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New evidence on the properties of the financial statement information pricing process

ABSTRACT

This study contributes in two ways to our knowledge of how information contained in financial statements is interpreted and priced by the stock market. First, the study shows that investors interpret some of the information contained in new financial statements in the context of the information of prior financial statements. Second, the study uses a new methodology to explore two central hypotheses that have been offered in earlier studies to explain the significant connection between publicly available financial statement information and future abnormal returns. The study finds that the mentioned significant connection can be explained both by that the accounting variables proxy for risk and by that the information contained in the accounting variables is priced with a delay.

JEL classification: G12; G14

Keywords: financial statement information; market reaction; market efficiency

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