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## INVESTMENT PERSPECTIVES DURING THE CRISIS CASE STUDY OF NORTHERN GREECE : SURVEY FINDINGS

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### Abstract

The study presents the main results of our primary research on the investment perspectives of the firms of the Northern Greece. Based on the Greek Population Census 2011, we allotted 300 questionnaires to the regional units of the Northern Greece and then, we distributed them to the biggest –in terms of sales– firms of each regional unit. Our research was conducted face-to-face and via e-mail with the assistance of a research group of the Department of Accounting and Finance of the University of Macedonia during the time period December 2012 – January 2013.

Greece faces a severe economic depression and investments are considered to contribute to economic growth. Thus, we examine whether the firms intend to make any investments. Furthermore, we attempt to shed some light on the impact of the economic crisis on the firms and on the firms' reaction, i.e., exports, advertisement etc. The majority of the respondents claimed that was affected in a negative way by the crisis. Moreover, approximately 68 per cent of the respondents neither made an investment during the first half of 2012 nor planned to make an investment in the following six months. Firms located near the Greek borders and also firms with more employees have been less affected by the crisis and are willing more to make new investments. Finally, the vast majority of the respondents are optimistic about the future of their business, even though they believe that the Greek economy will recover at least after three years.

**Keywords :** *Investment perspective; Northern Greece; Severe economic, depression; Employee are less affected.*

**JEL Classification :** C42; C82; E22; F34; O52

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### Introduction

Global economy faces the so-called *Great Recession* that started after the bursting of the US housing bubble in 2007. This crisis affected the European economy more than expected. In recent times, Europe faces a sovereign debt crisis. According to Reinhart and Rogoff<sup>1</sup>, "external debt crises involve outright *default* on payment of debt

obligations incurred under foreign legal jurisdiction, including nonpayment, *repudiation*, or the restructuring of debt into terms less favorable to the lender than in the original contract". Crises have an impact on economies. This can merely be explained by the fact that crises lead to heightened uncertainty (Inklaar and Yang,<sup>2</sup>). As Bloom<sup>3</sup> points out, investment (and hiring) rates

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drop after the bursting of a crisis since firms delay their investments because the “uncertainty increases the real-option value to waiting”.

However, investments are considered to contribute to economic growth. In other words, investments can have a positive impact on economy restraining the crisis effects. Therefore, we examine the investment perspectives of the Greek firms during the Greek debt crisis. Specifically, we focus on North Greece concerning its adjacency to the Balkan emerging markets.

**European Sovereign-Debt Crisis : Snapshot ..**

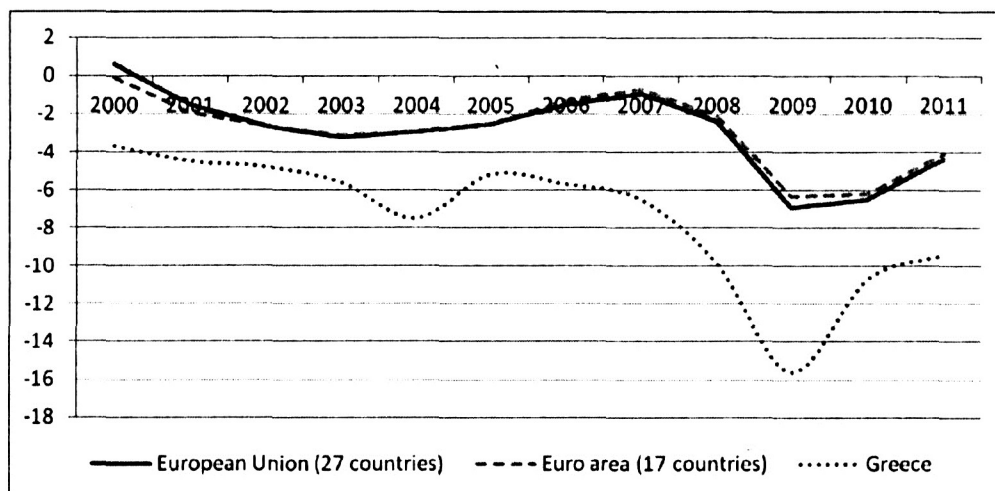
The causes that contributed to the Euro zone crisis differ among the countries. However, it is being accepted that the root of the debt problem is found at the structure and the functioning of the European Monetary Union –EMU (Overbeek,<sup>4</sup>).

