



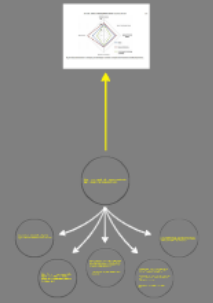
**Aims of this Presentation:**

1. To provide background on the EM market characteristics.
2. To provide the global EM market and to compare EM markets with developed markets. We will discuss the impact of EM market characteristics on the cost of capital.
3. To discuss the EM market characteristics that affect the cost of capital and to provide a summary of the EM market characteristics.
4. To provide the EM market characteristics that affect the cost of capital and to provide a summary of the EM market characteristics.

**What is an Emerging Economy?**

Definition: A country that is in the process of industrialization and has a high growth rate.

- High growth rate
- High inflation rate
- High unemployment rate



**Global and local factors appear to moderate the flow of financial capital to emerging market countries.**

**Global factors:**

- Global financial crisis (2008-2009)
- Global financial market volatility (2008-2009)
- Global financial market uncertainty (2008-2009)
- Global financial market risk (2008-2009)

**Local factors:**

- Local financial market volatility (2008-2009)
- Local financial market uncertainty (2008-2009)
- Local financial market risk (2008-2009)

**References:**

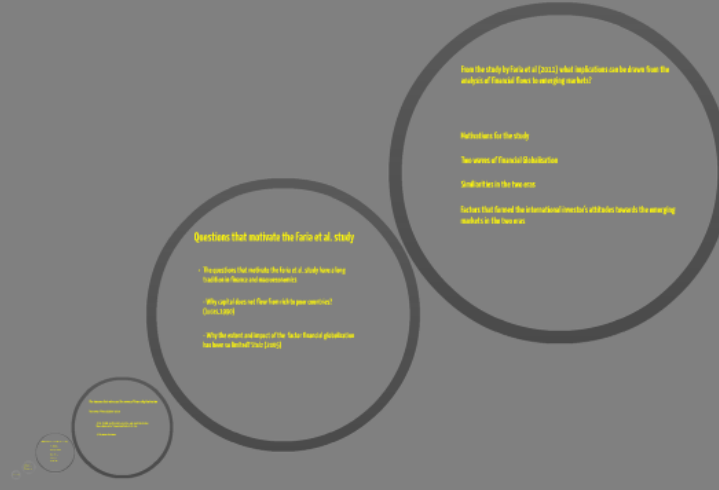
1. Emerging Market Cost of Capital: Harvard Case Studies & Analysis (TheLeedsLectures.com)

2. Emerging Market Cost of Capital: Harvard Case Studies & Analysis (TheLeedsLectures.com)

3. Emerging Market Cost of Capital: Harvard Case Studies & Analysis (TheLeedsLectures.com)

4. Emerging Market Cost of Capital: Harvard Case Studies & Analysis (TheLeedsLectures.com)

5. Emerging Market Cost of Capital: Harvard Case Studies & Analysis (TheLeedsLectures.com)



# EMERGING MARKET COST OF CAPITAL

## Harvard Case Solution & Analysis



[TheCaseSolutions.com](http://TheCaseSolutions.com)

## **Aims of this Presentation:**

- 1) To explain what factors might attract FDI to emerging market economies.**
- 2) To identify the policies that governments in emerging markets might pursue to make them more attractive to MNC's, and to state the reasons for using these specific policies.**
- 3) To explain what factors appear to motivate the flow of financial capital to emerging market countries.**
- 4) To identify the implications drawn from the analysis of financial flows to emerging markets From the study by Faria et al (2011)**

# What is an Emerging Economy?

There is no clear definition of what an emerging country is, but this term often describes countries

- Undergoing change/transformation
  - Developing -> developed
  - State dominated -> freer market
- Undergoing economic reform
  - Freeing up markets, both internally and externally

# What factors attract FDI to emerging market economies?

## *Economic Activity*

### *Market Size*

*GDP level has a significant positive impact on inflows of FDI  
(Fung et al. 2002, Cited by Groh and Wich, 2012)*

### *Macroeconomic Stability*

# Economic Activity

## Market Size

GDP level has a significant positive impact on inflows of FDI  
(Fung et al. 2002, Cited by Groh and Wich, 2012)

## Macroeconomic Stability

## Openness to Trade

# Legal and Political System

Akhter (1993) mentions that political instability negatively impacts business activities and therefore is an important factor for FDI. (Groh and Wich, 2012)

Ramcharran (2000) shows that regulatory and risk reduction factors contributed positively to FDI and that an unaccommodating legal environment and country risks are the main deterrents of FDI.

# Business Environment

- Accommodating regulatory environment
- Accommodating tax regime