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ACCOUNTING INFORMATION CUES
AND SHARE PRICE REVISIONS

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ABSTRACT

ACCOUNTING INFORMATION CUES AND SHARE PRICE REVISIONS

This thesis investigates the impact of certain identifiable subsets of accounting information on users' decisions by examining share price revisions that occurred at the same time as the accounting information was released. The subsets examined are the announcements of new share issues, the release of contemporaneous earnings and dividend announcements, and the release of information about asset revaluations. Assuming that an adequate methodology can be designed, a significant share price revision is consistent with the notion that the accounting information cue has "information content".

The distinction between accounting research and research in the basic disciplines of economics and mathematics/statistics is the emphasis in accounting on the institutional domain; that is research in accounting requires a "mapping" into the institutional domain in which accounting information is produced and used. This, in turn, provides a justification for the type of announcement effect studies described in the previous paragraph.

Clearly the study of share price revisions requires a substantial data base of share prices. Part of this thesis is devoted to a description of the procedures used to establish this data base.

The three major announcement effect studies use what is popularly described as the market model residual method of analysis. In the application of this model, some attention has been paid to problems of "thin" trading in the New Zealand environment in providing unbiased estimators of the market model parameters. The results of the application of this methodology are that share prices seem to react rapidly and (generally) unbiasedly to the announcement of bonus issues and contemporaneous earnings and dividend announcements.

The size of the reaction in the week that the announcement is made is typically large. The larger is the unexpected component in the announcement of earnings, the larger is the share price revision. With regard to rights issues, no abnormal share price performance was found in the week that the rights issue was announced, although it was clear that companies announcing rights issues had been performing abnormally well over the year up to the announcement.

Share price revisions did not appear to accompany the release of information about the current values of assets (usually land and buildings). However it is conceded that this subset of the overall research exercise is more difficult to undertake as there are difficulties in determining an appropriate announcement date, and in determining what the market's expectations are with regard to the revaluation.

TABLE OF CONTENTS

Acknowledgements		i
Abstract		ii
Table of Contents		iv
List of Tables		v
List of Figures		viii
Chapter One	Introduction and Overview	1
Chapter Two	Institutions and Efficiency	10
Chapter Three	The Share Price Data Base	23
Chapter Four	The Experimental Methodology	48
Chapter Five	Share Price Reaction to Capitalisation Changes	68
Chapter Six	Share Price Reaction to Earnings and Dividend Announcements	81
Chapter Seven	Asset Revaluations and Share Price Revisions	129
Chapter Eight	Summary and Conclusions	175
References		179

LIST OF TABLES

		<u>Page Number</u>
Table 3.1	Company Price File Summary	38-43
Table 3.2	A Comparison of Some Features of the Returns Series A Comparison of Some Features of the Index Number Series	44
Table 3.3	A Comparison of Some Features of the Index Number and Returns Series with Major Alternative Indexes, January 1976 - December 1979	45
Table 4.1	Weekly Lag Values as a Percentage of Total Weeks of Data - 1967-1980 (Sorted on Lag Zero)	64
Table 4.2	Descriptive Statistics for One Hundred Surviving Companies Grouped by Trading Frequency	65
Table 4.3	Descriptive Statistics for One Hundred Surviving Companies Grouped by Trading Frequency	66
Table 5.1	Summary Information Relating to Bonus and Rights Issues	78
Table 5.2	Average Residuals and Cumulative Average Residuals for Bonus and Rights Issues	79
Table 6.1	Summary of Earnings and Dividend Information	84
Table 6.2	Average Residuals and Cumulative Average Residuals Conditional on Sign of Earnings Change Earnings Up : Total Period 1967-1979 Earnings Down : Total Period 1967-1979	101 102
Table 6.3	Average Residuals and Cumulative Average Residuals Conditional on Sign of Earnings Change Results by Period	103
Table 6.4	Average Residuals and Cumulative Average Residuals Conditional on Sign of Earnings and Dividend Changes Total Period : 1967-1979	104-105
Table 6.5	Average Residuals and Cumulative Average Residuals Conditional on Sign of Earnings and Dividend Changes First Period : 1967 - June 1973	106-107

