

# Studying the role of accounting of accepted companies in stock market of Tehran to predict the Gross Domestic Product (GDP)

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**Abstract:** Economic improvement and increasing the macro indexes of Economics would be attained from financial, productive and service improvements. So, it is expected that firms and profits directly affect a Gross Domestic Product. In fact, these profits are the outcomes of productions which stem from the Gross Domestic Product. Based on this the authors analyzed accounting earnings of accepted companies in stock market of Tehran in a 7 year-period from 2005-2011, to study the role of accounting earning of accepted companies in stock market of Tehran to predict Gross Domestic Product. Analyzing the results showed that, net profit of accepted firms in stock market of Tehran does not affect the Gross Domestic Product and also, the increase of net profit is not able to predict GDP. The reason for this result is that, the stock market of Tehran is nascent and only few companies have been accepted in this market. On the other hand, Iran's economic is fully dependent on Oil and Iran's GDP is completely exposed to the changes of Oil, Oil price and oil incomes. The results also show that there is a significant correlation between future GDP and the GDP of the year. This significance is about %99. The Economic can use models to predict GDP.

**Keywords:** accounting net profit, Gross Domestic product, firms revenue

## INTRODUCTION

In studying the behavior of effective factors on market economics, the search for variable(s) which can explain the relationship between financial branch of economic and real branch of economic is highly important. Monetary and capital markets, as dimension of financial branch of economic, provide rescues for real branch of economic. Real branch of economic includes markets in which real assets cost which are physically tangible such as: building, machineries, equipment etc. can be traded. In other words, the real branch of economic is the branch of goods and services. The efficiency of financial branch may cause optimal rare resource allocation to economic actions. As a result, optimal saving and investment may lead to national economic growth and development. So, the efficiency of capital market is completely important for economic growth (Azizi, 1378, p.2). Accounting earning, as the outcome of company's functions in financial branch of economic, leads to value incensement in total economic, incensement of current assets and economic growth. This incensement takes place through incensement in production in economics. Accordingly, the authors, in the present research, study the effect of accounting earning on gross domestic product (GDP) to specify the relation between company's functions and economic circumstances.

### Theoretical framework.

One of the most important parameters of economic development is the growth's the of total income which is called gross domestic product(GDP). GDP is a flow variable and means the Reals value of all produced and goods and services based on market prices in national economy that in one year were supplied and demanded. By having a short look on computational indexes of world powerful Economies, we will find that the most important annual economic computational index of one country is their gross domestic product. Basically, the growth and development rate of countries are computed by their GDP. The effective factors of growth are domestic products, in fact, are that effective factors on national income of one country. Based on a general classification, the income sources for income creation and GDP are the income of working firms in an economy and their profits.

The revenue and profits of active firms are the results of production and supplement to the markets. These profits, which are a part of firm's profit, reflect the pour of production creation and GDP of countries. So, GDP can be considered as on integration of active firms in an economy. Hence, it is expected that, revenue and profits of firms directly affect GDP. In fact, these profits are the outcome of productions which form GDP. Gallo et al (2013) verified that the reaction of United States' GDP to recognized accounting revenue and profits was positive and they had a direct and significant relationship with GDP creation.

According to the potential effect of accounting earning and profit on GDP, it can be claimed that related information of accounting earning and profit is useful and predictive to computer the future GDP. Through accounting earning and profit recognition in active firms of an economy and the relationship with GDP creation, we can estimate the GDP. This kind of estimation is one of the most important and sensitive estimation in economic systems of each country.

The relationship between macroeconomic variables and accounting variables is bilateral. Accounting variables are the reality of active firms' functions in an economy which, in fact, affect the macroeconomic variables. On the other hand, macroeconomic variables may increase the firms' investment opportunities, production and profits through defining the direction of functions and lead to accounting earning and profit increment. Therefore; companies trying to gain revenue and profit to increase their stock price not only is affected by expedition from management function and interned factors of the firm, but also economic variables (both macro and micro) affect it (Rapasch et al,2005). According to time series models, there is a linear relationship between the revenue rate of an asset and market systematic risk. So, it is expected that macroeconomic variables systematically affect GDP. As a result, predicting the role of macroeconomic variables in specifying the relationship between GDP and market fluctuations is very important (Hormozi,1388).

