بسم اللّه الرحمن الرحيم

شبكة المعلومات الجامعية

التوثيق الالكتروني والميكروفيلم

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ANALYSIS OF THE RELATIONSHIP BETWEEN PUBLISHED ACCOUNTING INFORMATION AND STOCK TRANSACTION PRICES; A COMPARISON BETWEEN U.S.A. AND A.R.E.

Ph.D. Dissertation
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Abstract

Efficient capital market studies investigated accounting information content and its relationship with stock prices in developed countries, such as the United States, Australia, and the United Kingdom. Previous studies in this area provided empirical evidence that there is a relationship between accounting information and stock prices.

The current study empirically investigated the relationship between stock prices and published accounting information in a developing country (Egypt) comparatively with developed one (United States). The main objective of this investigation is to use the Egyptian capital market as an experimental control (laboratory).

The current study answered the following questions:

1. Does Egyptian capital market present an appropriate experimental environment for testing hypotheses of the underlying theories or models of market based accounting research? .
2. Does the stock prices in the Egyptian capital market reflect all available accounting information? .
3. If stock prices in Egyptian capital market does not fully reflect all published accounting information, what are our suggestions to improve the accounting information role? .

To answer the above questions, rate of change in stock prices ($\%\Delta SP$) used as dependent variable. The independent variables were; change in a rate of return on owners' equity (ΔROE), rate

of change in earning per share (%ΔEPS), change in price earnings ratio (ΔPER), change in cash dividends ratio (ΔCDR), and financial risk, measured by Z-score of Altman's model 1968, (ΔZ).

The current study empirically tested five null hypotheses against five alternative hypotheses, summarized in a table 3-1 page, concerned by the relationship between (SP) and (ROE), (EPS), (PER), (CDR), and (Z).

The required data collected from several sources, for the U.S. capital market, data about 87 companies obtained from COMPUSTAT and CRSP tabs 1992 and 1993. For the Egyptian capital market, data about 72 listed companies (36 public business sector companies[1] and 36 private sector companies) obtained from several sources; actual data from General Establishment of Capital Market records, actual data from General Establishment of Public Sector Companies records, and periodical issues of Cairo and Alexandria stock exchanges.

The multiple regression and correlation coefficients analysis used to measure the relationship between the dependent variable and independent variables. T-test used to test the null ageist alternative hypothesis. F-test used to check the utility of the regression models.

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[1]Here after called public sector companies.

The results of the current study came as the following:

For U.S. Capital Market Sample:

- 68% of stock price changes are explained by or attributed to accounting information.
- The greatest factor affecting in stock prices is PER (The correlation coefficient between SP and PER is -0.81).
- The lowest factor affecting in stock prices is CD (correlation coefficient between SP and CD is -0.12).
- The null hypotheses concerned by ROE, EPS, PER, and financial risk are rejected in favor of the alternative hypotheses.
- The alternative hypothesis concerned by CD is rejected in favor of the null hypothesis.
- The correlation coefficients between SP and ROE, EPS, PER, CDR, and Z are 0.57, 0.70, -0.81, -0.12, and 0.61 respectively.

For the Egyptian capital market:

Initial empirical test results are:

For whole sample, 15% of changing in stock prices are explained by accounting information. All correlation coefficients between the dependent variable and independent variables are weak.

For the public sector sample, 12% of changing in stock prices are explained by accounting information. All correlation coefficients between dependent and independent variables are weak.

For the private sector sample, 40% of changing in stock prices are explained by accounting information. The greatest affective

variable is financial risk. All correlation coefficients between dependent and independent variables are weak.

Because these results are not significant, the additional analysis was required. To perform the additional analysis six years (1988 - 1993) data about 15 listed companies (11 public and four privates) is collected for the purpose of the additional analysis. The data sources were periodical issues from Cairo and Alexandria stock exchanges. The variables and statistical technics were the same which used in the initial analysis. The empirical test replicated on collected data, the results came as follows:

For whole sample,

- 58% of changing in SP are explained by accounting information.
- The greatest affecting variable is CD (correlation coefficient between SP and CD is 0.67).
- The lowest affecting variable is PER (correlation coefficient between SP and PER is -0.03).
- The null hypotheses about EPS, PER, CDR, and Z are rejected in favor of the alternative hypotheses.
- The alternative hypothesis about ROE is rejected in favor of the null hypothesis.
- The correlation coefficients between SP and ROE, EPS, PER, CD, and Z are: 0.45, 0.51, -0.03, 0.67, and 0.56 respectively.

For the public sector sample (11 companies),

- 63% of stock price change is explained by accounting information.
- The greatest affective variable is CD (correlation coefficient between SP and CD is 75%).
- The lowest affective variable is PER (correlation coefficient between SP and PER is - 0.06).
- The null hypotheses about EPS and CD are rejected in favor of the alternative hypotheses.
- The alternative hypotheses about ROE, PER, and Z are rejected.
- The correlation coefficients between SP and ROE, EPS, PER, CD, and Z are: 0.43, 0.50, -0.06, 0.75, and 0.67 respectively.

For the private sector sample (four companies),

- 97% of stock price changes are explained by accounting information.
- The greatest affective variable is EPS (correlation coefficient between SP and EPS is 95%).
- The lowest affective variable is PER (correlation coefficient between SP and PER is 0.29).
- The null hypotheses about ROE, EPS, PER, and Z are rejected in favor of the alternative hypotheses.
- Despite the null hypothesis about Z is rejected, the alternative hypothesis also is rejected because the correlation coefficient between SP and Z is negative.

- The alternative hypothesis about CD is rejected in favor of the null hypothesis.
- The correlation coefficients between SP and ROE, EPS, PER, CD, and Z are: 0.74, 0.95, 0.29, 0.64, and -0.54 respectively.