FINANCIAL DISCLOSURE AND SPECULATIVE BUBBLES:
AN INTERNATIONAL COMPARISON

Benjamas Jirasakuldech, Ph.D.

University of Nebraska, 2002

Advisor: Thomas S. Zorn

This dissertation examines whether the quality of a country's financial disclosure system affects the likelihood of speculative bubbles. Stock returns of eight countries that differ in the quality of their financial disclosure systems are compared. The countries, ranked in order of disclosure levels, are the United States, Canada, the United Kingdom, the Netherlands, France, Japan, Germany, and Switzerland (Saudagaran and Biddle (1992)). Specifically, this research hypothesizes that a lack of disclosure makes speculative bubbles more likely.

Several techniques are employed to test for the predictability of returns and the presence of bubbles in each country. The random walk hypothesis is tested using the serial correlation test, non-parametric runs test, unit root test, and variance ratio tests. The serial correlation test indicates the presence of serial dependence for the United Kingdom and Japan (dollar-denominated currency), the Netherlands and Switzerland (local currencies); whereas the runs test shows evidence of serial dependence in France and Germany (local currencies). Contrary results are found using the unit root test which suggests no presence of bubbles in any country. Furthermore, the variance ratio test indicates some form of predictability in the real returns of Japan in both dollar-denominated and local currencies.

The research question is also examined by using three additional non-parametric tests: duration dependence, Markov chain, and time reversibility, to test for the presence of bubbles or asymmetric return patterns. The dollar-denominated real returns of Japan exhibit positive duration dependence, suggesting the presence of bubbles. Using a third-order Markov chain test, the dollar-denominated real returns of Japan exhibit asymmetric patterns. Evidence of slow-up and fast-down asymmetric patterns is also found in both dollar-denominated and local currency

real returns of Germany using the time reversibility test. Japan and Germany have low financial disclosure levels. The evidence found suggests that financial reporting and its regulations may affect the likelihood of bubbles. The findings provide rationale for more stringent reporting requirements and standardization of international accounting standard across countries.

ACKNOWLEDGEMENTS

more than you have ever known.

I, also, would like to thank all my committee members: Dr. Tom Zorn, Dr. Manferd Peterson, Dr. John Geppert, Dr. Richard DeFusco, and Dr. Mary McGarvey. To Dr. Zorn, my committee chair, it has been a great honor to work under your supervision for the past several years. Thanks for your incredible insights and advices. You have shown me the value of hard work, for which the invincible tasks can be achieved. Your continual interests in research and commitments for high professional research standards have inspired me to be a better scholar. Dr. Peterson, who in many ways helps me to achieve my goals, thanks for your generous supports and understanding, for which I am most grateful. Dr. Geppert, thank you for always be the one who patiently clarified any doubts arising at any stage of the dissertation process. Dr. DeFusco, thanks for your advice and encouragement throughout my doctoral program. Dr. McGarvey, thanks for the intensive econometric courses. They are the invaluable instruments for my present and future research. To all finance faculty members, I am grateful for the time and assistance you selflessly devoted to me during my doctoral studies and dissertation process. The knowledge and academic training you all have bestrewed upon me will have a positive impact in the pursuit of my professional career. To my fellow graduate students, I would like to say that my accomplishment is owing at least to your friendship and generosity. I owe a special thanks to Angeline Lavin and Anthony Clarke for their guidance during my first year at UNL. For the colleagues who went through the program along with me, Riza Emekter, Jong Wook Reem, Peter Went, and Russell Obermiller, thank you for sharing and discussing various issues in and outside classes. Last but not least, I would like to extend a sincere thank to Em-orn Dispanya and Vorada Ruenprom for their friendship. Their encouragement has made it all possible for me. In many ways, all of you have made the Ph.D. program more enjoyable.

TABLE OF CONTENTS

TABLES AND FIGURES

CHAPTER 2

CHAPTER 3

CHAPTER 4

CHAPTER 5

CHAPTER 6