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Relative information asymmetry as a determinant of the market reaction to corporate financing announcements

Published: June 1994

Volume 18, pages 231–240, (1994) [Cite this article](#)

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Abstract

Information-asymmetry-based models predict that the market should react negatively to unanticipated external financing. Previous empirical studies lend limited support to these conjectures. This study examines the anticipation issue using financial analysts' earnings-forecast errors as a proxy for information available prior to the external-financing announcement. The conjecture is that external financing would be less anticipated for firms which financial analysts cannot accurately predict their earnings. Event study results indicate that high-prediction-error firms exhibit significantly lower announcement period returns than lowprediction-error firms for non-convertible debt, convertible debt, and common stock offerings.



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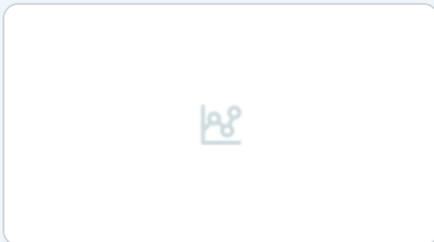
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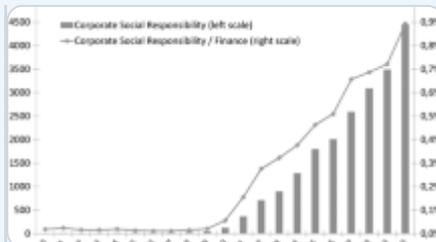
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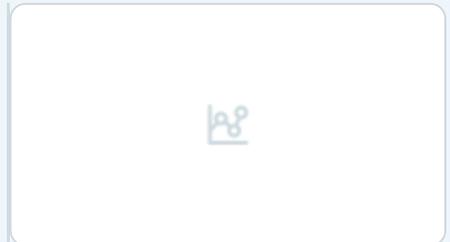
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Cite this article

Best, R.W. Relative information asymmetry as a determinant of the market reaction to corporate financing announcements. *J Econ Finan* **18**, 231–240 (1994). <https://doi.org/10.1007/BF02920525>

Issue Date

June 1994

DOI

<https://doi.org/10.1007/BF02920525>

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