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INFORMATION ASYMMETRY AROUND HOSPITALITY MERGER ANNOUCEMENTS

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ABSTRACT

The purpose of this study is to examine the effect of information asymmetry on insider trading activities in hospitality firms. In particular, this study will use a market microstructure approach to detect insider trading activities of hospitality firms prior to merger announcements. Since the payment type of a merger is determined by private managerial information, it can act as a proxy of information asymmetry. Depending on the payment type of a merger, insiders may make different transactions with their private share holdings before the merger announcement. Insider selling (buying) activities may forecast their firm's negative (positive) abnormal performance after mergers.

In general, the management of a hospitality corporation is separated from the ownership of the firm. Thus, managers as well as shareholders and other outsiders may all have different information about the value of the firm's real or financial assets and it may be many years before all the information is revealed. This information asymmetry implies that a hospitality firm's managers may have private information about their firm's true valuation and use the information to make managerial decisions related to the type of payment offer in a merger.

There have been no studies of hospitality mergers that have looked at the process through which insider information becomes reflected in security prices. This study will contribute to provide evidence against the strong-form market efficiency, which private information immediately impacts on the stock prices.