The crisis was triggered by Greece, a country that represents nearly the two per cent of the Euro zone and the EU-27 GDP<sup>3</sup>, when in October 2009 the newly elected government announced the estimation that the 2009 budget deficit would have been 12.7 per cent of GDP, instead of 6 per cent of GDP as the previous government had estimated (Lane)<sup>4</sup>. Afterwards, Greece was accused of using “complex financial instruments” in order to “obscure debt

levels” (Nelson, et. al.,<sup>5</sup>). As a result, credit rating agencies downgraded Greece’s credit rating and investors distrusted the country’s ability to serve its debt obligations. Consequently, investors started to demand higher risk premia for buying Greek government bonds. The spread between the 10-year Greek government bond and the 10-year German bond (bund) was about 600 basis points in May 2010, when Greece agreed on a 110 billion-euro rescue package from the International Monetary Fund (IMF), the European Central Bank (ECB), and the European Commission\*.

The Greek crisis led investors to reassess their confidence in other European countries with large public debts. Shortly<sup>6</sup>, in November 2010 Ireland requested financial support. In December, the Irish government accepted an 85 billion-euro financial assistance package.<sup>7</sup> Portugal was also cut off from market financing. Thus, in April 2011 the country requested the activation of an aid mechanism. Portugal received a 78 billion-euro rescue package. Meanwhile, Spanish and Italian spreads were rising. In June 2012, Spain requested financial assistance to support the recapitalization of its financial institutions. The Euro zone agreed to lend Spain up to 100 billion euros. In June 2012, Cyprus became the fifth country that asked for bailout assistance.

**FIGURE 1  
GOVERNMENT DEFICIT/SURPLUS (% OF GDP)**



Source: Eurostat (Data retrieved on 20/01/2013)

\*It may be mentioned that the crisis in Ireland is not the result of a bad fiscal policy.



### Prelude

In this paper, we attempt to shed light on the impact of the Greek debt crisis on the firms and particularly, on whether the firms intend to make any investments. Since the bursting of the crisis is fairly recent, the existing relative literature is limited, as limited are the articles that examine the U.S. crisis effects on investments. Duchin et. al.,<sup>6</sup> examine the effect of the U.S. financial crisis on corporate investment of U.S. public-listed firms. They find that corporate investment declined after the bursting of the crisis during the year July 1, 2007 to June 30, 2008 and also, during the period July 1, 2008 to March 31, 2009.

Campello, et. al.,<sup>7</sup> survey 1,050 chief financial officers (CFOs) in 39 countries in December 2008. They conclude that financially constrained firms planned to reduce more investments than unconstrained firms during the crisis<sup>1</sup>. Campello, et. al.,<sup>8</sup> conducted two surveys in early 2009 –the first conducted in the first quarter of 2009 and the second in the second quarter of 2009, each representing approximately 600 CFOs from twenty countries in Europe and North America. They conclude that, during the U.S. crisis, European firms used credit lines in order to find the required liquidity for their investments. Akbar et al.,<sup>9</sup> use a sample of 4,973 private companies –i.e., not traded on a stock exchange– in the U.K. to examine their investment behavior during the financial crisis of 2007–2009. They find that during this period both performance and investment of the considered firms declined.

There are articles that examine the impact of the U.S. crisis on firms' investments on innovation. For example, Filippetti and Archibugi<sup>10</sup> using the Innobarometer 2009 –a survey conducted during April 2009 in the 27 Member States of the European Union, Norway and Switzerland– conclude that the crisis effect on innovation varies across the considered countries. As far as the European debt crisis effect on investments is concerned, the literature is more restricted as already mentioned. Mursaleen Shiraj and Islam<sup>11</sup> tried in an early stage

to identify the impact of the Euro zone crisis on the economy of Bangladesh.

The United Nations Conference on Trade and Development (UNCTAD) in its World Investment Report : 2010 expressed the concern that the Greek debt crisis could affect the economies of the South Eastern Europe (UNCTAD, 2010<sup>12</sup>). The UNCTAD in its **World Investment Report : 2012** makes a specific reference to the Foreign Direct Investments (FDIs) in Greece, Italy, Portugal and Spain (UNCTAD, 2012<sup>13</sup>). To our knowledge, there is no other article examining the consequences of the European sovereign-debt crisis on investments.

