

For favor of posting

2010-2011 Research Seminar

Short Sale Constraints, Heterogeneous Interpretations, and Asymmetric Price Reactions to Earnings Announcements

**ALL
ARE
WELCOME**

Speaker

Dr. ZHENG Liu
Assistant Professor
School of Business
University of Hong Kong

WLB6/F, 34 RENFREW ROAD,
KOWLOON TONG, KOWLOON.

TEL: 3411 7535

FAX: 3411 5581

EMAIL: ACLW@HKBU.EDU.HK

Date

1 March 2011 (Tuesday)

Time

2:00 p.m. – 3:30 p.m.

Venue

WLB801E, Shaw Campus

About the speaker

Dr. ZHENG Liu is an Assistant Professor at the University of Hong Kong. Dr. Zheng obtained her PhD in Accounting from University of Southern California. Her primary research interests are in financial reporting and capital market regulations. Dr. Zheng is also interested in corporate governance, organizational incentive systems and CEO compensation. Her publications have appeared in *Accounting, Organizations and Society* and *Journal of Accounting and Economics*. Her teaching interests include both financial accounting and managerial accounting.

Abstract

We investigate the effects of heterogeneous interpretations on price reactions to earnings announcements. We find that when investors interpret earnings news homogeneously, price reactions are stronger to bad news. However, when interpretations of earnings news become more heterogeneous, price reactions become stronger to good news. This pattern is more pronounced when the short sale constraints are more binding. These findings support the notion that, under short sale constraints, price reactions to public information reflect the selective registration of more optimistic opinions rather than the average opinion of all investors. This study contributes to the accounting literature on the impact of heterogeneous interpretations on price reactions to earnings announcements. Our evidence on the significant interplay between the price and volume reactions to earnings announcements also adds to the resurgence of interest in connecting trading activity to prices.

JEL Classification: G12, G14, M41

Keywords: Heterogeneous beliefs, short sale constraints, asymmetric price reactions.

Department of Accountancy and Law

會計及法律系