

Abstract

The thesis examines whether the role of credit rating prior to the announcement of credit rating change is the neglected factor explaining in large extent the paradox investigated in prior papers that downgrades influence the stock prices of company but upgrades not. It is motivated by the notion that credit rating changes from low credit rating classes influence the stock price of company more distinctively than changes from higher credit rating classes and there is proportionally more downgrades from low credit rating classes than upgrades. The large sample of credit rating changes including proportionally more upgrades from low credit rating classes than downgrades is collected and the results suggesting the influence of downgrades on stock prices of company and any influence of upgrades persist. Furthermore when controlled for credit rating prior to the announcement of credit rating change, magnitude of credit rating change, crossing the investment-speculative barrier, credit rating changes within and across credit rating categories, consecutive credit rating changes in the same direction and industry sector of issuer all the results are consistent with the original conclusions proposing significant stock price reaction to announcements of credit rating downgrades and no stock price response to announcements of upgrades.