

The Gonedes Theory : The Aggregate-Market Paradigm About Accounting Procedures Numbers For Informational Content By Market Responses

Turkish Online Journal of Qualitative Inquiry (TOJQI)
Volume 11, Issue 04, October 2020: 874-877

Research Article

The Gonedes Theory : The Aggregate-Market Paradigm About Accounting Procedures Numbers For Informational Content By Market Responses

Melani Tanjung¹, Darno Setiawan B Zendrato ² , Iskandar Muda ³

Abstract

This paper discusses and summarizes the gonedes theory, a theory that develops an aggregate market paradigm model. The paradigm of aggregate market behavior/decision makers/decision usefulness is supported by several theories and methods. According to this theory, the choice of accounting information system is determined by the behavior of the market as a whole. Through Home Visits this indicates that in general the situation of the market that is efficient, showing abnormal return can be obtained by using the use of information that is more extensive, and the trading patterns associated is zero. This theory has become a reference for studies that have received wide attention and has become the most interesting topic in the development of corporate finance theory.

Keywords: Aggregate Market Behavior, Decision Usefulness, Genodes Theory

1. Introduction

Philosophy is the basis for developing accounting research as an effort to understand reality through systematic and critical thinking. Philosophy helps develop research and generate novelty and innovation by utilizing paradigms to provide the best answers in accounting practices.

Currently, there are at least six competing paradigms in accounting which have been adopted from various other disciplines. In the opinion of Wells (1976), and the *American Accounting Association* (1977), and Belkaoui (1996 and 2000) distinguish the accounting development paradigm in six parts. Ritzer tested the six paradigms through four components of the paradigm, such as: exemplar, image, theories and methods.

The six paradigms in accounting are as follows: (1) Antopological/inductive paradigm, (2) True income/deductive paradigm, (3) Decision-usefulness/decision model paradigm, (4) Aggregate/decision-making/decision-usefulness market behavior paradigm, (5) Individual user/decision-making/decision-usefulness paradigm, and (6) information/economic paradigm¹.

This paper describes the theory of gonedes which develops an aggregate market paradigm model. The paradigm of aggregate market behavior / decision makers / the Decision usefulness is a development in decision-usefulness from individual user responses to the overall market response (aggregate-market response).

According to Gonedes and Dopuch (1974), the selection of accounting information systems is determined by the behavior of the market as a whole. This relationship is based on the theory of capital market efficiency. The main issue discussed is the overall market response to accounting variables (Nurmadi et al., 2018). The theory used is *capital market efficient* theory, where a market is said to be efficient if the market price perfectly reflects all publicly available information. Therefore, market prices react quickly to all new (unbiased) information. This theory shows that in general, in an

efficient market situation, abnormal returns can be obtained by using a wider range of information, and the associated trading pattern is zero.

2. Literature Review

Theories that confirm market behavior include:

2.1 The Efficient Market Model

The assumptions that apply to the efficient market model are free access to available information, good analytical skills by participants, and paying attention to market prices that adjust appropriately.

2.2 The Efficient Market Hypothesis

One of the major advances in the development of the theory of corporate finance is the introduction of Efficient Market Hypothesis by Fama in 1970. Since introduced in 1970, Theory of Efficient Market seems to have become a magnet for the researchers finances to do the test of truth. Miller (1999) , in his article on financial history, as one of the winners of the Nobel Prize of Economics, Fama claimed that his theory worthy of getting Prize laureate . Miller (1999) and several corporate finance experts have found that one of the most important discoveries in the history of the development of financial theory is the Efficient Market Theory, where of the many financial theories it is the Efficient Market which gets the most attention and is empirically tested in almost all capital markets in the world. world.

According to Fama (1970) efficient market forms can be grouped into three, known as the efficient market hypothesis. The three forms of efficient market are (1) the weak form of the efficient market hypothesis, (2) the semi-strong form of the efficient market hypothesis, and the strong efficient market hypothesis. (strong form of the efficient market hypothesis). Each form of efficient market is closely related to the extent to which information absorption occurs in the market.

The efficient market hypothesis argues that security prices fully reflect all available information at any time. Individual and professional investors buy and sell stocks on the assumption that the intrinsic value is different from the market price. A securities market is perfectly competitive when new information arrives on the market independently and randomly, both buyers and sellers adapt quickly to new information and current security prices reflect all relevant risk/return information.

2.3 The Capital Asset Pricing Model

Capital Asset Pricing Model (CAPM) is a method used to estimate the expected rate of return on an investment. According to Situmeang (2014), the basic purpose of using CAPM in securities analysis is to determine an adequate expected return for a certain level of security risk or can also be called the required return. CAPM is a model that describes systematic risk by using beta to link risk and return (Saputra, 2015).

The beta of each stock can be calculated by the formula (Jogiyanto, 2013:383):

$$\beta_i = \frac{\sigma_{im}}{\sigma_m^2}$$

Where : β_i = Beta of security i

σ_{im} = Covariance of return of the i-th security with market return

σ_m^2 = Market return variance

The Gonedes Theory : The Aggregate-Market Paradigm About Accounting Procedures Numbers For Informational Content By Market Responses

According to Belkaoui (1996) there are assumptions that exist in the CAPM, namely investors hold efficient portfolios, higher expected returns involve higher risk, unlimited loans & loans are available at risk-free rates, investors have homogeneous expectations, there are one period time horizon, investment can be divided indefinitely, no taxes or transaction fees, inflation is fully anticipated, capital market is in balance.

