Foreword

Research in empirical asset pricing has – fostered by the availability of new databases – become an important field of research within the last three decades. This kind of research contributes to the ongoing and exciting debate between the neoclassical and the behavioral explanation of asset pricing and can help to better explain the evolvement of asset prices in capital markets.

Research in empirical asset pricing requires multiple competences: a sound understanding of capital markets, market designs, trading processes, and asset pricing models, a superior handling of large databases, and efficient programming skills. Christian Funke lives up to this challenge and his doctoral thesis comprises of three important essays in empirical asset pricing.

In the first essay, Christian investigates the long term performance of rival companies related to acquisition targets. He documents an underreaction of capital markets to the information contained in M&A announcements. Following large rival gain events due to positive information signaling and large rival loss events due to the negative competitive effects of the transaction, he observes a return drift for up to 12 months after the announcement.

The second essay documents a strong and prevalent drift in long-term industry returns after M&A announcements. Specifically, industries that experience positive average announcement reactions continue to do well in the future, while industries that experience negative average announcement reactions continue to do poorly. The evidence suggests that capital markets underreact to the industry-wide information provided by merger announcements.

In the third essay, Christian documents return predictability across stocks, specifically from customers to their suppliers. He shows that for large positive (negative) customer price change events supplier stock prices experience significantly positive (negative) cumulative abnormal returns for up to 20 days after the event. However, the

major part of these returns arises in the first five days and he cannot find such return predictability for the largest stocks and the most recent time period, indicating that capital markets are relatively efficient in incorporating extreme customer return shocks into supplier stock prices.

I wish that researchers and other capital markets professionals will acknowledge Christians Funke's contribution to the ongoing debate on asset pricing.

Johannisberg, April 2008 Prof. Dr. Lutz Johanning