

DOCTORAL THESIS

Management Earnings Guidance and Expected Jump Risk

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ABSTRACT

This study investigates whether and how management earnings guidance influences expected negative jump risk implied in the options prices. Results suggest a significant negative link between the guidance issuance and jump risk. Regardless of the sign of forecast news, stocks with management guidance have significant less expected negative jump risk than those without guidance. Cross-sectional examinations reveal that the negative relation is more pronounced for firms with higher financial reporting opaqueness and higher stock turnover. The main results continue to hold in instrumental variable analyses and additional tests. Further investigation on realized jump risk suggests that the effect of management forecasts on expected jump risk is consistent with that on realized jump risk only for bad news disclosure. This study suggests the importance of communication between management and investors.

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