		<u>Page Number</u>
Table 6.6	Average Residuals and Cumulative Average Residuals Conditional on Sign of Earnings and Dividend Changes Second Period : July 1973-December 1979	108-109
Table 6.7	Summary Measures of the Size of Abnormal Earnings	110
Table 6.8	Average Residuals and Cumulative Average Residuals Conditional on Size of Earnings Change Using $(EPS_t - EPS_{t-1}) / \sigma(EPS)$ First Period to June 1973	111-112
Table 6.9	Average Residuals and Cumulative Average Residuals Conditional on Size of Earnings Change Using $(EPS_t - EPS_{t-1}) / \sigma(EPS)$ Second Period to December 1979	113-114
Table 6.10	Average Residuals and Cumulative Average Residuals Conditional on Size of Earnings Change Using $(EPS_t - EPS_{t-1}) / EPS_{t-1}$ First Period to June 1973	115-116
Table 6.11	Average Residuals and Cumulative Average Residuals Conditional on Size of Earnings Change Using $(EPS_t - EPS_{t-1}) / EPS_{t-1}$ Second Period to December 1979	117-118
Table 6.12	Analysis of Portfolios Formed on Basis of Size of Abnormal Earnings, by Sign of Earnings and Dividend Changes	119
Table 6.13	Average Residuals and Cumulative Average Residuals Conditional on Sign of Dividend Change First Period to June 1973	120
Table 6.14	Average Residuals and Cumulative Average Residuals Conditional on Sign of Dividend Change Second Period to December 1979	121
Table 7.1	Average Residuals, Cumulative Average Residuals and Scaled Squared Residuals for 149 Material Asset Revaluation Announcements Made at Week Zero	159
Table 7.2	Analysis of Ten Largest Scaled Residuals in Announcement Week	160

		<u>Page Number</u>
Table 7.3	Average Residuals, Cumulative Average Residuals and Scaled Squared Residuals for 143 Material Asset Revaluation Announcements Made at Week Zero	161
Table 7.4	Deciles of the Distribution of Univariate t-Statistics for the Difference in Rate of Return Between Experimental and Control Samples	162
Table 7.5	Average Residuals, Cumulative Average Residuals and Scaled Squared Residuals Conditional on Sign of Earnings and Dividend Change	163-164
Table 7.6	Hotelling T ² Results for Experimental and Control Companies Grouped by Sign of Earnings and Dividend Changes	165
Table 7.7	Average Residuals, Cumulative Average Residuals and Scaled Squared Residuals Conditional on Size of the Revaluation	166
Table 7.8	Correlation Matrix Showing Correlations Between Independent Variables	167
Table 7.9	Cross-Sectional Regressions Based on Equation 7.8	168
Table 7.10	Bonus Issues and Asset Revaluations : Special Analysis of Twenty-Four Cases of Bonus Issues from Recently Increased Asset Revaluation Reserves	169

LIST OF FIGURES

		<u>Page Number</u>
Figure 3.1	University of Auckland Share Price File Index Based on RM2	46
Figure 3.2	University of Auckland Share Price File Standard Deviation of RM2 Market Series	47
Figure 4.1	Cumulative Average Residual Random Portfolios	67
Figure 5.1	Cumulative Average Residual Bonus Issue Announcements Experimental and Control Groups	80
Figure 6.1	Cumulative Average Residual Earnings Announcements	122
Figure 6.2	Cumulative Average Residual Earnings Announcements First Period to June 1973	123
Figure 6.3	Cumulative Average Residual Earnings Announcements Second Period to December 1979	124
Figure 6.4	Cumulative Average Residual Earnings and Dividend Announcements Period to June 1973	125
Figure 6.5	Cumulative Average Residual Earnings and Dividend Announcements Period to December 1979 .	126
Figure 6.6	Cumulative Average Residual Portfolios by Size of Unexpected Earnings Period to June 1973 Using Err2	127
Figure 6.7	Cumulative Average Residual Portfolios by Size of Unexpected Earnings Period to December 1979 Using Err2	128
Figure 7.1	Scaled Squared Residual Two Experimental Groups Only	170
Figure 7.2	Cumulative Average Residual Asset Revaluations	171
Figure 7.3	Scaled Squared Residual 143 Cases	172
Figure 7.4	Cumulative Average Residual Large Asset Revaluations	173
Figure 7.5	Scaled Squared Residual 24 Cases	174