

# **FINANCIAL DISCLOSURE AND SPECULATIVE BUBBLES: AN INTERNATIONAL COMPARISON**

Benjamas Jirasakuldech, Ph.D.

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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.

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