



Survey the Relationship Between the Overvalued Equity and Stock Price Crash risk

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Abstract

The present research is aimed to assess the relationship between the overvalued Equity and stock price crash risk. The overvalued Equity has occurred when the existent market value is more than its real value which is resulted from providing inappropriate information. The stock price crash risk is also considered as an important and inclusive negative abnormal change in the stock market which takes place without an important economic reason. To assess the overvalued Equity the Rhodes-Kropf model was used and to assess the stock price crash risk two factors were utilized, including the negative skewness of return on capital and the ascending fluctuation. From 2011 to 2015 is considered as the research period and the selected sample is comprised of 79 companies. The normal least squares regression analysis was used to test the research hypothesis. Findings show that after controlling the company size, the ratio of the market value than the book value of the equity, and the rate of return on common stockholder's equity, there is a positive and meaningful relationship between the Overvalued Equity and the stock price crash risk. It can be claimed that increased overvalued Equity leads to an increased stock price crash risk.

Keyword: Stock Price Crash Risk, Overvalued Equity, The Ascending Fluctuation, The Negative Skewness of The Return on Capital.

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