

# Journal of Applied Business and Economics

## **An Integrated Theory of the Rising and Falling of Great Powers .....11**

Adil H. Mouhammed

*This paper develops a well-integrated general theory of the rising and falling of great powers, or dynasties, furnished by Ibn Khaldun. He contends that there are two essential foundations for a rising dynasty. The first one is the social cohesion or the solidarity among the motivated people of the dynasty, and the second foundation is the availability of tax revenues generated by the free market economy. As the business economy grows, the government is able to generate large revenues from small tax rates. The collected funds will partly be spent for developing a strong army capable of defending and expanding the dynasty. But once the leadership of the dynasty becomes weak, solidarity is disintegrated. Wasteful (luxurious) expenditures require the government to impose new taxes and to increase others. Consequently, business enterprises and people lose cultural incentives to work and invest. This will force the government to cut spending on an already overstretched army. Once the capacity to obtain funds is weakened and solidarity is disintegrated, the great power will collapse. This paper will also attempt to demonstrate the influence of Ibn Khaldun's analysis on an American's view for greatness and to provide several significant implications relevant to recent time.*

## **The Declining American Dollar: Econometric Estimates of Impact on the GDP and Trade Deficit .....29**

John J. Heim

*Falling exchange rates increase the prices of imports, creating (1) A positive substitution effect that increases demand for domestic goods and (2) A negative income effect that reduces total real income, and therefore demand for, both domestic and foreign goods. Using 1960 - 2000 data, this paper develops an econometric model of the U.S. economy to test the effects of exchange rate changes on consumer and investment spending, controlling for other relevant influences. The paper finds the income effect dominates, causing the declining U.S. exchange rate 2000 -2007 to have a net negative effect on the GDP, reducing it from what it would have been by an estimated 3.4% over this period, or about one half percent per year on average. However, the declining exchange rate is also estimated to have significantly reduced the U.S. trade deficit, U.S. exports increasing \$4.01 billion annually per point decrease in the rate, and imports declining an estimated \$7.3 billion annually per point decrease. Had other things remained equal, we estimate this would have caused the trade deficit to decline about 35% over the period. This would have been a decline from 4.3 to 2.9 percent of the GDP.*

**How do Consumers Judge Celebrities' Irresponsible Behavior?  
An Attribution Theory Perspective.....39**  
Shruti Gupta

*In 2007, Michael Vick, quarterback for Atlanta Falcons and a celebrity athlete was in news for his involvement with dog fighting. Corporate endorsers for Vick quickly reacted by withdrawing or terminating the endorsement deals - a response that is based on the assumption that consumers blame the celebrity for the undesirable action. Inspired by this observation and by drawing on the literature in diagnosticity of information, attribution and blame theory, this qualitative research paper investigates how consumers make judgments about celebrity blameworthiness. Results from this qualitative study show respondents were more likely to find the actor blameworthy when they perceived that the latter played a pivotal role in the negative action and that the cause of the action was under his control. Conversely, respondents judged the celebrity as blameless when they perceived the cause of the action as being outside of the actor's control, i.e., the latter was not empowered to alter the consequence. Lastly, in both sets of blame judgments, causal stability emerged to be an unimportant dimension in blame attribution. The findings from the paper offer both theoretical and managerial implications.*

**Corporate Governance and Technical Efficiency: Evidence  
From the Chemical and Business Service Industries .....53**  
Li Sun, James Duncan

*We examine the association between corporate governance and technical efficiency in the chemical industry (SIC=28) and the business service industry (SIC=73). We rely on Data Envelopment Analysis (DEA) to calculate the technical efficiency score and measure corporate governance by using the corporate governance index provided by Brown and Caylor (2008). Regression analysis documents evidence to support a positive association between corporate governance and technical efficiency in both industries. The results should interest managers who engage in behavior leading to or maintaining strong corporate governance mechanisms, financial analysts who conduct research on corporate governance and firm performance, and policy makers who design and implement guidelines on corporate governance mechanisms. Moreover, results in this study can increase individual investors' confidence in investing in companies with stronger corporate governance.*

**The Euro and Firm Performance: Evidence from a Panel  
of European Firms..... 65**  
Sergiy Rakhmayil

*This paper examines the effect of the Euro on financial performance of companies in the European countries using firm level data during 1980-2006. The main objective of the study is to examine how firm performance changed in the EMU countries following introduction of the Euro in 1999. I find strong evidence of improvements in firm profitability, output, and employment in the EMU countries. This study reveals cross sectional differences in efficiency and investment changes, as well as in dividend policies and market valuations. The analysis indicates that European firms benefited from the introduction of the common currency.*

**Who’s Reading the Label? Millennials’ Use of Environmental  
Product Labels ..... 85**  
Nancy Engelhardt Furlow, Cynthia Knott

*The Green Marketing movement of the early 1990s was deemed a trend and disappeared as quickly as it came on the scene. However, recent concern for the environment in the new millennium has lead firms to undertake environmental improvements in their products for a number of reasons, including a desire to be more socially responsible and a desire to cater to the needs of socially conscious consumers, particularly younger consumers, who want to purchase green products. This study examined five independent variables (gender, environmental concern, environmental practices, environmental involvement, news frequency, and hobbies) in comparison to the dependent variable of product label use. The results indicate that label users tend to be female, highly concerned about climate change and air pollution, currently engage in environmental practices and environmental issues, and are more likely to be informed through traditional media outlets.*

**A Sensitivity Analysis Approach on the Effect of Foreign  
Aid on Growth ..... 97**  
Abdiweli M. Ali, Hodan Said Isse, William Peek

*There is a huge body of literature on the relationship between aid and economic growth using all kinds of econometric techniques, however, little work is done on whether these econometric results are robust to changes in critical parameters included in the model or changes in model specifications. The empirical evidence that foreign aid helps or hurts economic growth is dubious at best despite the intuitive reasoning of both proponents and opponents of foreign aid. Whatever cogent theoretical reasons may be given in support of one perspective or another, the empirical results do not clarify the issue one way or the other. The ambiguity and the inconclusiveness of the empirical results demand a new approach. Using a robust approach and a novel econometric practice, this paper adds a new dimension into the current debate and tries to address the shortcomings of the literature and the nature of the conflicting findings in the literature.*