Mother and Child Institute. The main results obtained from the investigations are to provide a comprehensive diagnosis of the management of the activity in the epidemiological situation and to provide useful practical recommendations for republican medical institutions in the Republic of Moldova.

Keywords: Crisis management, crisis, pandemic, crisis unit, internal audit, emerging risks.

Modelling the Forms of International Scientific and Educational Cooperation

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Abstract

Higher education today is associated with new topics, unthinkable for discussion even a decade ago, related to a new reality in social development that has emerged in the last few years. If so far we have been looking for options on how education can respond to the rapidly evolving high technologies, today we are already looking for opportunities to integrate education into cloud technologies and the creation of artificial intelligence and supercomputers. At first glance, this is a challenge, but seen from the standpoint of the process of consistency and upgrading of knowledge, skills and competencies in recent years, it can be defined as a systematic logical and consistent development. The modernization of higher (and not only higher) education requires a serious rethinking of the models, methods and content of the educational process. The agenda of higher education is related to its technology - digital, remote and information. Universities have well-established procedures and platforms that offer these opportunities and in which it is possible to apply interactive methods of teaching, distance learning and e-learning, with continuous improvement of quality, improvement and adaptation of content and this opportunity existed before our hit the current pandemic by COVID - 19. On a limited scale, only where innovations in teaching were at the appropriate level and the motivation to adapt to the new technology was high enough, their implementation took place. These innovations, despite the support of national institutions responsible for the quality of education, were not widespread. The challenges of these organizational models are serious and range between technical, technological equipment, infrastructure and training of teachers and students - some to teach, others to learn by these methods.

Keywords: Education, development, change.

JEL Codes: O10, I20, P00

Directions for Modernization of Innovative Youth Startup Design in Belarus

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Abstract

Technology and change have a great impact on every aspect of life, including education. Educational institutions are undoubtedly an important part of this whole process. Educational institutions are facing major cultural, demographic and, above all, technological changes. Today, teachers are facing new ways of teaching in the digital age that effectively incorporate technology into the educational environment. The authors of this article discuss the issue of change management, learning in the digital age and its impact on educational practices and experiences. In this context, the method of content analysis of relevant documents is applied, as well as the results of previous theoretical and empirical research of many scientists and researchers in this field. The conclusions reached are an appropriate starting point for future action in the framework of educational activities, policies and perspectives.

Higher education in its system has always developed in different areas of science and has made changes that are aimed at training professionals in relevant areas of our economy. With different structures, but subject to foundations that provide sustainability and conditions for innovations that update it to be useful to society. Education has always required a lot - to provide specialists for various positions in industry and all economic fields, to be a good basis for research and research, to provide personal development mainly to young people, but also without age restrictions, especially in the last years of his career. To a greater or lesser degree, the correspondence between supply and needs is ensured both by the quality of the process itself and by the quantity of the offered educational service.

Keywords: Modernization, innovative, education.

JEL Codes: I20, P00, O10

Issues of Foreign Investments in Mongolian Economy

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Abstract

The article considers the concept of foreign investment as an important source for overcoming the constraints of Mongolia's socio-economic development. This is due to the fact that foreign investment is not only a source of finance for the improvement of the economic structure and diversification of the country's exports, but also the source of high technology, best management methods, know-how, and experience. It's proven that by following foreign investment new technical, technological, and innovative achievements in the industry bring novel technologies and knowledge, best management and marketing methods in production, which help to increase income, consumption of high-quality goods and products, and a positive impact on economic development while also sharply improving knowledge, productivity, and labor skills of the work force. The results of our studies showed that the dominant part of foreign investment is directed to the mining industry, and it has become an important factor in Mongolian economic growth.

Keywords: Mongolia, economic growth, foreign investment, mining development, labor skills etc.

JEL Codes: M21, O11, O15

The Aftermath of the Fear and Oppression due to Covid-19 on Gaming and Gambling Activity: An Econometric and Multifractal Financial Approach

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Abstract

The Covid-19 pandemic has already harmed society in many ways. Governments and policy-makers have imposed harsh lockdown measures to limit the Covid-19 spread, which, apart from serious economic side-effects, had also psychological and behavioral ones. Forced to perform various activities in-door, people declare to feel oppressed, leading to many non-healthy behaviors as stress-relievers, such as excessive gaming and gambling. In this work, we examine some of the biggest companies' stocks related to gaming and gambling activities. Using time series analysis, we test the causal effect of the Covid-19 spread on these stocks, and we investigate the nature of the long-run relationship between each stock performance and the Covid-19 spread, using Multifractal cross-correlation analysis. Based on our findings, the Covid-19 confirmed cases Granger cause all gambling and gaming stocks, which means that the gaming and gambling "addiction" during the Covid-19 pandemic affected the financial performance of these companies (as depicted on their stocks). Moreover, the Multifractal cross-correlation analysis unveils a positive long-run relationship between the Covid-19 spread and these stocks, with a rich multifractal spectrum. The results indicate serious and important aftermath of the fear of Covid-19 spread and the oppression of the lockdown measures on the gambling and gaming activities, sounding the alarm to the policy-makers for non-healthy behaviors, leading even to addiction.

