

**Modeling EVA against Traditional Accounting measures to explain the stock  
price returns**

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School Of Business and Economics

In Partial Fulfillment of the Requirements

for the Degree of

**MASTERS OF SCIENCE**

By

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**ID: 13005096-010**

**August, 2015**

**RESEARCH COMPLETION CERTIFICATE**

It is certified that the research work contained in the thesis “*Modeling EVA against Traditional Accounting measures to explain the stock price returns*” has been conducted under my supervision to my satisfaction by Ms. *Maham Ijaz*, ID, 13005096010, of MS-Finance program .

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**Examination Sheet**

**Modeling EVA against Traditional Accounting measures to explain the stock price returns**

**By**

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**Has been examined by the undersigned panel of Examiners and has received full approval for  
acceptance in partial fulfillment for the degree of**

**MASTERS OF SCIENCE**

**Dated: 18 August, 2015**

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**DECLARATION**

I MAHAM IJAZ , ID # 13005096-010, Session 2013-2015, hereby certify that this thesis is being submitted in partial fulfillment of the requirements for the Masters of Science degree in Finance.

This thesis is my original work, and the data/material presented herein has not been used for the acquisition of any other degree from any institution.

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**Date:** 18 August, 2015

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**Supervisor's Signature**

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***Abstract:***

The research study aims to examine the explanatory power of on value based measure of performance; Economic Value Added (EVA) compared with three conventional measures of performance; Earnings on each share (EPS), Investment returns (ROI) and Equity returns (ROE). The comparison is done in order to explain share market returns in Karachi Stock Exchange (KSE), Pakistan. This is one of the prior studies in the boundary of Pakistan regarding value relevance comparison of conventional and value based measures of performance. The methodology follows the valuation model for the respective purpose, proposed by Easton & Harris. Both relative and incremental content approaches have been employed to describe the explanation of share returns by the best measure of performance, either value based or traditional one. The explanatory power of pairwise combinations of value based and conventional measures is also examined to describe returns on stocks. For the respective purpose, the study targeted the sample of 30 companies listed in Karachi Stock Exchange (KSE) and collected pooled cross sectional and panel data over the period 2005-2014. Results of relative content information indicate EPS to be more closely related to stock returns other than EVA and remaining measures of performance, while except EPS, EVA is better measure than remaining two. However, incremental content information suggests EVA and EPS pairwise combination to increase the explanatory power for share market returns explanation. The outcomes of the study recommend that Pakistan stock market participants should pay attention to new value based measures of performance. Also, the participants should develop strategies for investment by examining more determinants. Moreover, the results require the extension

of understanding the EVA role in stock market but they may affect the decisions of investor's having the market characteristics similar to that of Pakistan.

**Keywords:** Economic Value Added (EVA), Earnings Per Share (EPS), Value relevance, Performance measures, Pakistan.

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