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Measuring long-horizon security price performance

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Abstract

Our simulation results show that tests for long-horizon (i.e., multi-year) abnormal security returns around firm-specific events are severely misspecified. The rejection frequencies using parametric tests sometimes exceed 30% when the significance level of the test is 5%. Our results are robust to many different abnormal-return models. Conclusions from long-horizon studies require extreme caution. Nonparametric and bootstrap tests are likely to reduce misspecification.

Key words: Event studies; Long-horizon performance; Abnormal returns
JEL classification: G12; G14

1. Introduction

This paper studies the specification of tests for long-horizon (i.e., multi-year) abnormal security returns around firm-specific events, using samples of randomly selected NYSE/AMEX securities and simulated random event dates.

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