International Academic Institute for Science and Technology

International Academic Journal of Economics
Vol. 1, No. 2, 2014, pp. 1-8.
ISSN 2454-2474

International Academic Journal of Economics

www.iaiest.com

The volume of transactions in the capital market and investors' ability

Amrali Rahimi

Expert Manegment, Appraisor Keshavarzi Bank Ilam Province

Abstract

This research is about the relationship between the volume of transactions and price changes with expected stock in accepted companies in Tehran Stock exchange between years 2002-2007. According to the importance of prefiguration of the stock output for investing in this research, it has been tried to investigate possibility of prefiguration of output of stock through the use of the transactions volume and price changes. One main hypothesis "relationship between transactions volume and price changes with the expected output of stock in accepted companies in Tehran Stock Exchange", has been proposed in this research, that includes two subsidiary hypotheses:

There is relation between transactions volume and expected output of stock of the accepted companies in Tehran Stock Exchange.

There is relation between price changes and expected output of stock of accepted companies in Tehran Stock Exchange.

This spatial domain market research firms listed in the Tehran Stock Exchange and the period of this research is between 2002 to 2006. Data for these companies through published reports, the Tehran Stock Exchange as well as various applications, including exchange software achieved new outcomes.

Keywords: exchanges volume, capital markets, stockholders' behavior, reliability prefiguration.

Introduction

In investment field and dealing with money, human beings always seems to work unreasonable. Exactly for this reason, there is a particular context of research where sometimes strange behavior of people in

this areas are examined. Economic theories are developed mainly on this basis that people behave rationally. This assumption is based on the theory of market efficiency. But, researches show that there is evidence prove that reasonable behavior is not as inclusive as our imagination. Understanding the process of participants' decision-making in the exchange, is an important matter for investors supervisory authority. In most researches in this field, researchers have tried to study and grasp investment behavior of market participants and the subsequent impact of these factors affect the price of their securities.

Importance and necessity of research

Surely, with the expansion of trade and industry, and creation of distance between owners and managers of firms, there is a conflict in the interests of managers and owners clearly understood; and this conflict is the result of difference in their purposes. So that each party are trying to maximize their own interests (kapopoulos and Lazaretou, 2007).

Research questions

1- What relation is there between predictability of earnings and earning management error?

2- How is the relation between abnormal returns of companies and their profits error predictability?

Research hypothesis

The first hypothesis: there is a meaningful relation between profit error predictability of companies and management of their profit.

The second hypothesis: there is a meaningful relation between abnormal output of companies and their profit predictability error.

Method of the research

In terms of the purpose, this research is applicable. This kind of the research is applicable, because they can be used by Stock Exchange, financial analysts and stock brokers, financial managers of companies, universities and higher education institutions and researchers of the Audit Office. In terms of deduction method, this research is descriptive and analytical. Descriptive research describes what it is without the manipulation of the fact. This type of research involves collecting data to test the hypothesis or answer questions related to the current state of the studied subject. The two researchers named Ijiri and Jaedick have expressed in evaluating different methods of measurement in accounting: "accounting through using different available methods of measurement has been paralyzed." Roychowdhury (2006), found two other instruments of the profit management through the real financial events that include cash rebates of sales and reduce optional costs by managers. In Roychowdhury's research, two characteristics of manipulation of the real financial events are as follow:

1- Deviates from the normal course of operating, this deviation itself can be of potentially harmful effects on the company's market value.

2- All manipulations are done in hope of change in view of a number of the stock holders, as they believe that a business unit in a normal operational process has reached its financial reporting objectives specified.

Manipulation of real financial events, affects cash flows, and in some cases also the accrual items. Also, Zang (2007) concluded that Manipulation of accruals and financial events real are appropriate alternatives to each other, and managers considering the situation at any time, change their strategy from any to the other methods. This study focuses on methods of manipulating the profits through real financial events that affect management's profit;

1- Through increasing non-operating profit from the sale of long-term assets.

2- By reducing administrative costs, general costs, and selling.

3- Through changes in the inventory.

Investors' behavior

Business market hypothesis states that, when optimists and illogical individuals purchase a stock, rational investors sold it, and when the share of pessimists and illogical is sold, rational investors buy it. As the result, deletion of irrational transactions effect on market price is effective, while tax evasion theory would prefer to achieve a confident return and doesn't participate while luck will not be raised. Their utility function is as follows:

b. risk lovers

These individuals have virtual strategy. According to definition, risk lover is a person whose wealth utility function is convex, so for this one marginal utility increases with increasing wealth and the person always willing to risk in this situation and would like to test her/his luck. Her/his wealth utility function is as follow:

c. people neutral towards risk

Third group, are individuals named neutral risk. These people know the value of money equal to its nominal value. Utility function of such people is like a Straight line. Risk-neutral behavior is often seen in people who are too rich. This important issue causes participants react them when new information is widespread, and may cause fluctuations in stock prices and trading volume. If confidential information is published and heterogeneous mixed reactions in the financial markets we will see that this analysis will lead to incorrect or misleading analysis (Sinayi and Davoudi, 2009).

