Domestic vs. US Default Risk and the Small-Cap Premium[1]

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Over the past decade, economically and statistically significant abnormal returns are have re-appeared for small cap stocks in several countries in many regions including North America, Australasia, and Asia. In the aftermath of the recent financial crisis, business cycle explanations of the time variation of the small firm effect are of particular interest. This paper focuses on the role of default premium, which may be related to innovative investments, as a determinant of the small cap premium in international markets. Size based asset portfolios are found to be associated with systematic default risk that is distinct from local default risk factors and local business cycle turning points. We want to test the relation between immaterial investments as they are accounted and measured by incorporeal immobilization and the stock prices.
Our methodology is applied on twenty-two non-financial Tunisian firms listed at the Tunisian Stock exchange during five years: from 2003 to 2007.

JEL Classifications: G11, G14, G15

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