Lazaridis and Pavlidou<sup>14</sup> examined the investment perspectives of the firms of the Republic of Cyprus during the debt crisis. They conducted a primary research during the time period December 2012 – January 2013 in which responded 127 firms and they concluded that for the majority of the respondents the crisis had a negative impact. Almost 76 per cent of the respondents did not plan to make an investment in the following semester and approximately 72 per cent of the respondents did not plan or want to expand into foreign markets in order to address the crisis. However, the vast majority of the respondents were optimistic about the future of their business.

### Methodology Used

The main objective of this paper is to examine the investment perspectives in Northern Greece during the financial crisis. Based on the Greek Population Census 2011 conducted by the Hellenic Statistical Authority we allotted 300 questionnaires to the regional units of the N. Greece and then, we distributed them to the biggest –in terms of sales– firms of each regional unit. Our research was conducted face-to-face and via e-mail with the assistance of a research group of the Department of Accounting and Finance of the University of Macedonia during the time period December 2012 – January 2013. The total number of firms that answered our questionnaire was 203. In other words, the

response rate is 67.6 per cent, which is considered especially satisfactory. (See Table 1)

In this section we present the results of our survey. We divided our questions in three Parts:

- a) the impact of the economic crisis on the firms,
- b) the impact of the economic crisis on investments and
- c) the future expectations of the respondents.

**TABLE 1**  
**RESPONSE RATE PER REGIONAL UNIT**

Regional Unit <sup>9</sup>	Response rate (%)
<b>Regional Units of East Macedonia and Thrace</b>	
Drama	0
Evros	25
Kavala	80
Xanthi	22
Rhodope	67
<b>Regional Units of Central Macedonia</b>	
Imathia	100
Thessaloniki	36
Kilkis	100
Pella	100
Pieria	100
Serres	35
Chalkidiki	33
<b>Regional Units of West Macedonia</b>	
Grevena	100
Kastoria	75
Kozani	100
Florina	100
<b>Regional Units of Epirus</b>	
Arta	0
Thesprotia	75
Ioannina	100
Preveza	100
<b>Regional Units of Thessaly</b>	
Karditsa	100
Larissa	100
Magnesia	100
Trikala	92

### Impact of Economic Crisis on Investment

The vast majority (84.7 per cent) of the survey respondents stated that the economic crisis has a negative impact on their business, while only a very small percentage (8.4 per cent) reported that the crisis has not affected their business. This negative impact is also confirmed by the results presented in Tables 2 and 3. We observe that in the aggregate, nearly 60 per cent of the respondents claimed that the level of Sales declined both in the year 2011 compared to 2010 and in the second quarter of 2012 compared to the second quarter of 2011 –60.2 per cent and 59.1 per cent respectively. Correspondingly, a negative percentage change in Net Profits was reported by 63.7 per cent of the respondents in Q4 2011 and by 64 per cent of the respondents in Q2 2012. Nevertheless, we must underscore the encouraging fact that there were firms in Northern Greece that, despite the crisis, managed to increase their profits at a rate of approximately 20 per cent in both periods under consideration.

Concerning the percentage change in the number of employees, one in two firms reports no change, while a negative change is reported by the 37.5 per cent of the firms for the full-year 2011 and by the 33.9 per cent of the firms for the half-year 2012.

Furthermore, as displayed in Table 5, in the coming months 56.2 per cent of the considered firms are not going to undertake recruitment, 24.4 per cent did not know and 19.4 per cent intend to hire new employees but mainly up to four people.

