

Economics and Business Review

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Editorial introduction

Sustainability, security and equality are desirable features of socio-economic systems which the world today undoubtedly lacks. History amply confirms that constant change is an immanent feature of humanity and it is only uncertain how rapidly and violently this change takes place. In recent times so-called “black swans”, understood as major events with far-reaching consequences, have been occurring all too frequently. While the world is still dealing with the consequences of the COVID-19 pandemic it faces new political, social and economic challenges arising from the war at the interface between Europe and Asia—on the edge of the European Union. In such circumstances the functioning of economies, financial markets and businesses is significantly hampered and requires increased efforts by policymakers and market participants to forecast key processes now happening at an accelerated pace, evaluate their potential consequences and find ways to mitigate the associated risks. The current increase in volatility is a stark reminder of a number of fundamental questions that need to be constantly answered in new contexts:

- How can sudden shifts in financial markets be anticipated more effectively especially with the use of modern technologies?
- How to design investment portfolios in uncertain times? Can new, alternative asset classes perform useful functions in this regard or are these assets more likely to cause market disturbances in the future?
- How to shape operations and corporate governance of businesses to avoid additional, unnecessary internal disruptions and costs?
- How to model and price market risk during a period of rapidly increasing inflation and interest rates?
- What is the impact of inevitably rising arms spending on the world economy and individual countries? Is military expenditure the only rational way to ensure regional and global security?
- How should regulators counter the negative effects of labour market uncertainty?
- Are the world and individual countries doomed to widening economic inequalities? What are the counter measures?

The current issue of *Economics and Business Review* consists of seven papers and aims to provide answers to these fundamental questions in the context of

ongoing trends in the economy, financial markets and businesses. It contains both theoretical and empirical contributions by fifteen authors from Germany, Nigeria, Poland and Romania.

The opening article **How Google Trends can improve market predictions: The case of the Warsaw Stock Exchange** by Paweł Kropiński and Marcin Anholcer examines the relationship between fluctuations on the Warsaw Stock Exchange and keywords related to economic policy uncertainty quantified by the Google Trends search index. Based on a bivariate vector autoregression model and Granger causality tests the authors suggest the existence of interdependencies between terms describing economic policy and changes in the blue-chip index of the Polish capital market. They argue that this relationship has been particularly pronounced during the COVID-19 pandemic indicating that the financial market dynamics drive citizens' expectations of fiscal and monetary policy actions in times of turmoil. The findings can assist investors and policymakers in predicting significant shifts in the equity market cycle.

The paper entitled **Are cryptocurrencies safe havens during the COVID-19 pandemic? A threshold regression perspective with pandemic-related benchmarks** by Teodora Cristina Barbu, Iustina Alina Boitan and Cosmin-Octavian Cepoi enriches the literature on alternative investment by investigating whether Bitcoin and Ether exhibit short-term safe haven or diversifier features for other assets throughout uncertain times of the pandemic crisis. Their research based on daily data indicates that the two dominant cryptocurrencies *inter alia* perform the role of a safe haven for major bonds and the role of a diversifier for sustainable stock indices. The authors claim, however, that these properties weaken when the pandemic escalates. The conclusions of this research may be useful when building investment portfolios.

Bartosz Kabaciński, Jacek Mizerka and Agnieszka Stróżyńska-Szajek in their article entitled **Institutional investors and real earnings management: A meta-analysis** contribute to the literature on corporate governance and agency costs. Using a meta-regression analysis based on a sample of over two hundred estimations from nineteen articles they attempt to generalize the state of research examining whether institutional investors in the ownership structure constrain real earnings' manipulation. Their study finds some publication biases including that research published in top journals tends to show a stronger mitigating effect of institutions on real earnings' management. The results of this research may be of interest not only to researchers but also to shareholders and managers.

In their paper entitled **Market risk, value-at-risk and exponential weighting** Udo Broll and Andreas Förster explore the implications of legal requirements on market risk valuation. This issue is of particular relevance nowadays as increased volatility in financial markets is keeping investors up at night. The analysis sheds light on the impact of the EU and German legal frameworks on the calculation of the value-at-risk for financial portfolios. The authors make technical recommendations for risk modelling focusing on the calculation of

the weighting factor of the value-at-risk concept. The findings of this study may be useful for banks and other financial intermediaries obliged to comply with regulatory requirements for market risk measurement.

The article by Chimere O. Iheonu and Hyacinth E. Ichoku entitled **Terrorism and investment in Africa: Exploring the role of military expenditure** offers an empirical contribution to the literature on the economic ramifications of war and terrorism. The authors investigate the impact of military expenditure on the relationship between terrorism and investment in a large group of African countries throughout two decades of the 21st century. Based on panel regression the paper suggests that the unconditional effect of terrorism on investment inflows is significantly negative and that military expenditure might at best only slightly attenuate this effect for foreign investment. Consequently the authors call for anti-terrorism policies going beyond the use of military interventions targeted at reducing ethnic and religious tensions and improving the quality of governance.

The study undertaken by Eugeniusz Kwiatkowski and Agata Szymańska in their paper entitled **Sectoral changes of employment in Poland during the COVID-19 pandemic: Are reallocation shock effects applicable?** extends the understanding of the labour market. The authors examine changes in employment and their determinants in twenty sectors of economic activity in Poland during the COVID-19 pandemic. The analysis based on quarterly and annual data identifies reallocation shocks rather than shocks to aggregate activity in the Polish economy, with concomitant declines in employment in some sectors (such as the arts, entertainment and recreation) accompanied by increases in others (such as human health and social work activities). Therefore the researchers argue that government policies aimed at protecting jobs should be selective and favour flexible regulation of the labour market to allow for the desired shifts among sectors.

The last article in this issue, **Is the division of Western and Eastern Poland still valid? The evolution of regional convergence in Poland**, by Tomasz Misiak provides new empirical evidence to the debate on the catching up processes within the Polish economy. The author verifies the hypothesis on the convergence of real GDP *per capita* in the regional dimension using the analytical approach by Phillips and Sul. The convergence tests applied do not provide evidence for the existence of a strict catch-up effect between Western and Eastern Poland. However, the researcher does observe a convergence in the group of regions of Eastern Poland which can be explained by a greater absorption of EU funds in this part of Poland. The paper postulates the continuation of a cohesion policy in Poland supported by the EU funds. Policy makers ought to be cognizant of this finding.

Konrad Sobański
Lead Editor

Aims and Scope

The **Economics and Business Review** is a quarterly journal focusing on theoretical, empirical and applied research in the fields of Economics and Corporate and Public Finance. The Journal welcomes the submission of high quality articles dealing with micro, mezzo and macro issues well founded in modern theories and relevant to an international audience. The EBR's goal is to provide a platform for academicians all over the world to share, discuss and integrate state-of-the-art Economics and Finance thinking with special focus on new market economies.

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