



Department SEMINARS

"Macroeconomic Uncertainty and Earnings Smoothing: Evidence from Commodity Firms"

GIULIO GRECO

University of Pisa

**WEDNESDAY, 28 JUNE 2023
11:30 AM**

Seminar Room Bruguier Pacini, DEM



A B S T R A C T

This paper studies the relation between macroeconomic uncertainty and earnings smoothing. It investigates US commodity firms' quarterly data from the period 1990-2019. The findings show that oil and iron firms use both accruals and real operations to smooth earnings in quarters with high commodity price volatility and high basis risk. Earnings smoothing is economically significant and is aimed at conveying useful information about the firms' true economic performance to investors. The findings are shown to be robust to placebo tests using gold firms, to endogeneity tests with general method of moments (GMM) and instrumental variables (IV), and to analyses using the Economic Policy Uncertainty (EPU) index. This study contributes to previous research on macro economy-wide factors and firm-specific decisions, and to the existing body of earnings smoothing literature. It also informs market participants about commodity firms' financial reporting quality, and has direct policy implications for financial reporting regulation in extracting industries

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