

## BUSINESS & ECONOMICS RESEARCH SEMINARS

**TUESDAY 24<sup>th</sup> April 2007**  
**15:00 – 17:00**

**SEERC Seminar Room**  
**SEERC Bldg**

### **“Investor Reactions to Voluntary Corporate Disclosures in an Experimental Asset Market”**

By

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### **ABSTRACT**

The way that Investors react to earnings related announcements has been covered extensively by the relevant finance and accounting literature using both empirical and theoretical methodologies. The level of abnormal trading volume following earnings' announcements captures the individual investor reactions. Based on results from previous research, abnormal trading volume has been associated with factors such as announcements' precision, earnings' surprise and the level of pre-announcement private information. Data for the latter factor cannot be obtained for the purposes of an empirical study, thus this factor is “controlled for” using proxies. This study attempts to overcome the data problem associated with private information by employing experimental methodologies. An experimental asset market is developed with human participants that undertake the role of traders. In this setting, private information has been eliminated as a factor that can affect the trading reactions of investors to announcements. Subject to this, investor reactions to announcements that have different levels of precision can be attributed only to different interpretations of the common public announcements. The main results that are derived from the experiments show that investors react more to precise announcements comparatively to imprecise ones. More importantly the variance of price changes is higher in markets where precise announcements are issued in comparison to issuing imprecise announcements. Finally, the behaviour of observed prices and price changes in comparison to fundamentals is consistent with the “excess volatility” findings of Shiller (1981). The majority of the experimental results, indicates that either markets are not efficient or that investors are boundedly rational.

**The seminar series is open to all members of *staff* and *students* of CITY and to any *externals* that wish to attend.**