

**Insider Trading:**  
**A Study of Motivations and Deterrents**

By

Joseph D. Beams

Dissertation submitted to the faculty of the  
Virginia Polytechnic Institute and State University  
in partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

In  
Business Administration  
with a Concentration in Accounting

Dr. Larry Killough, Chair  
Dr. David Brinberg  
Dr. Robert Brown  
Dr. John J. Maher  
Dr. Eugene Seago

December 17, 2002  
Blacksburg, Virginia

Keywords: Insider Trading, Deterrents, Motivations, Compliance

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**ABSTRACT**

Due to recent events in corporate America, including the recent Enron scandal and numerous cases of insider trading, the public's faith in the fairness of the stock markets has been shaken. The current study suggests that public relations efforts that are designed to increase the public's perception of the integrity of United States stock markets and lower public cynicism toward insider trading may be fruitful.

The contributions of this study are to identify what leads to insider trading and thereby identify methods to reduce it. Graduate student subjects are used to test the relationship between the intent to trade based on insider information and the deterrents and motivations for insider trading. The results of the study indicate that gain, certainty, cynicism, guilt, social stigma, and agreement with the law have a significant effect on an individual's intent to take part in insider trading. The results do not provide conclusive support that increasing severity of punishment decreases the likelihood of trading based on insider information. The results also show that there are differences in the perceptions of male and female respondents with regard to the deterrence variables.

Identifying what situations are more likely to lead to insider trading allows policymakers to design more efficient detection efforts. This study finds that subjects' are more inclined to trade based on insider information to avoid a loss on stock they currently own than to achieve an abnormal gain by purchasing a stock that they do not currently own.

This study finds that the intent to take part in insider trading increases as the perception of likelihood of getting caught decreases. The results indicate that subjects are more willing to use insider information when it is from a friend because their likelihood of getting caught is lower. This is important for two reasons. If the incidence of insider trading is higher in situations that involve second hand knowledge, then detection efforts

become more complicated. Also, the presence of insider trading may be significantly higher than current detection efforts indicate because these cases are hard to detect.

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