2.4 The Arbitrage Pricing Theory

The APT (Arbitrage Pricing Theory) model developed by Stephen A Ross is one of the developments of Capital Asset Pricing Theory (CAPM) in determining the expected return in the market. Some experts claim that the APT model is better than the CAPM because stock prices are not only determined by a single market index but are also determined by many macroeconomic factors. According to Zunara and Hartoyo (2016) in the APT model there are several macroeconomic factors that are expected to affect stock returns and risk premiums, including the inflation rate, the rupiah exchange rate against the US dollar and world oil prices.

The APT model is one approach that is often used in determining the level of income (return) from stock investments in the capital market. Shanken (1985) who explained that the APT model was formed from the multibeta of the CAPM model. Dhankar (2005) in his research succeeded in showing that the APT provides a better estimate of the rate of return than the CAPM. The results of Koon and Gupta (2001) research show that APT is quite strong in explaining cross-sectional variation in stock returns.

Based on the law of one price. The same two items cannot be sold at different prices.

If they sell at different prices, arbitrage will occur where the arbitrage buys the cheaper item and sells the higher priced item until all prices are the same.

In APT, the assumption of investors using the mean-variance framework is replaced by the assumption of the process of generating security returns. The APT requires that the return on any stock be linearly related to a set of indices. In APT, several factors have an impact on the return of an asset in contrast to the CAPM model which shows that returns are only related to one factor, namely systematic risk.

According to Belkaoui (1996), arbitrage is based on the law of one price. The same two items cannot be sold at different prices. If they sell at different prices, arbitrage will occur where the arbitrageur buys the cheaper item and sells the higher priced item until all prices are the same.

In APT, the assumption of investors using the mean-variance framework is replaced by the assumption of the process of generating returns on the security. APT requires that the returns on any stock be linearly related to a series of indices. In APT, several factors have an impact on the return of an asset in contrast to the CAPM model which shows that returns are only related to one factor, namely systematic risk.

3. Methods

Based on the literature review in the literature review, research questions were formed, namely what is meant by genode theory and how was the development of genode theory. The type

of data used is secondary data. The data collection method is literature study. The method that will be used for this study is a literature study. The data obtained were compiled, analyzed, and concluded so as to obtain conclusions regarding the study of literature. Literature study is a series of activities related to the methods of collecting library data, reading and taking notes, and managing research materials.

4. Conclusion

The main problem with the decision-usefulness/decision maker/aggregate market behavior paradigm is actually the overall market response to accounting variables. The authors above agree that general decision benefits in accounting variables can be derived from overall market behavior, or as Gonedes and Dopuch present, only the effects of alternative accounting procedures or speculations can be judged from overall market behavior. According to Gonedes and Dopuch, the selection of accounting information systems is determined by the behavior of the market as a whole. This paradigm shows that in general in an efficient market situation, abnormal returns can be obtained by using a wider use of information, and the associated trading pattern is zero. Changes devices optimis this information will result in a new equilibrium. The following theories confirm the paradigm of market behavior which include: (1) efficient market model, (2) efficient market hypothesis, (3) capital asset pricing model, (4) arbitrage pricing theory.

REFERENCES

1. American Accounting Association. (1977). Committee on Concepts and Standards for External Financial Report: Statement on Accounting Theory and Theory Acceptance. AAA.
2. Belkaoui, A.R. (1996). Accounting, A Multiparadigmatic Science. Quorum Books, Westport.
3. Belkaoui, A.R. (2000). Accounting Theory. Fourth Edition. Thomson Learning.
4. Fama, Eugene F. (1970). Efficient market: A review of theory and empirical work. *Journal of Finance*, 25 (2): 383-417.
5. Gonedes, N.J. dan N. Dopuch. (1974). Capital Market Equilibrium, Information Production, and Selecting Accounting Technique: Theoretical Framework and Review of Empirical Work. *Supplement to Journal of Accounting Research* 12: 48- 130.
6. Jogiyanto. (2013). Portfolio Theory and Investment Analysis. Sixth Edition. First Print. Yogyakarta: BPF.
7. Miller, Merton. (1999). The History of Finance. *Journal of Portfolio Management* 25 (4): 95-101.
8. Nurmadi, R.; Adiman, S.; Muda, I. and Ginting, S. (2018). Measuring and Valuation of Asset: Accounting Theory Perspective. In Proceedings of the 1st Unimed International Conference on Economics Education and Social Science - Volume 1: UNICEES, pages 1208-1212. DOI: 10.5220/0009510912081212. <https://www.scitepress.org/PublicationsDetail.aspx?ID=0LjRMTSE2nE=&t=1>.
9. Saputra, Wildan Deny, (2015). The Efficient Market Model. *Journal of Business Administration (JAB)*. 25(1). 20-35. administrationbusiness.studentjournal.ub.ac.id
10. Situmeang, Chandra. (2014). Financial Management. Unimed Press.
11. Ross, S.A. (1976). The Arbitrage Theory of Capital Asset Pricing. *Journal of Economic Theory*. 13. 341-360.
12. Zunara, Elly. and Hartoyo, Sri. (2016). Analysis of the Effect of Macroeconomic Factors on Stock Premium Return and Risk Using Arbitrage Pricing Theory Model. *Journal of Management Applications (JAM)* Vol 14 No 3.