### Economic Crisis and Investment

Examining the results of our survey, we conclude that the crisis has affected directly the firms' investment decisions. Specifically, 67.8 per cent of the respondents neither made an investment during the first half of 2012 nor plan to make an investment in the next six months (68.2 per cent). On the other hand, 32.2 per cent of the considered firms have

**TABLE 2**  
**PERCENTAGE CHANGE DURING THE YEAR 2011 COMPARED TO 2010 (Q4 2011) AND DURING THE FIRST HALF OF 2012 COMPARED TO THE PREVIOUS HALF (Q2 2012) IN SALES VOLUME**

	Negative (%)			No change (%)			Positive (%)		
	>75	75 – 51	50 – 26	25 – 1	0	1 – 25	26 – 50	51 – 75	>75
Q4 2011	1.5	4.1	21.4	33.2	14.3	17.9	4.1	1	2.6
Q2 2012	1.6	6.2	20.2	31.1	12.4	20.7	4.1	2.1	1.6

**TABLE 3**  
**PERCENTAGE CHANGE DURING THE YEAR 2011 COMPARED TO 2010 (Q4 2011) AND DURING THE FIRST HALF OF 2012 COMPARED TO THE PREVIOUS HALF (Q2 2012) IN NET PROFITS**

	Negative (%)			No change (%)			Positive (%)		
	>75	75 – 51	50 – 26	25 – 1	0	1 – 25	26 – 50	51 – 75	>75
Q4 2011	7.2	7.5	18.4	30.6	15.8	12.8	3.1	1	3.6
Q2 2012	6.8	7.4	17.5	32.3	16.4	12.2	4.2	1.6	1.6

**TABLE 4**  
**PERCENTAGE CHANGE DURING THE YEAR 2011 COMPARED TO 2010 (Q4 2011) AND DURING THE FIRST HALF OF 2012 COMPARED TO THE PREVIOUS HALF (Q2 2012) IN THE NUMBER OF EMPLOYEES**

	Negative (%)			No change (%)			Positive (%)		
	>75	75 – 51	50 – 26	25 – 1	0	1 – 25	26 – 50	51 – 75	>75
Q4 2011	0.5	2.1	6.8	28.1	52.1	8.9	1	0	0.5
Q2 2012	1.8	1.9	4.7	25.5	51	13.5	1	0.5	

**TABLE 5**  
**RECRUITMENTS**

in individuals in the next 6 months (%)						
0	1 – 4	5 – 19	20 – 49	50 – 99	≥ 100	Do not know
56.2	13.4	3.5	2.5			24.4

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made an investment in the first half of 2012 and only 31.8 per cent of the firms are planning to make new investments in the next six months.

Moreover, one in two firms is not willing to expand into foreign markets (50.8 per cent). Only 23.6 per cent of the respondents already have presence in

other markets (such as in the Balkans, Russia, Middle East) and 25.6 per cent responded that want or plan to expand into other markets in the foreseeable future.

In addition, we asked the firms under consideration whether promotion (advertising, special offers, etc.) of their business will have a positive effect on sales; 58.7 per cent agree, 7 per cent disagree and 34.2 per cent do not know. Besides, 48.2 per cent of the respondents already promote or plan to promote their business in order to address the crisis, 37.7 per cent either don't promote or don't plan to promote their business and 14.5 per cent have not taken this issue under consideration.

Finally, we examined the impact of the crisis on the firms' relationship with their banks. Due to the

outbreak of the crisis, this relationship deteriorated for the 47.4 per cent of the Northern Greek firms under consideration, improved only for the 4.2 per cent and remained stable for the 43.2 per cent of the firms. The rest 5.2 per cent of the firms reported that they do not collaborate with a bank.

#### Future expectations of Northern Greek Entrepreneurs

We attempt to explore the future expectations of the Northern Greek entrepreneurs. Particularly, we asked them when, in their point of view, the Greek economy will recover (Table 6). The majority (61.4 per cent) replied that it will take at least three years, 10.3 per cent of the respondents think that it will take less than three years whereas 28.4 per cent of the respondents claimed that they cannot determine the exact time.

TABLE 6  
IN YOUR OPINION, THE GREEK ECONOMY WILL RECOVER IN :

in years (%)					
< 1	1 - 2	3 - 5	6 - 9	>10	Do not know
0.5	9.8	28.9	16	16.5	28.4

Nevertheless, it is encouraging that 80.4 per cent of the respondents are optimistic about the future of their business (Table 7) although they do not express the same level of optimism about the future of their industry sector. Namely, about the outlook of their sector, 38.5 per cent of the respondents think that it is positive, 39.1 per cent think that it is negative, 13 per cent think that it is stable and the rest are unable to make an estimate.