Keywords: COVID-19; stocks; gaming; gambling; addiction

Decentralization and Coordination Failures: Evaluating Pakistan's 7th National Finance Commission Award

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Abstract

Many countries in the world have embarked on ambitious fiscal decentralization through reforms, essentially re-assigning greater responsibilities related to fiscal expenditures and revenues from federal government to state and local governments. However, devising an equity based revenue sharing mechanism and conducting well-coordinated fiscal operations among various levels of government, for desired consolidated fiscal outcomes, remains wanting. Pakistan opted for greater fiscal decentralization through 18th amendment in her constitution in 2010 granting greater autonomy to provincial governments for expenditures and provincial debt generation, matched by higher revenue shares in divisible tax pool, from 41.5% to 57.5% for provincial government, set forth in 7th National Finance Commission Award. This study evaluates the said NFC award in terms of consolidated fiscal deficits for the last decade. A careful analysis of the annual budgetary data of central and provincial governments reveals that by devolving higher revenues to provincial governments, the central government is struggling to meet its annual deficits targets in face of heavy defense spending, interest payments and power sector debts. As a result, central government has been relying heavily on borrowed financing and Debt to GDP ratio of the country has reached from 60.1% in 2010 to 104% in 2020. While central government relies on provincial governments' surpluses when announcing a target deficit for the fiscal year, the provinces are not bound by any rule to generate those surpluses. This obvious lack of coordination leads to higher than estimated deficits each year. We conclude that there is a need to revisit the NFC award to provide the federal government some fiscal space and to devise a well-coordinated system of conditions forcing all levels of government to contribute for consolidated fiscal targets.

Keywords: Decentralization, Fiscal Policy, Coordination failures

JEL Codes: E62, H72

Underutilization of IT in Small-Medium sized Manufacturing Businesses in South Korea: An Exploratory Study

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Abstract

Manufacturing industries are the backbone of national economies in many countries around the world. In order to gain a competitive edge, numerous manufacturing companies are attempting to digitalize their manufacturing processes when deemed feasible. The South Korean manufacturing industry, which once was considered a powerhouse, is now facing a major challenge in the global trend of digital transformation in businesses via IT. Its manufacturing competitiveness is gradually declining compared to that of other countries, mainly due to the fact that unlike large businesses in South Korea, small and medium sized manufacturing businesses are typically slow in adopting and implementing new technologies, especially IT related. Therefore, this paper investigates primary reasons for the underutilization of IT in small and medium sized manufacturing businesses in South Korea. Thus, this study aims to initially find barriers to IT adoption in Korean small and medium sized manufacturing businesses and later to identify the priorities of those barriers. To achieve the above-mentioned purpose of the study, we suggest that “Expert” AHP technique is a suitable method; that is, a multi-criteria decision making is an appropriate process in seeking the barriers to IT adoption. There are two major steps for using AHP technique: (1) By conducting prior literature review, we will construct a hierarchical model by finding factors of barriers to IT adoption. (2) We will examine the factors to overcome first in IT adoption by verifying the validity of the selected factors from experts and by comparing the relative importance of the factors. Through the results of the study, we will not only reveal the barriers that slow down IT adoption(academic), but also provide guidance on which barriers to overcome first when adopting IT for small and medium sized manufacturing businesses in South Korea(practical).

Keywords: Underutilization of IT, Barriers to IT adoption, Small-Medium sized business, AHP, Focus Interview

Economic Uncertainty Drivers amid the COVID-19 Pandemic: Cases versus Government Response

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Abstract

The COVID-19 pandemic urged governments around the world to intervene and respond with different measures aiming to contain the spread of the virus and mitigate the global economic impact; nevertheless, uncertainty skyrocketed and dominated the world economy. In this paper, we examine the relationship between government intervention and economic uncertainty amid the COVID-19 pandemic. Using monthly data from January 2020 to September 2020 from 22 countries, we found that economic uncertainty during the first nine months of the pandemic reacted more to government intervention than to the number of COVID-19 cases, we also found that the response to face the pandemic had also different effects on economic uncertainty depending on the type of actions, since the containment policies increased economic uncertainty while the economic support to households action decreased it. Our results show that government intervention in different countries around the world had both positive and negative impacts on economic uncertainty and this has an important conclusion about government intervention effects on the economy during the COVID-19 pandemic.

