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Review of H. Russell Fogler and Sundaram Ganapathy,
Financial Econometrics for Researchers in Finance and Accounting

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The use of econometric methods in finance and accounting research has greatly expanded during the past 20 years. The intended audience of this volume are those who need to read and evaluate such research, but do not have an adequate background education in econometrics.

The book consists of five chapters, 13 appendices, and five statistical tables. In order to motivate the study of econometrics, Chapter 1 compares the results of two econometric studies of the relationship between stock price and dividend policy and it review two studies concerned with the problems of estimating beta. Chapter 2 presents the simple linear regression model: financial motivation of this chapter is provided by a scatter chart of returns on IBM stock plotted and regressed on the returns on the market index. Chapter 3 deals with the problems that arise when violations of the assumptions of the simple linear model are present. Roll's 1969 study is used as an example. The multiple regression model is presented in Chapter 4, with no finance examples. Chapter 5 deals with the problems of heteroscedasticity (general linear model), dependence of error term on independent variables, and simultaneity of economic relationships.

The appendices contain material on properties of expectations operator, normal, student t, F and Chi-square distributions, sampling distributions of various regression statistics, construction of confidence intervals, and hypotheses testing. A brief introduction to matrix algebra and mathematical proofs of simple linear regression results are also included.

A case could probably be made that an introductory book on econometrics that relies on examples from the finance and accounting literature rather than from the economics literature might be marginally more useful to those who intend to do research in this area. But a book addressed to training researchers needs to be more rigorous and systematic on the lines of the works of persons such as Johnston, Maddala, and Theil. The present volume will not serve that purpose; because it is targeted at those who merely need to read and appreciate research papers rather than be able to write them, an arrangement by subject instead of by methodology would be more useful.

The book has been reproduced from type-written pages. Better editing could have eliminated some annoying features (frequent use of underscore and quotation marks, spelling errors, interchangeable use of R^2 and R-square, etc.). Though the subtitle and preface of the book refer to accounting, I could not find a single example of an accounting research study in this volume.