Based on accounting profits and its costs, which are a part of GDP, there is a significant relation between the process of revenue and functions of the firm- stated by accounting profit- and GDP. The more the active firms are in an economy, the more GDP and the individual's incomes would increase. Finally, the economic and production -as the most important index- promotes. According to the relationship between macroeconomic variables, accounting variables, accounting revenue and profit, and GDP, the present study seeks to predict GDP through accounting profit. As it is commonly known, GDP is the most important index of economic and the authors investigate to specify how accounting earnings of accepted companies in Tehran stock market can predict GDP? Also, how accounting earnings of accepted companies in Tehran stock market affect GDP?

### Literature review

Yaniv & Panos (2014) studied the effect of accounting earnings on the prediction ability of gross domestic product. The result showed that, accounting earning can remarkably predict GDP, also economists and analysts are able to decrease the prediction error of gross domestic product though accounting earnings. Orawan & Sharma (2007) conducted a research about the long and short term relationships between American Stock Price Index (S&D 500) and six economic variables from 1975-1999. Their findings revealed that was a negative relation between stock price and long term interest rate, but there was a significant relationship between money supply, industrial production, inflation, exchange rate and short term interest rate. Humped & Macmillan (2006) showed macroeconomic variables effects on long term stock movements. They presented a model for long term relationships between industrial productions, users price index, money supply, long and short term interstate and stock price in United States and Japan. Their estimated results showed that there is a significant relation between industrial production, users price index, short term interest rate and stock market. Also, there is a negative relationship between long term interest rate and stock market. Christopher gone et al (2006) studied the reciprocal effect among New Zealand Stock Index and a seven-item- package of macroeconomic variables including; inflection rate, exchange rate, gross domestic product, money supply, long term interest rate inters rate, and Domestic Retail Oil Price(ROIL). Yuhansen's integration test result showed that there is a long term relationship between New Zealand Stock Price Index and tested macroeconomic variables. The results of caustic teste conducted by Granger showed that Grangers' New Zealand Stock Price Index is not able to show the changes of economic variables, because New Zealand stock market is not as big as stock markets in developed countries. In middle East, Khalifa Meazouz and Ibrahim Saadouni (2005) studied the effect of discount rate and macroeconomic announcements on long term FTSE100. Their finding showed that there is no relationship between long term diverse price and changes of discount rate. The effects of economic announcement are reflected. They believed that share abnormal earnings would be affected by bias and trendy's in selecting stock. Edam and Arsalan (2005) studied the effects of macroeconomic variables on Istanbul stock market index. Studying the effect of variables like exchange rate, interest rate, inflation and production on stock earnings showed that over fluctuation of inflation and interest rate affects the Stock Price Index. Hokan and Hokan (2005) declared that there is a negative relationship between Stock Price Index, stock earning and inflation in years 1992-2002 in Turkey. These authors studied stock's real earning function against inflation changes in Turkey. Poitra (2004) in a research studied the effect of macroeconomic variables on American Stock Price. The studied variables were: users price index, producers price index, unemployment rate, money volume, trade balance and Federal reserve discounting rate. This study presented an estimation to a monthly Linear regression pattern for the years 1980-1998. The result showed that, generally variables which have prediction power are not significantly able to plain the changes in stock index. Among these variables, the only effective variable on changes of stock price index is discounting rate.

Among Iranian researches, Kamari and Eftekhari (2012) studied some of the qualification parameters of according earnings in economic cycles. The research studied the relationship between some of qualification. Two of them are earning reaction coefficient and earning sustainability. In the present study they are analyzed in different economic circumstances. Due to numerous parameters for general economic measurements, business cycles are considered as the representative of economic circumstances. Based on the results of regression analyzing and hypotheses tests, it was observed that economic circumstances detect investors reactions to accounting earnings. This reaction is bigger in stagflation than prosperity. Also, economic circumstances affect earning sustainability. Earning sustainability is enjoying a better state in prosperity than stagflation. Soleimani and Memary (1392) studied the relationship between economic earning accounting earning and equity in accepted companies in Tehran Stock Market.