Keywords: Economic uncertainty, Covid-19, Pandemic, Government intervention, Government response

Jel Codes: B22, C23, C54, D80

How Industry 4.0 is Linked to Servitization and Service Innovation in the Manufacturing Sector: Review of Literature

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Abstract

Industry 4.0 is a term that is often used to indicate the development process of the manufacturing industries in form of management and chain production. Here the companies give more importance to individual customers rather than the mass and decide their production dynamics with the choices of individual buyers. The technological thought goes beyond the digital manufacturing wherein the companies tries to take advantages by using Internet of Things (IOT), Big Data, Robotics, Cloud Computing and similar things. It is basically a paradigm of shift in resources and opportunities. There is a whole new world of smart cities, smart factories and smart agri-production. It brings a complete new perspective to industries where they can use new methods and techniques to have optimum return by using minimum resources. Servitization is a service component which is delivered as an additional value while delivering the products. Servitization is a transition phase of product to service which happens to be the reason of change in manufacturing landscape. In the first part of the paper industry 4.0 and servitization are brought together to understand whether there is any interface between the two? In the second part, the challenges of servitization in the manufacturing sector is studied and checked to know whether industry 4.0 meets the challenges.

Keywords: Industry 4.0, Servitization, Interface

Jel codes: A12, O14, O32

Economic Relations Between the United Kingdom and Azerbaijan: Possible Consequences after Brexit Era

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Abstract

Diplomatic and economic relations between Azerbaijan and the United Kingdom were established in the 1990s. After the Cold War, bilateral relations took shape in three main stages, which have been early period, founding economic relations and establishing strategic cooperation. Despite the European Union could not deal with the South Caucasus region until 2004 due to the intense domestic political agenda, relations with the United Kingdom have been of strategic importance for Azerbaijan since the 1990s. The main purpose of this study is to examine the bilateral relations established after the 1990s through a political economy and to reveal the possible effects of Brexit, considering the historical background. In the study, bilateral trade relations and capital flows are analyzed by qualitative analysis method. It is expected that Brexit will have economic and political effects on Azerbaijani economy to some extent. Despite losing the greatest political support within the European Union institutions, the strategic impact of Brexit on economic relations is expected to be weak for Azerbaijan. Azerbaijan's relations with the European Union have not been consisted with traditional policies of the European Union. Additionally, in the post-Brexit period, economic relations of Azerbaijan with the United Kingdom have great potential for further improvement with bilateral agreements.

Keywords: Azerbaijan, UK, Brexit, oil, energy, trade

JEL Codes: F15, F18, P48, P28, Q43

Tax Compliance Cost of SMEs in Ghana

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Abstract

The study seeks to identify and measure the tax compliance costs incurred by SMEs in Ghana. It is to provide a baseline for future studies on TCC in Ghana. Data was collected through a self-administered survey of 200 SMEs in five regions in Ghana. The study found that SMEs incur a gross compliance cost of GHC2 315 annually (excluding technological cost) or GHC4 687 where technological cost is included. The breakdown of the gross TCC by components showed that SMEs incurred Internal Cost of GHC1 048, Incidental Cost of GHC121 and External Cost of GHC1, 146. This study could not estimate the tax compliance benefits, even though, most of the respondents irrespective of their size agreed to the existence of benefits. Small businesses were found to spend mostly on tax computational activities while medium and larger firms spent on tax planning activities. The results also depict the regressive nature of income tax in Ghana.

Keywords: Tax Compliance Cost, Regressive Tax, Tax Compliance Benefits, Computational Cost, Planning Cost

How does Economic Geography shape Regional Development? Comparison of Market Potential Estimates

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Abstract

General equilibrium models allowing mobility of factors, predict that factor prices must be equalized across space, creating a homogeneous space. However, this prediction is not verified. Despite increasing international economic integration of countries and subnational regions, vast disparities in wealth and factor prices subsist both across and within countries. In this paper, I investigate the determinants of regional development in 2005, for 1529 regions in 107 different countries. Regressing regional income per capita on geographical and educational variables, I introduce different indexes of market potential from the New Economic Geography literature. Market potential estimates the attractiveness of a region. It is expressed as the sum of the income level of its world mates, weighted by their proximity. Proximity is calculated according to different parameters found in the literature, i.e. physical and cultural distances, and accessibility to ports. I also run instrumental variable estimations to control for spatial dependencies. Overall results show that the proximity to markets is a robust argument justifying the concentration of economic activity. Regions benefit from their proximity to wealthy markets. As a consequence, remote regions are poorer. The results also highlight the importance of accessibility to ports for regional development.

Keywords: International Trade, Market Potential, Economic Geography, Regional Development

Public Debt and Productivity Growth in Ethiopia: Comprehensive Analysis of Economic Consequences of Public Debt

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Abstract

This study empirically examined public debt and productivity growth: comprehensive analysis of economic consequences of public debt in Ethiopia for the period 1981 to 2018. Autoregressive Distributed Lag (ARDL) model/Bound test for Cointegration and Error Correction Methods (ECM) were employed for estimation purposes. The Empirical results of the study reveals that public debt in Ethiopia has positive effect on economic growth both in the short run and long run. However over accumulation of debt(debt square) impose burden and had negative impact on economic growth in the short run and long run. The channel in which public debt affect economic growth is via total factor productivity growth(TFP) negatively. Thus; the government should manage over accumulation of debt and work on the innovation and technological activities to increase productivity growth and also invest on productive infrastructural activities to encourage private investment hence economic growth.

Keywords: Public debt, public debt square, TFP(productivity growth)