Accepted Manuscript

Exposure, Hedging, and Value: New Evidence from the U.S. Airline Industry

Stephen D. Treanor, Daniel A. Rogers, David A. Carter, Betty J. Simkins

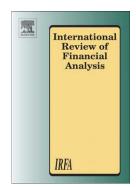
PII: S1057-5219(14)00058-1

DOI: doi: 10.1016/j.irfa.2014.04.002

Reference: FINANA 706

To appear in: International Review of Financial Analysis

Received date: 20 September 2013 Revised date: 21 April 2014 Accepted date: 26 April 2014



Please cite this article as: Treanor, S.D., Rogers, D.A., Carter, D.A. & Simkins, B.J., Exposure, Hedging, and Value: New Evidence from the U.S. Airline Industry, *International Review of Financial Analysis* (2014), doi: 10.1016/j.irfa.2014.04.002

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

ACCEPTED MANUSCRIPT

Exposure, Hedging, and Value: New Evidence from the U.S. Airline Industry

Stephen D. Treanor, a* Daniel A. Rogers, David A. Carter, Betty J. Simkinsc

^a Department of Finance and Marketing, College of Business, California State University, Chico, Chico, CA 95929,USA

^b School of Business Administration, Portland State University, Portland, OR 97207-0751, USA

^c Department of Finance, College of Business Administration, Oklahoma State University, Stillwater, OK 74078-4011, USA

January 2014

Abstract

For a variety of reasons, the U.S. airline industry is a natural sample to analyze the relation between corporate risk exposure, hedging policy, and firm value. First, we find that airline exposures to fuel prices are higher when fuel prices are high or when they are rising. Second, we analyze the relation between exposure coefficients and the percentage of next year's fuel requirement hedged by airlines. In response to higher fuel price levels, rising fuel prices, and higher levels of exposure to fuel prices, airlines tend to increase their hedging activity. Finally, we explore the previously documented jet fuel hedging premium illustrated in Carter, Rogers, and Simkins (2006). We find a positive hedging premium in our analysis; however, the interaction of hedging and exposure does not affect firm value. We conclude that airlines increasing hedging activity because of higher fuel price exposure are not valued higher compared to those airlines employing more stable hedging policies.

JEL Classification: G32, L93

Key words: Corporate risk management; Hedging; Selective hedging; Risk exposures; Firm value; Airline industry

^{*}This study has benefited from comments from Tom Aabo, Robert Brooks, and James Weston. We also appreciate the feedback from presentation of earlier versions of the paper at Aarhus Business School, the 2009 Eastern Finance Association meeting, the 2009 Midwest Finance Association meetings, the 2010 Financial Management Association meeting, and the 2011 Southern Finance Association meeting.

Download English Version:

https://daneshyari.com/en/article/5084880

Download Persian Version:

https://daneshyari.com/article/5084880

<u>Daneshyari.com</u>