Research literature

External researches

For the first time in Selden (1912), psychological factors discussed in the stock market. In his book entitled, "stock market psychology," as that movements in stock prices, dependence on significant mental mindset of investors and traders (the Soul, 2010, p. 169).

Shefrin et al (1985) showed that the trading behavior of investors focus on reference points, which equals the stock price at the time of purchase (purchase cost) is compatible.

Barnyvl (1987), in their study found that the behavior of investors in the market can be based on lifestyle characteristics, risk aversion and odd jobs predicted.

Hyshlfr and Tyvch (2001); Christie and Huang (1995) on US stocks, Chang et al (2000) at the international level, Gleason and his colleagues (2003), based on commodity futures contracts on European stock exchanges, Gleason and his colleagues (2004), the exchange-traded funds, comprehensive studies have been done in this regard.

Methodology

Since this work describes what exists or describes the situation without manipulation (and not specific to the requirements and recommendations), pays attention to the judgments of value in this research trimmed, this study is among the few studies on the capital markets and accounting is a descriptive research. In addition, given that it is used to test hypotheses of historical information, the following is classified in retrospective quasi-experimental research group. Similarly, since The aim of this study was to investigate the relationship between voluntary disclosure and voting rights deviation of the funds, taking into account the nature and the method used in this study, Is a descriptive correlational research. In other words, go ahead, in terms of empiricist epistemology, inductive reasoning system and it is a type of field study - library. This article from the perspective of the empiricist, classified as decision making research and in terms of statistical analysis, regression techniques will be used, so the research is causal.

Field of the study

In the present study reactions and earnings management behavior of investors in the capital market trading volume is studied.

Statistical population

In the present study to test hypotheses classified and audited financial data of companies listed on the Tehran Stock Exchange. The statistical sample consisted of all companies will have burnt out the following conditions:

1)During fiscal years 2007 to 2012 were present in stock.

2)They should not one of the investment companies and financial intermediaries, banks and insurance companies.

3)The end of their fiscal year should be end of March each year, and during the above mentioned period in fiscal year have not changed.

4)Trading symbol are active and more than 6 months each year, they should not stop the trading symbol.

5)Their data and information should be available in all the years studied during the fiscal year when is needed.

Data collection method

All you need to do applied research is done in several different ways. Since the required data into theoretical (literature data for research) and field operations (which are the data of variable) are divided, they used to collect from different sources. In this research, in order to collect theoretical data, librarian resources include reliable scientific papers published inside and outside the country, as well as articles in various academic sites, have been used.

The default test of regression model

The hypotheses of this study is to model in the form of regression equations, and so, it is necessary that Before the test, regression and analysis of their results be considered foundational assumption that these relationships are extremely important. Therefore, the following four basic arguments about regression study will be examined include:

1)The data stationary test: In this study, to estimate the model, the stability will be examined variables when a variable is stable, the mean, variance, correlation coefficients that remain constant over time so stationary test work in three modes "on the surface", "the first subtraction "and" second difference "under Eviews software can be checked.

2)LimerF test and Hausman test: In order to select a panel data methods or data compilation of the test statistic F Limer. In other words, intercept test statistic F Limer determined separately for each of the companies there?

If after the LimerF test, the null hypothesis is rejected by the Hausman test used; if the probability or significance level signed, is less than 5%, the null the estimation method is proven method; if more than 5% significance level is the best way to estimate random effects, hypothesis is rejected.

Spearman correlation table

We define two variables correlation to each other as Dependence. In general, correlation coefficients between -1 and 1, and addressing could be positive or negative relationship between two variables. The correlation coefficient is a symmetrical relationship, the correlation coefficient is closer to two variables is greater dependence, this dependence does not cause and effect correlation coefficient mention of which is causative and effective. The correlation between the variables initial test to assess the relationship between demographic variables analyzed and the results can be said that there is relation between variables. Results Obtained from table shows the correlation coefficient between the current discretionary

accruals earnings forecast and there is a direct relationship; In other words, there is a direct relationship between earnings management earnings forecast and there is a relationship between abnormal stock returns and earnings forecast is straightforward.

Model Estimation and Results Analysis

After the study of the variables stability, and model estimation method was clear, it is now time for the model to be estimated according to the results of the test and Hausman F-Limmer. When the number of companies from sections additional period of time and the method used to estimate the Panel may occur issue Volatility. In this study heterogeneity of variance test for the detection of maximum verisimilitude and to detect the presence of correlation between variables autocorrelation is used. If the confirmation of Volatility EGLS test is used to determine the relationship between variables. And for problem solving autocorrelation auto correlation is used primarily. It should be noted that in all hypotheses are confirmed heterogeneity of variance is used to test EGLS. The second hypothesis: Among other abnormal returns and earnings forecast significant relationship is established.

