Research on Corporate Transparency

Assignment 3: Cross-sectional variation in ERCs

Our third assignment explores whether there is information in the announcement of corporate earnings. We would like you to estimate the earnings response coefficient (ERC) for a 2020 sample of earnings announcements by S&P500 firms and to explore its cross-sectional determinants. Please assume you want to give a 10 minute workshop presentation with the title "*Cross-sectional variation in the earnings response coefficient: Current evidence from S&P500 companies*". Prepare a set of at most five slides for this workshop presentation and address the following points:

1. A brief overview of what an ERC is and how *you* estimate it.
2. A table summarizing your main results. You should add two to three sentences to explain your main results to the audience.
3. A visual depiction of your data that helps the audience to grasp your main result. One well-chosen figure is sufficient.
4. A brief discussion of the limitations of your approach.

On Moodle, you will find the following three data sets along with the code that was used to pull them from WRDS, a supplemental data description file and additional data documentation:

- `assignment_3_sp500_constituents_with_daily_mdata.csv` - CRSP data on S&P500 constituents, daily capital market data from 7/2019 to 12/2020
- `assignment_3_ibes_esp_analyst_estimates.csv` - I/B/E/S summary statistics of quarterly EPS forecasts with actual EPS as filed on I/B/E/S, forecast period end date in period 10/2019 to 12/2020
- `assignment_3_cmp_fundamentals.csv` - Compustat fundamentals for S&P500 constituents, fiscal years 2019 and 2020

The deadline for submitting your solution is *June, 28th*. Please submit the slides together with the code that generated your analysis.

Additional literature on the topic:

- Collins, D.W., Kothari, S.P. (1989): An analysis of intertemporal and cross-sectional determinants of earnings response coefficients. Journal of Accounting and Economics, 11, 143-181.
- Teets, W.R., Wasley, C.E. (1996): Estimating earnings response coefficients: Pooled versus firm-specific models. Journal of Accounting and Economics, 21, 279-295.
- Bissessur, S.W., Veenman, D. (2016): Analyst information precision and small earnings surprises. Review of Accounting Studies, 21, 1327-1360.