SESSION 1: FINANCIAL ACCOUNTING AND REPORTING
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Market Valuation International Corporate Diversification: A Price and Size Analysis

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ABSTRACT: This paper investigates the relation between international diversification, as measured by the level of foreign assets of U.S. firms, and market value of common equity. We find that firms that internationalize have higher return on assets than firms that do not report their foreign assets. We also report that market value and firm international diversification is positively related, indicating that diversification enhances firm value. The positive relation holds for different for different tests and when we control for other known determinants of firm value and returns. This study documents size-related differences in price-foreign assets relation by estimating separate price responses to foreign assets for large and small firms. The firm-size comparison indicates that investors discriminate in the weight to be assigned to foreign assets of large and small firms across internationally diversified firms, with large firms enjoying greater capitalization. This result is consistent with the differential risk hypothesis in Easton and Zmijewski (1989) and Collins and Kothari (1989). We therefore reject the hypothesis that FAR is valued equivalently between small and large firms by the market. Our findings support the hypothesis that important informational effect occurs with diversification and that these effects are positively associated with firm value.