

Event Study Assignment: Stock Split Announcements

Due: Tuesday, November 30th before class

You will submit both a PDF write up with exhibits and your corresponding code. Additionally, you should provide one or two slides reporting your results. The write up should be in brief memo format discussing your process and results. Exhibits should also have brief captions explaining the results. The memo should be a stand-alone document with the intent that a corporate manager could read it and understand the work you have completed.

For this assignment you will examine market reactions to stock split announcements. Using all stock split announcements from US firms in the period 1980 through 2020, you should complete the following:

1. Measure the average return and the excess return over the market return of stocks around the day they announce stock splits. Because these announcements are sometimes made after the market close, researchers generally report the two day return that includes the announcement day and the day after the announcement.
2. Create a portfolio that includes all stocks that have announced stock splits in the previous 6 months. Calculate the CAPM alpha, Fama-French 3-factor alpha, and the Sharpe ratio of this portfolio; report these portfolio returns for both equal- and value-weighted portfolios.
3. Report your results both for the sample of all CRSP stocks as well as a sample that excludes the 500 largest stocks.

You can reach out to the TA with questions at eric.vance@mcombs.utexas.edu.