Economic Determinants of
the Price Informativeness on Future Earnings

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ABSTRACT
Using the future earnings response coefficient (FERC) methodology, this study examines
whether economic fundamentals are associated with the cross-sectional variation of the price
informativeness on future earnings. In contrast to the prior FERC literature focusing on
reporting properties, this study provides a more comprehensive framework of the return-
earnings relation by examining economic determinants of FERCs. This study first derives an
analytical FERC model that relates the recognition lag of earnings with an FERC under the
price-leading-earnings situation. The analytical FERC model predicts that the FERC is positive
and that the FERC increases with the information content of future earnings. Empirical results
show that product market concentration, product durability, growth opportunity, and
conservatism are positively associated with the FERC and that barriers to entry and recognition
uncertainty are negatively associated with the FERC. These results suggest that operation and
investment activities determine the earnings timeliness in the pre-reporting stage.

JEL Classification: M41 (Accounting).
Keywords: return-earnings relation; future earnings response coefficient (FERC); timeliness;
conservatism; recognition principle.
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