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Information Asymmetry Around Earnings Announcements

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Abstract

This study examines bid-ask spreads to determine how the anticipation and release of earnings announcements affect information asymmetry in the stock market. I use regression analysis and find that bid-ask spreads are negatively related to public information availability and positively related to earnings variability and the market reaction to prior unexpected earnings. The results suggest that firms for which earnings is expected to yield a relatively larger stock market reaction have greater information asymmetry than firms for which earnings are expected to yield a smaller market reaction.

I also find that bid-ask spreads gradually increase in the four days prior to earnings announcements, and increase sharply the day prior to, the day of and the day after the earnings announcements. Bid-ask spreads seven to ten days after earnings announcements are not significantly different from bid-ask spreads seven to ten days prior to earnings announcements.

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