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Empirical assessment of the impact of auditor quality on the valuation of new issues â˜†

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Abstract

This paper reports empirical tests of an hypothesized positive relation between audit quality and firm-specific risk that is predicted by Datar, Feltham, and Hughes' (1991) theoretical analysis of auditor choice when firms go public. Three types of proxies for *ex ante* firm-specific risk are used to test this relation: regression coefficients that theory relates to the firm-specific risk, *ex ante* proxies available from prospecti, and *ex post* variances in returns. Results from the first are moderately consistent with our hypothesis, while those from the latter two are either mixed or contrary.

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