Efficient Capital Markets And Accounting: A Critical Analysis

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Efficient Capital Markets and Accounting: A Critical Analysis. Prentice-Hall. Opinion polling in a democracy. Analyst forecasts made approximately nine months prior to the end of year $t$ are used as surrogates for market expectations of earnings and dividends of year $t$. A popular mathematical expectations model is also used for comparison. Using the two factor asset pricing models to predict market betas, and to estimate abnormal security returns, cumulative average residuals are computed and partitioned. The efficient markets theory (EMT) of financial economics states that the price of an asset reflects all relevant information that is available about the intrinsic value of the asset. Although the EMT applies to all types of financial securities, discussions of the theory usually focus on one kind of security, namely, shares of common stock in a company. Second, if stock prices accurately reflect all information, new investment capital goes to its highest-valued use. French mathematician Louis Bachelier performed the first rigorous analysis of stock market returns in his 1900 dissertation. The theory of efficient capital markets suggests that if the capital markets are efficient, security prices can be assumed at any time to "fully reflect all available information." Various forms of the model have been subjected to extensive empirical testing. The results of these tests have been such that in reviewing the literature on the theory Fama [3] states, "the evidence in support of the efficient markets model is extensive, and (somewhat uniquely in economics) contradictory evidence is sparse." Fama, Eugene F. "Efficient Capital Markets: A Review of Theory and Empirical Work." Journal of Accounting Research, Autumn 1970, pp. 253-259. [3]Gonedes, Nicholas J. Efficient Capital Markets and External Accounting.