TABLE 7  
ARE YOU OPTIMISTIC ABOUT THE FUTURE OF YOUR BUSINESS? (%)

Extremely	Very	Moderately	Slightly	Not at all
10.2	37.4	32.8	12.3	7.2

Finally, in order to tackle the crisis, 39.2 per cent of the considered firms intend to pursue a defensive strategy, 32.5 per cent will pursue an aggressive strategy, 6.2 per cent will follow another strategy and the rest have not formulated a strategy yet.

#### Survey Research Findings

Subsequently, we proceeded to a comparative analysis of our data. From the existing combinations between the asked questions in our survey, we found interesting that there is diversity in the responses based on two criteria. These criteria are the proximity of the firms to the Greek borders and the number of the employees.

#### Proximity to Borders

We examine the variation in the responses

depending on whether the firms' head office is located in a border regional unit or not. We divided the firms under consideration into two groups. Group A consists of the firms which head office is in a border regional unit and Group B consists of the rest of the firms.

The increase in sales volume during the first half of 2012 compared to the previous half was greater in Group A firms in comparison to Group B firms. Specifically, 37.3 per cent of the firms in Group A reported increased sales versus 24.5 per cent of the

firms in Group B. Indeed, chi-square test indicates that this difference is statistically significant.

Another statistically significant difference between the two groups lies in the probability of making new investments in the next six months. From the firms in Group A, 52.5 per cent replied that they intend to make an investment. On the contrary, 76.4 per cent of the firms in Group B are not planning to make new investments. It seems that the business environment is more favorable in areas near the Greek border; this conclusion needs further examination.

**TABLE 8**  
**PERCENTAGE CHANGE DURING THE FIRST HALF OF 2012 COMPARED TO THE PREVIOUS HALF**  
**IN SALES VOLUME BASED ON THE PROXIMITY TO BORDERS**

Proximity to borders	Percentage change during the first half of 2012 compared to the previous half in Sales volume								
	Negative (%)			No change (%)			Positive (%)		
	>75	75 – 51	50 – 26	25 – 1	0	1 – 25	26 – 50	51 – 75	>75
Group A	0.0	10.2	15.3	20.3	16.9	27.1	8.5	1.7	0.0
Group B	2.2	4.5	22.4	35.8	10.4	17.9	2.2	2.2	2.2
Pearson Chi-Square	Value	df	Asymp. Sig. (2-sided)						
	15.936 <sup>a</sup>	8	.043						

#### Number of employees

We examine the variation in the responses based

**TABLE 9**  
**WILLINGNESS TO MAKE NEW**  
**INVESTMENTS IN THE NEXT SIX MONTHS**  
**BASED ON THE PROXIMITY TO BORDERS**

Proximity to borders	Are you planning to make new investments in the next six months? (%)		
	Yes	No	
Group A	52.5	47.5	
Group B	23.6	76.4	
Pearson Chi-Square	Value	df	Asymp. Sig. (2-sided)
	16.204 <sup>a</sup>	1	.000

on the number of employees reported by the respondents. From the following tables we conclude that there is statistically significant difference in the responses depending on this criterion. **Table 10** demonstrates that firms that employ more than 50 people reported greater increase in Sale volume during the crisis.

Specifically, 41.6 per cent of the firms that employ 50-99 people and 57.9 per cent of the firms that employ 100 or more people reported a positive change in Sales volume during the first half of 2012. However, the Sales volume increased only in the 14.6 per cent 30.5 per cent and 22.6 per cent of the firms that employ 1-4, 5-19 and 20-49 people, respectively.

**TABLE 10**  
**PERCENTAGE CHANGE DURING THE FIRST HALF OF 2012 COMPARED TO THE PREVIOUS HALF IN SALES VOLUME BASED ON THE NUMBER OF EMPLOYEES**

No. of employees	Percentage change during the first half of 2012 compared to the previous half in Sales volume								
	Negative (%)			No change (%)			Positive (%)		
	>75	75 – 51	50 – 26	25 – 1	0	1 – 25	26 – 50	51 – 75	>75
1 – 4	4.2	12.5	20.8	33.3	14.6	10.4	0.0	4.2	0.0
5 – 19	0.0	6.8	20.3	28.8	13.6	18.6	5.1	3.4	3.4
20 – 49	0.0	3.2	29.0	38.7	6.5	12.9	9.7	0.0	0.0
50 – 99	4.2	0.0	20.8	29.2	4.2	33.3	8.3	0.0	0.0
= 100	0.0	0.0	0.0	26.3	15.8	57.9	0.0	0.0	0.0
Pearson Chi-Square	Value	df	Asymp. Sig. (2-sided)						
	49.627 <sup>a</sup>	32	.024						

Moreover, as the number of employees increases, the percentage of the firms that either made investments during the first half of 2012 or are planning to make investments in the next semester increases, too (Tables 11 and 12).

