

## **Overvalued Equity and Fraudulent Financial Reporting: An Archival Analysis**

Keith L. Jones

George Mason University

**ABSTRACT:** Overvaluation of firm equity has recently garnered much attention about being a primary cause of fraudulent financial reporting. This paper investigates whether that attention is justified. I investigate a comprehensive list of firms that have committed fraudulent financial reporting from 1977 to 2002 and find evidence, that in the years leading up to a fraud, market value of equity is greater for firms that committed fraud than for three groups of control firms. I then consider whether overvalued equity has consistently been a common impetus of fraud. I provide evidence that suggests overvaluation of equity is a likely cause of fraudulent financial reporting in the most recent stock market bubble of late 1990s and 2000s, but the evidence is less convincing for frauds that occurred prior to 1995.