

DI.SEA.DE LUNCH SEMINAR SERIES

May 23, 2018, h. 13.00 – 14.00

Building U7, IV Floor, Room n. 4066,
Via Bicocca degli Arcimboldi, 8 – 20126 Milano

“EUROPEAN EMISSION ALLOWANCE AND THE EQUITY VALUATION: EVIDENCE FROM FURTHER TRADING PHASES”

Murad Harasheh and Andrea Amaduzzi, *Department of
Business and Law, University of Milan-Bicocca, Italy*

ABSTRACT

PURPOSE - This study aims at investigating the value relevance of the European Emission Allowance (EUA) return and volatility on the equity value of the top listed European Power Generation Firms for the three trading phases of the European Emission Trading Scheme.

DESIGN/METHODOLOGY/APPROACH - We employ the multifactor financial market model over the period 2005-2016 on daily basis for the return relevance relationship, whereas time series models such as ARMA and GARCH are applied on a weighted average portfolio of the sample firms to test serial correlation and volatility of returns.

FINDINGS - Our findings are novel in which we show a positive and significant relevance of EUA return on equity return; however, a vanishing effect is seen as we move to further trading phases. Another remarkable finding is that the return relationship remains constant until a certain level in EUA price then inverts. Finally, we show that EUA is considered a systematic factor as firm and country specific features are not statistically significant.

ORIGINALITY/VALUE - To our knowledge, this study would be the first to offer recent and comprehensive findings on the economic and financial implications of the European Emission Trading Scheme for the three trading phases. Additionally, the research offers time series robustness check besides the standard regression analysis and shows that there is an optimal EUA price that triggers polluters' decision on emission and generation.