The present study mainly studies the relationship between economic and accounting are earnings and equity earing's by library study and analyzing the correlations of 40 accepted companies in Tehran stock market in years 1381 to 1389. We concluded that there is a significant relationship between economic and accounting earnings and equity earing's Economic earnings is fully inter-related with equity earnings. Also the results of hypotheses testing are reflecting the effect of Industry on the relationships among the variables. Ahmadpor and Ibrahimpor (2010) conducted a research about the effect of main financial and economic indexes on the profitability of accepted companies in Tehran Stock Market. They believed that net income in economic firms is the result of investment and internal and external factors. In the present study the effect main financial and economic indexes on 62 accepted company's income (Industries of automobile, drugs and petro chemistry) in years 1384 to 1388 is analyzed. Generally, the evidences of the research showed that there is a significant relationship among financial leverage, sales growth, outraged stich price, gross domestic production and profitability. But there is no significant relationships between and profitability. In another research, Sajadi et al (2009) studied the relationships between macro-economic variables and cash earnings of stocks in Tehran stock market their research aimed to specify the long term relationship between growth rates of cash earnings of stocks and set of macroeconomic variables like inflation rate, growth rates, exchanges rate and oil earnings. In that research, the date was for the year 1997 to 1396 and more analyzed by regression methods. Ricky Fooler Unit Order test showed that pecuniary growth rate variable is parallel with the variance of other variables. The integration test also shared that there is a long term relationship between economic variables and the growing rate of cash earning index. The relationship between growing rate of cash earning index, oil earning and exchange rate is negative and the relation of that cash earning index and inflation rate is positive. Also, the significance of pecuniary ret coefficient.

At ( $\text{sig}=/05$ ) was not reified

Nickbakht and Tanami (2006) steadied the relationship between modified earning raring ratios based on inflation and stock earning of oil purification companies in Tehran stock market. Iran's inflation leas caused that some of the companies do not realign reflect their financial statements. The present research studies the relationship between stock earning rate and modified profitability ration based on general prices.so, the companies balance sheets and income and expense statement for four years (2001-04) were collected and after the modification on general prices, the relationship were measured. The used statistical method was correlation analyze through (panel) multi variable liner regression by E-views software. The findings showed that there is a significant relationship between modified profitability rations based on general prices and company's stock earnings in oil Industry for the years 2001 to 2004.

### **Hypotheses of the research**

There are different interpretations of accounting earning. The critical literation radicalism has presented two kinds of accounting earning. In the first school accounting based on current values may cause to prepare financial statements according to on modified current values and general prices. In the second, financial statements would be prepared based on current modified values and general prices then the modified earning would be reported. According to its believes, earnings can be a base to compute tax, earning dividend policies, guide to decision makings and investments, management efficiency parameter and also to predict future economic events (Watts and Zimmerman, p.198).

So, accounting earning is a factor to predict Gross Domestic Product. The following hypotheses are presented based on the author's aims and the literature:

Hypothesis 1:

There is a positive and significant relationship between net earnings of active companies in Tehran stock market and gross Domestic product. (GDP)

Hypothesis 2:

There is a positive and significant relationship between net earning rate of active companies in Tehran stock market and gross Domestic product. (GDP).

### Models and the variables of the study

The recruited models for the first hypothesis are as following:

$$\text{Model 1: } G_t = \alpha + \beta_1 X_{it} + 3t$$

$$\text{Model 2: } G_t + \beta_1 \Delta X_{it} + \beta_2 \text{Size}_{it} + \beta_3 \text{ROA}_{it} + \beta_4 \text{age}_{it} + \beta_5 \text{gov}_{it} + \epsilon_t$$

Where, G is grosses domestic product; X is the net earnings; SIZE is the size of the company which is stemmed from the natural total logarithm of firm's assets; ROA, return of asset; AGE, the age of the company since establishment, and GOV; the government's possession ratio which is the stock ratio owned by government.

The recruited models for the second hypotheses are as follows;

$$\text{Model 3: } G_{t+1} = \alpha_0 + \beta_1 X_{it} + \beta_2 G_t + \epsilon_{t+1}$$

$$\text{Model 4: } G_{t+1} = \alpha + \beta_1 \Delta X_{it} + \beta_2 G_t + \beta_3 \text{Size}_{it} + \beta_4 \text{ROA}_{it} + \beta_5 \text{age}_{it} + \beta_6 \text{gov}_{it} + \epsilon_{t+1}$$

Where  $G_{t+1}$  is gross domestic product of current year; the changes of net earnings in current year; SIZE, size of the company; ROA, return of assets; AGE, age of the company since establishment and GOV, government's possession ratio.

### Statistical community and sample

The research statistical community contains all the active companies in Tehran stock market which their stocks were traded during the 3 moths study pried nonstop. According to limitations such as financial trades, assuring that the financial statements are really for 29/12(last day of the year), net changing the financial year and availability of the information, 92 companies were selected as out sample for the period of 2005 to 2011.

### Date analyzing

#### Descriptive statistics

The descriptive statistics of the research are presented in the following table.

