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

Ronald W. Best

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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

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Author information

Authors and Affiliations

University of South Alabama, 36688, Mobile, AL

Ronald W. Best (Assistant Professor of Finance)

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