**TABLE 11**  
**INVESTMENTS DURING THE FIRST HALF OF 2012 BASED ON THE NUMBER OF EMPLOYEES**

No. of employees	Did you make any investment during the first half of 2012? (%)		
	Yes	No	
1 – 4	16.3	83.7	
5 – 19	31.7	68.3	
20 – 49	34.4	65.6	
50 – 99	52.0	48.0	
= 100	45.0	55.0	
Pearson Chi-Square	Value	df	Asymp. Sig. (2-sided)
	16.656 <sup>a</sup>	8	.034

**TABLE 12**  
**WILLINGNESS TO MAKE NEW INVESTMENTS IN THE NEXT SIX MONTHS BASED ON THE NUMBER OF EMPLOYEES**

No. of employees	Are you planning to make new investments in the next six months? (%)		
	Yes	No	
1 – 4	14.0	86.0	
5 – 19	35.0	65.0	
20 – 49	37.5	62.5	
50 – 99	40.0	60.0	
= 100	47.6	52.4	
Pearson Chi-Square	Value	df	Asymp. Sig. (2-sided)
	11.243 <sup>a</sup>	4	.024

Table 13 displays results of significant interest. In particular, firms that employ 50 or more people have already expanded into foreign markets at a rate of 48 per cent - 54.5 per cent. The firms that have from 5 to 49 employees plan or want to expand into foreign markets at a rate of 34.5 per cent - 40.6 per cent, while 82 per cent of the firms that have up to four employees do not plan or want to expand into



foreign markets. This diversity in the responses is statistically significant. To conclude, firms with

more employees are more likely to undertake the risk of an expansion into a foreign market.

**TABLE 13**  
**WILLINGNESS TO EXPAND INTO FOREIGN MARKETS BASED ON THE NUMBER OF EMPLOYEES**

No. of employees	Due to the current state of the Greek economy, I:		
	Have already expanded into foreign markets (%)	Plan / Want to expand into foreign markets (%)	Don't plan / Don't want to expand into foreign markets (%)
1 – 4	4.0	14.0	82.0
5 – 19	19.0	34.5	46.6
20 – 49	21.9	40.6	37.5
50 – 99	48.0	24.0	28.0
= 100	54.5	18.2	27.3
Pearson Chi-Square	Value	df	Asymp. Sig. (2-sided)
	47.483 <sup>a</sup>	8	.000

### Conclusions

In what follows, we present the results of a recent survey to the biggest –in terms of sales– firms in Northern Greece that was conducted face-to-face and via e-mail with the assistance of a research group of the Dept. of Accounting and Finance of the University of Macedonia during the time period December 2012 – January 2013.

We focused on whether the firms intended to make any investments during the financial crisis. More specifically, we investigated the impact of the economic crisis on the firms, the impact of the economic crisis on investments and the future expectations of the Northern Greek firms. We found that for the majority of the respondents the economic crisis has a negative impact. This is reflected in their turnover and net profits but also in their reluctance to hire new employees. Moreover, 67.8 per cent of the respondents neither made

an investment during the first half of 2012 nor plan to make an investment in the next six months (68.2 per cent). Furthermore, almost half of the respondents plan to expand into foreign markets while 39.2 per cent of the respondents intend to pursue a defensive strategy to tackle the crisis.

It is interesting that firms located near the Greek borders and also firms with more employees have been less affected by the crisis and are willing more to make new investments. In addition, the bigger –in terms of employees– a firm is, the more likely it is to undertake the risk of an expansion into a foreign market.

Finally, the vast majority of the respondents are optimistic about the future of their business, even though they believe that the Greek economy will recover at least after three years.

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