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ACCOUNTING INFORMATION CUES
AND SHARE PRICE REVISIONS

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the requirements for the degree of

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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.
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