Table1. statistical indexes of dependant and independent variables

variable	size	ROA	age	Government possession	GDP	Net earnings(X)	Earning changes ( $\Delta X$ )
mean	13.94	0.101	17.43	14.03	3737916	299435.96	0.021245
median	13.72	0.093	15.00	3.33	3743338	90689.00	0.060000
max	18.54	0.517	45.00	76.00	7091389	7695801.00	2.990000
min	11.04	-0.34	4.00	0.00	1993665	-2266704.00	-2.832000
s. deviation	1.317	0.113	9.117	20.343	1336796	871558.37	0.738768
skewness	0.714	0.072	0.178	0.539	0.534	5.313287	-0.025818
Elongation	3.686	4.487	3.570	4.115	2.382	7.521190	3.967510

The mean is the main and most applicable index. It exactly locates in the core

Of the date. Those variables pose on appropriate quality which there is no variance between their mean and median. The mean of size logarithm of the companies is 13/94. As it was expected, the highest asset values belong to automobile companies such as, Iran Khodro, SAIPA and Bahman group.

Iran Khodro Diesel and SAIPA Diesel. The petrochemical companies located the second. The mean of Automobile company Assets was 17/18. It means that the mean of their assets is 16/8 percent more than other samples. Among the selected companies, the least asset belonged to Niro Mohareke Manufacturing company which its mean of assets was 11/6.

The mean of ROA of the selected companies is 10/2 and their median is 9/3. The highest ROA belonged to Khark petro chemistry company in the years 2006 and 2007.

Among the samples, there were companies like combine Manufacturing Company and Gas Pipe company which had the last ROA. The average age of sample companies was about 17/4. The oldest company was Pars Oil company, 45 years old and the youngest was those companies that in 1385 they were enjoying their fourth year is stock market such as Gas Pipe company and Iran Counter Manufacturing Company.

The mean of government possession is sample companies was 14/2. It means that nearly, 14 percent of the sample companies belong to the Government. The rete of government possession belonged to Iran Manganese Mine company, Glass company and Gas company. And the least belong to companies like Iran counter Manufacturing company by 0 percent government possession. The mean of earning changes in sample companies was 2/1. It means that the earning and profitability of the sample companies increases 2 percent yearly from 2005 to 2011. The highest earning changes rate belonged to Plumb and Zine companies, and Behran Oil company. also, the least change rate belonged to companies like Iran Zinc Mine and Iran Tier Company.

**Correlation test**

To study the correlation between the variables, the Pearson correlation coefficient was recruited. The result of that test are presented in table 2.

Table 2. Matrix of Pearson correlation coefficient

Correlation efficient	size	ROA	age	gov	GDP	Future GDP	Net earning
size	---						
ROA	68.21	---					
age	89.03	60.06	---				
gov	57.89	45.60	51.18	---			
GDP	34.34	20.28	87.01	51.28	---		
Future GDP	34.61	20.63	87.22	51.19	99.72	---	
Net earning	2.33	23.58	1.71	7.83	0.47	0.26	---

The results of correlation test showed that there are significant relationships among the variables, ROA, company’s Document and government possession ratio have strong relationships with company’s size equally to 68/21, 89/3 and 59/89, respectively. Also, there is a significant relationship between gross domestic product and the size of the company, ROA, the age of the company and internal possession percentage which one 34/34,20/28,87/01 and 51/28. The correlation ship between independent ant dependent variables showed that there is a low relationship between net profit of accepted companies in Tehran stock market GDP and future GDP. These correlations are 0/47 and 0/26, respectively that are below 1 percent and do not mean significantly.

**Hypothesis analyzing**

Second hypotheses: In the first hypothesis, the authors aimed to study that if there is significant relationship between net profit of accepted companies in Tehran stock market and Gross Domestic product? A summary of results of first and second models assessment for the first hypothesis are presented in the following table.

Table3. Assessments of the first and second modes for first hypothesis

Model 1	t	Variable coefficient	variables
P-value			
0.0000	3.379212	626001.0	Sustain value
0.6854	0.4053361	5578.050	ΔX
			size
			ROA
			age
			gov
5.153111			F test measurement
0.000000			P-value
0.023854			Specifying coefficient
1.988.36			Dorbin Watson

  

Model 2	t	Variable coefficient
P-value		
0.000	11.32468	7876330
0.1023	1.636822	35558.78
0.7948	0.260253	14503.76
0.6703	0.426025	100594.1
0.0000	66.99288	656370.4
0.0098	2.591194	4513.726
9.156209		
0.000000		
0.146466		
1.837012		

The statistical result of the regression models showed that the P-Value of both model is less than 5 percent. It means that there is a significant relationship between independent variables (presented in the models) and dependent variables (gross domestic product). The specifying coefficient for the first and second models are 2/38 and 14/64, respectively, which shows the ability of the dependent variables to predict the independent variable (GDP). The used changing coefficient to analyze the first hypothesis in both models was β<sub>1</sub>. The significance of this coefficient shows the significant effect of independent variable and net profit of accepted companies in Tehran stock market. The mentioned coefficient reflects the way the net earnings of accepted companies affect GDP. The result of first hypothesis show that the P-Value of the coefficient is more than 5 percent in both models.

