Abstract
Behavioral finance models imply that an increase in shares outstanding leads to a lower stock price for firms with greater diversity in opinion among investors. Information asymmetry models imply that share issues by firms with greater information asymmetries are accompanied by larger share price decreases. Valuation models predict a negative relation between uncertainty resolution and share prices. Acquisition announcements are used to investigate these predictions. We find acquirer abnormal returns for acquisitions of public firms paid for with equity (but not for acquisitions of private firms paid for with equity) are lower for firms with higher dispersion of analyst forecasts, larger change in dispersion of analyst forecasts, and higher idiosyncratic volatility. The opposite result holds for acquisitions of public firms paid for with cash for idiosyncratic volatility. We show that this evidence can best be explained by models that emphasize information asymmetries, but the behavioral models and valuation models explain part of the evidence.