



Research Seminar Series

Thursday, December 4th 2008

Time: 16:00 - 18:00, Room 013

Seminar Title

“Systematic Risk and Information Flows”

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Summary

This paper investigates whether the systematic risk of a firm varies in an important way around firm-specific information flows. In answering this important question, we draw on past research in financial economics and accounting, and recent advances in econometric theory. Previous studies assume that a stock’s risk exposure remains constant during information flows, or varies at low frequencies with business cycle-type variables. We examine company earnings announcements, which are regular and well-documented information flows, and thus well-suited to a study of many stocks over a long time period. We employ intra-daily data for all companies in the S&P 500 index over the period 1995-2006 to compute an estimate of their daily “beta” with the market index, and we study the link between stock characteristics and changes in systematic risk around news releases. We find that systematic risk on announcement dates increases by a statistically and economically significant amount, and declines on the post-announcement day, before reverting to its long-run average level. A simple model of investors’ expectations formation using intermittent earnings announcements helps explain our empirical findings.

Andrew Patton is a Reader in Economics at the University of Oxford and previously taught at the London School of Economics. His research focuses on financial econometrics, with emphasis on forecasting risk and dependence, and the analysis of hedge funds. Andrew serves on the editorial boards of the International Journal of Forecasting and the Econometrics Journal, and on the research committee of Inquire UK. Andrew has also served as an academic consultant to the Bank of England. He completed his undergraduate studies at the University of Technology, Sydney, and his Ph.D. at the University of California, San Diego.