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Journal of Accounting and Economics

Volume 24, Issue 1, December 1997, Pages 39-67

Changes in the value-relevance of earnings and book values over the past forty years

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[https://doi.org/10.1016/S0165-4101\(97\)00015-3](https://doi.org/10.1016/S0165-4101(97)00015-3)

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This paper investigates systematic changes in the value-relevance of earnings and book values over time. We report three primary findings. First, contrary to claims in the professional literature, the combined value-relevance of earnings and book values has not declined over the past forty years and, in fact, appears to have increased slightly. Second, while the incremental value-relevance of "bottom line" earnings has declined, it has been replaced by increasing value-relevance of book values. Finally, much of the shift in value-relevance from earnings to book values can be explained by the increasing frequency and magnitude of one-time items, the increasing frequency of negative earnings, and changes in average firm size and intangible intensity across time.



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Keywords

Capital markets; Financial reporting

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