

# Summary the impact of corruption on liquidity, execution risk, and foreign equity...

[Business](#)



Article Review Corruption in any form is a threat to the economy of any country. The implication of its bad effects reaches the international economy in two ways, one is as such it disturbs the liquidity of foreign economy and the other is, foreign investment portfolio a corrupt economy is always considered as a risky market for investors. The findings expressed by authors Jain, Kuvvet & Pagano (2011) in their article reveals the seriousness of threat posed by corruption across the globe. The detailed explanation of different spectrums of its impact is a fundamental documentation for reference of the scenario at international levels. While the article suggest that the well-functioning of a financial enterprise is only possible with the reliability of sustainable market conditions and crystal clear transparency of transactions. Many authors like Shleifer and Eleswarapu consider financial business confronts several conditions that pose dangerous threat to liquidity; most of them are centered to corruption, government involvement in the financial sector and malpractices due to poor management.

This study is an improvement to various findings mentioned in the previous literature of many economists but they were initially limited macroeconomics or firm-level corporate finance studies without consideration of the impact of the constraints as a relationship with international financial crises. The authors summarize the impact of corruption into three ways; possible reduction in foreign portfolio investment inflow, negative coefficient on the non linear for on equity investment and in some contexts, inconsistent behavior of foreign investment foreign investment in countries with different levels of corruption. The elaboration of the research element is divided by the authors in to six segments like relevant literature, hypothesis, data

<https://assignbuster.com/summary-the-impact-of-corruption-on-liquidity-execution-risk-and-foreign-equity-investments-in-international-capital-markets/>

selection, empirical methodology, empirical results and the conclusion.

Earlier literatures notify the significant reduction in market investment as a direct co-efficient to increased level of corruption. State level political corruption is identified as the deed of government of a country misallocating or selling state capital funds and property to private parties. As per the transparency index, for a complete fall in the equity, it was calculated that one-third effect of corruption was enough. Therefore, countries like Hong Kong and Singapore have set up agencies acting against corruption whereby they secured better inflow. However, corruption takes a positive note as it saves the time and complications of law when large multinational companies try to invest in a foreign country. The analysis made in the study is quantitative in expression. Since the reference posted in necessary places pinpoint the accuracy of the literature.

Even a distinctive reader can find little reasons to differ from the views of the authors, for they have clarified the entire query list a reader may probably make. All the features are relevant to the assumptions and investigative levels of market financing risks basically related to corruption and political conditions in different countries of separate economic zones of the world. The calculations based on average risk on average level of corruption and its correlation with calculated execution risk is clearly assessed for the easy analysis of economic constraints. However, the reference, “ Effective judicial system can also reduce corruption” (pg. 23) is a little disputable because the article asserts that government interference on public financing is a matter of diminishing foreign equity, it yet to be answered if the judiciary can still be outside the frame of sovereignty of the government. As a final statement,

<https://assignbuster.com/summary-the-impact-of-corruption-on-liquidity-execution-risk-and-foreign-equity-investments-in-international-capital-markets/>

this article is well edited and accurately spelled; therefore a suggestion is not demanded for typos or misappropriations of expressions.

Concisely speaking, if I was required to conduct a study on the same topic, I would surely refer this article as a guide. On extension of the analysis, micro level economic functions and privatized business units would be of a greater concern. Since the economy starts basically from an individual, economy models and study groups should be chosen from even among the commoners. My focus would also cover areas of concerns like saving habits and mini micro-finance schemes and the risks they carry in relation with government policies and corruption. In my opinion, a question can be effectively raised as to how facilitate stability of foreign equity in a comparatively risky market; for which the answer could be suggestions for setting up new globalised segments of locally managed finance and business enterprises without the involvement local bureaucrats. In such a way a foreign bank can secure wide spread business at investors' risk and mostly without the help of local office management, if the business is carried out using the cybernetic and electronic channels of operation.

#### Works Cited

Jain, Pankaj K., Kuvvet, Emre and Pagano, Michael. " The Impact of Corruption on liquidity, execution risk, and foreign equity investments in international capital markets".