Conclusion

Study on the correlation between trading volume and price changes with the expected return of shares in companies listed on the Tehran Stock Exchange is between 2002 to 2007. according to the important matter of the stock output for the investors, in this study, we have examined the possibility of predicting stock returns using the trading volume and price changes to be addressed. One main hypothesis "relationship between stock volume and changes of price with Expected return on shares in companies listed on the Exchange market. "The study has been proposed that consists of two sub-hypotheses are as follows:

1-There is relation between volume of transactions1- and the expected return of shares of companies listed on the Tehran Stock Exchange.

2-There is relation between changes in price and expected return of stock market listed companies in Tehran Stock Exchange.

This spatial domain market research firms listed in the Tehran Stock Exchange and the period of this research is between 2002 to 2007. Data for these companies achieved new outcomes through published reports, the Tehran Stock Exchange as well as various applications, including Exchange software.

References

Ashraghi Samani, Fereshte (2009)."Series of research and development, business integration in a selection of countries in East and West Asia and the Pacific".Final thesis for MA, Esfahan University.

Gerald M., Dudley Sears (1989), pioneered of the Development. Translation: Seyed Ali AsgharHedayati& Ali Yaseri, Samt publisher.

Dadgar, Yad-O-llah&NajiMirani, Ali Akbar (2003).“World Indices latest situation of Iran's economy”, A Business Journal, N 29.

Rahimi Boroujerdi, Alireza (2007).Economic liberalization from theory to practice, Tehran, Samt Publisher.

Rahimi Boroujerdi, Alireza (2006). “Theoretical study on trade liberalization in developing countries”, Faculty of Economics of Tehran University, Economic institute.

Arellano, M, &Bond.S., (1991), “Some tests of specification for panel data: Monte Carol evidence and application to employment equation”, *Review of Economic Studies*, 58(2).

Barro, R.J &Martin,X., (1995), *Economic Growth*, New York: McGraw-Hill, Inc.

Baltagi,B., Demetriades, P., Law, S. H, (2008), “Financial Development and Openness: Evidence from panel data”, *Journal of Development Economics*.

Chen.C., & Gupta, R. (2006), “An Investigation of Openness and Economic Growth Using Panel Estimation”, *Department of Economics Working paper Series*.

Clemence, M.A., Williamson, J., (2001), “A Tarrif Growth paradox? Protections Impact the World Around 1857-1997”,*NBER Working paper*, No.8459.

Dollar, D., (1992), “Outward-Orientated developing Economics Really Do Grow more Rapidly, evidence form 95 LDCS, 1976-1985”, *economic Development and Cultural Chang*: 523-544.

Edwards, S., (1998), “Openness, Productivity and Growth: What We Really Know?”,*Economic journal*, 108: 363-396.

Edwards, S., (1993), “Openness, Trade Liberalization, and Growth in Developing Countries”, *journal of Economic Litrature,* 31: 1358-1393.

Edwards,S., (1992), “Trade Orientation, Distortions and Growth in Developing Countruse”, *journal od Development Economics*, 391:31-57.

Greenaway, D., Morgan, W,W, Wright, P., (2002), “Trade Libralization and Growth in Develop Countries”, *Journal of development Economics*, 67: 229-244.

Hsio, C., (1986), *Analysis of panel data*, Cambridge.MA: Cambridge University Press.

Hicks, J. (1969), *A Theory of Economic History*, Oxford: Clarendon Press.

Habibullah,B. Royfaizal, R.C, (2008),“Pre and post crisis analysis of stock price and exchange rate: Evidence from Malaysia”*Universiti Putra Malaysia, , MPRA Papemr,* No. 12445.

KindelBerger.C.P., (1975), *Economic Development*, 2rd Edition.

King, R. G. & Levine, R., (1993), “Finance and Growth: Schumpeter Might Be Right”, *Quarterly Journal o Economics*, 108(3): 717-737.

Lee, j-w., (1993), “International Trade, Distortions, and Long-run Economic Growth”, *IMF Staff papers*, 40 2:229-328.

Lucas, R.E., (1988), “ On the Mechanics of Economic development”, *Journal of Monetory Economics*.

Rourke, O., Kevin H., (1997), “Measuring Outward Orient in LDC: Can It Be Done”, *Journal of Development Economics,* Vol. 49.

Mohan,R., (1998), *Distribution and Growth in Indian Agricultre*, in Byres edited: The Indian Economy: Major Debates since Independence, OUP.

Rodrik, D., (1998), “Why Do more Open Countries Have Larger Governments?”,*Journal of Political Economy*, 1065: 997-1032.

Robinson, J., (2002), *In the Rate of Interestand*, Other Essays, London: Macmillan.

Smets, F., &Wouters, R., (2002). "Openness, imperfect Exchange Rate Pass-Through and Monetary Policy", *journal of Monetary Economics*, Elsevier, vol 49(5), pages 947-981, July.

Yung, Y.Y., & Myung, H.Y., (2007), "Dose Financial Development Cause Economic Growth? Implicatin for Policy In Korea", *Journal of Policy Modeling*.