

Can Growth Options Explain the Trend in Idiosyncratic Risk?

[Get access >](#)

Charles Cao , Timothy Simin , Jing Zhao

The Review of Financial Studies, Volume 21, Issue 6, November 2008, Pages 2599–2633, <https://doi.org/10.1093/rfs/hhl039>

Published: 25 October 2006

Abstract

While recent studies document increasing idiosyncratic volatility over the past four decades, an explanation for this trend remains elusive. We establish a theoretical link between growth options available to managers and the idiosyncratic risk of equity. Empirically both the level and variance of corporate growth options are significantly related to idiosyncratic volatility. Accounting for growth options eliminates or reverses the trend in aggregate firm-specific risk. These results are robust for different measures of idiosyncratic volatility, different growth option proxies, across exchanges, and through time. Finally, our results suggest that growth options explain the trend in idiosyncratic volatility beyond alternative explanations.

© Oxford University Press 2007

You do not currently have access to this article.

Sign in

[Get help with access](#)

Personal account

- Sign in with email/username & password
- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD

[Sign in >](#)[Register](#)

Institutional access

[Sign in through your institution](#)[Sign in through your institution](#)[Sign in with a library card](#)[Sign in with username/password](#)[Recommend to your librarian](#)

Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? [Register](#)

Can Growth Options Explain the Trend in Idiosyncratic Risk? - 24 Hours access

EUR €53.00

GBP £44.00

USD \$58.00

Rental



This article is also available for rental through DeepDyve.