ERC and cross sectional determinants

Harry Nguyen

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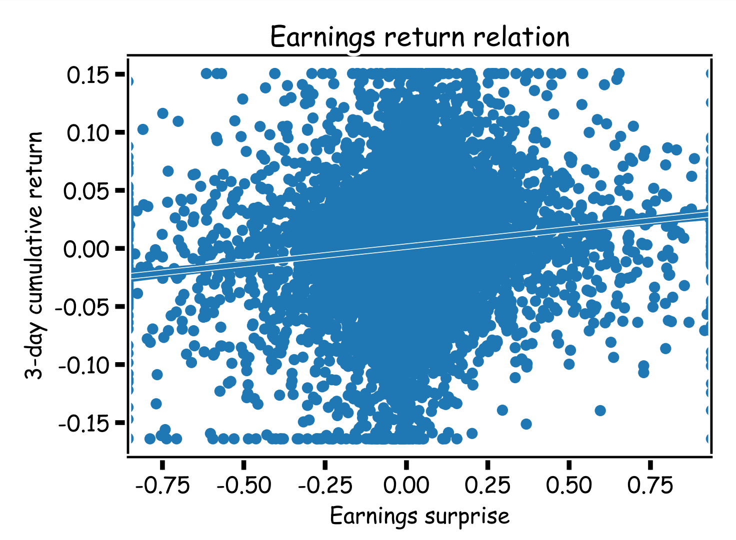
Maastricht University

Estimating Earnings Response Coefficient (ERC)

Pooled regression

$$\mathrm{CAR}_{\mathrm{it}} = \alpha + \beta * \mathrm{UE}_{\mathrm{it}} + \epsilon_{\mathrm{it}}$$

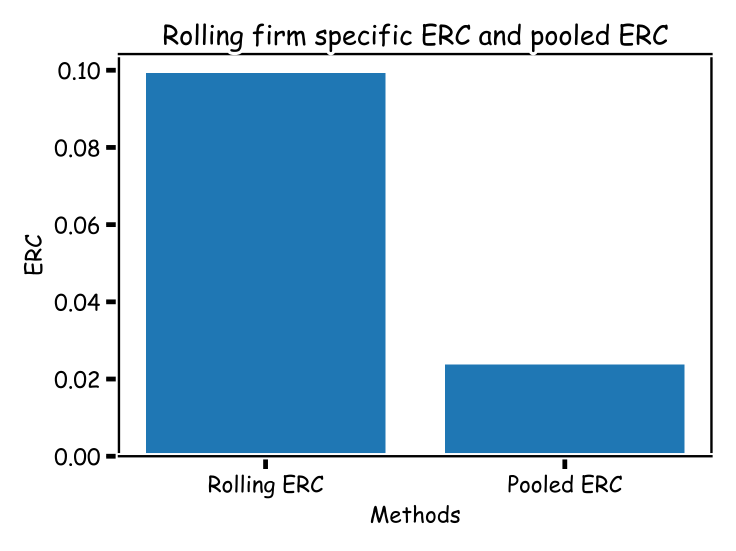


Size and MTB as determinants

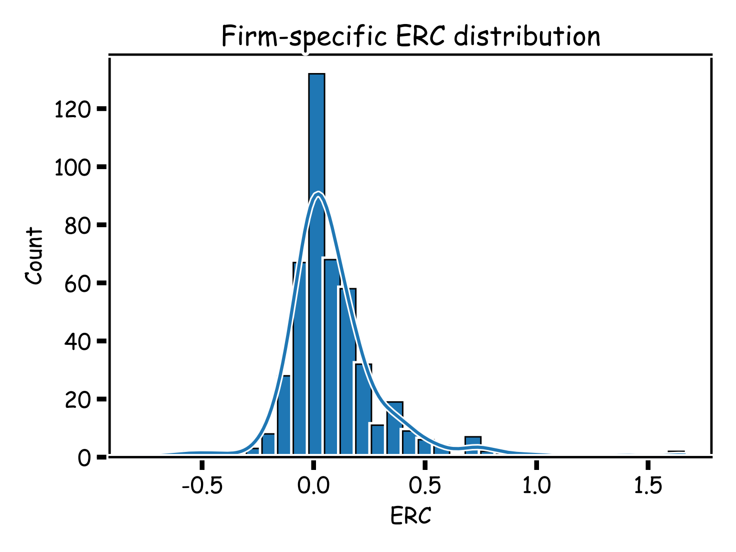
Table 1:

	Cum Ret	Cum Ret
Intercept	0.00	0.00
	(0.00)	(0.02)
Earnings Surprise	0.02***	0.15**
	(0.00)	(0.07)
Earnings Surprise * Size		-0.01**
		(0.01)
Earnings Surprise * MTB		-0.00
		(0.00)
Size		0.00
		(0.00)
MTB		0.00
		(0.00)
R-squared	0.01	0.01

Rolling vs. pooled ERC



Firm specific rolling regression



Limitation

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- Cumulative returns instead of cumulative abnormal returns (CAR)
- Short time series.
- The pool regression doesn't capture the systematic relation between ERC and UE variances.