

Event-Study

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26th February 2018

1 General Procedure

1. Event Window (Aim) - The initial task is to define the event of interest and identify the period over which the security prices of the firms involved in this event will be examined
2. Selection Criteria Sample - restrictions imposed on the firms involved in the sample.
3. Summarize Sample Characteristics - market capitalization, industry representation, distribution of events through time
4. Market Model - This normal performance model assumes a stable linear relation between the market return and the security return
5. Estimation Window - using the period prior to the event window (exclusion of event window in the estimation window) for computing the normal return
6. Abnormal returns - Difference between the actual return and the normal return
7. Design Testing Framework - Defining the null hypothesis and determining the techniques for aggregating the individual firm abnormal returns
8. Formulation Econometric Design - presentation of diagnostics (limited number of observations etc.)
- 9.