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# Foreword

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# Foreword

Actions of “economic agents” are, in addition to being driven by “economic” incentives, affected by mood and emotions, as well as by other “non-economic” incentives. Prior to the “outbreak” of the last global financial and economic crisis, we experienced a relatively long period of growth and increase in prosperity, observed through increases in purchasing power and/or increased government spending. Extremely positive mood and emotions, mostly resting on two important traits of humans - salience and recency, led to a gross underestimation of “risk” and a gross overestimation of future “returns”. In the aftermath of the global financial and economic crisis the tables have turned - mood and emotions have become extremely negative and sentiment is essentially determined by the perception of “risk”. It is therefore not surprising that these days most of the talk, either academic, regulatory, professional, home or bar, revolves around risk (albeit in implicit terms). Financial industry does not discuss asset allocation any longer, as professionals prefer to talk about risk allocation or risk parity. Regulators are concerned with fraud risk and related financial reporting standards, with systematic risk borne by (too-big-to-fail) financial institutions and herding behavior of investors, especially bank depositors. Individuals worry about their future, about the riskiness of their savings placed either in bank deposits or entrusted to pension funds.

The common theme of the papers published in this issue of Economic and Business Review is risk (albeit sometimes in implicit terms). In the first paper Berk Skok, Cok, Košak, and Sambt show the negative effects of demographics dynamics on the future pension benefits based on the pay-as-you-go system in Slovenia. Authors then continue to demonstrate benefits of private retirement savings and the important role of asset allocation decision in terms of time horizon and equity allocation. In the second paper Foye, Mramor, and Pahor investigate whether stock markets in Eastern European EU member states are weak form efficient. They show that the markets are not weak form efficient and provide possible explanations for such result. These findings have important implications for financing and investment policies of firms. In the third paper of this issue Asanovic explores the determinants of the so-called early warning models for systemic banking crisis in case of Montenegro. The author performs the analysis using Bayesian model averaging, which minimizes the subjective judgment related to the choice of early warning indicators. Finally, in the last paper of the issue Koren and Valentincic analyze to what extent do U.K. public companies engage in earnings management in order to meet dividend payout thresholds. Their findings suggest that dividend payout thresholds are significant determinants of earnings management behavior, which confirms the important role of dividends as perceived signalling mechanism.

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associate editor