So, there is no significant relationship between net earnings of accepted companies in Tehran stock market and gross domestic product. Hence, these company's earnings cannot predict GDP of the relationships between economic. These result verify the correlation test. That test showed that there is a relationship between earning and GDP and it is 0/47.

The results for the first hypothesis stem from two main sources. First, Tehran stock market is young and nascent which most of the parts of economic do not function in the market. Second, by the year 1392, only 417 companies were active in Tehran stock market which means that a small part of GDP of Iran comes to true by these few companies. Also, a great part of GDP of Iran is gained from oil Industry which, based on the statistics of control Bank of Iran, oil for the years 2005-11 contained 25, 24, 24, 22, 14, 20 and 25 percent of GDP. It can be concluded that for this period oil industry provided 23 percent of GDP. Accordingly, the net earnings of accepted companies in Tehran stock market is not a reliable index to predict GDP.

Based on the control variables, it is shown that, there is a positive relationship between the company's value and GDP. It means that by increasing the company's value, the GDP would increase. How're; this relationship is not significant statistically. The same circumstance is true for ROA companies age government possession percentage and GDP.

Second hypothesis: In the second hypothesis the authors aimed to specify that if there is a positive and significant relationship between net earnings growth of accepted companies in Tehran stock market and gross domestic product? A summary of third and fourth models assessment to measure the second hypothesis presented in the following table.

Table4. The result of third and fourth models assessment for second hypothesis

Model 3	t	Variable coefficient	variables
P-value			
0.0000	5.531392	227367.7	Sustain value
0.3281	0.978707	18471.19	ΔX
0.0000	109.7136	1.131564	Gt
			size
			ROA
			age
			gov
5.153111			F test measurement
0.000000			P-value
0.252159			Specifying coefficient
1.677266			Dorbin Watson
<hr/>			
Model 4	t	Variable coefficient	
P-value			
0.000	5.943279	4349131	
0.8762	0.155872	3223.274	
0.0000	13.78533	0.584756	
0.5889	0.177926	9305.239	
0.6359	0.473707	104628.3	
0.0000	12.81769	376030.1	
0.5022	0.671578	1149.187	
140.7624			
0.000000			
0.364939			
2.148999			

Statistical results for the third and fourth models show that, the p-value for both models is less than 5 percent. So, there is a significant relationship between independent variables (presented in the models) and defendant variable (future gross domestic product). The specifying coefficient for these two models is 25/21 and 36/44 present, respectively, which shows that the variables presented in the model can predict GDP by 25/21 and 36/44 present. The variable coefficient used in the analyzing third and fourth models is  $\beta_1$ . Its significance shows the effectiveness of predicting GDP through net earnings growth of accepted companies in Tehran stock market the result for the second hypothesis show that the p-value is more than 5 percent. So there is no significant relationship between net earnings growth of accepted companies and future GDP. These results verify the correlation test. The result for the second hypothesis is parallel to the first hypothesis. Although, the net earnings of the firms can predict GDP, the net earnings growth of the firms is not able to predict it. The results for the second hypothesis, like the first one, stem from two main factors. First, Tehran stock market is still young and second, a few companies have been accepted in this market.

### CONCLUSION

The analyzing of the result show, the net earnings of the firms accepted in Tehran stock market affect GDP but the growth of the net earning is not able to predict future gross domestic product. The results stem

from a reason: Tehran stock market is still young. A few companies could enter to this market. On the other hand, Iran's economic is fully dependent on oil. The result also shows that there is a correlation between future GDP and current GDP. This correlation ship is about 99 percent. So, we can use models to predict gross domestic product of the economic.

This study is not completely covered by previous ones. By a comparison, it can be observed that poor Haidari and Pahlavi (2007) had concluded that there was no significant relationship between money volume, gross domestic product and earning of the stock market. Mashayekhi et al (2009) showed that there is no significant relationship between base price without oil, gross domestic cost, oil earning, in elation rate, gross national product and accounting earning. Motahari and Brothers (2008) showed that there is a positive and strong relationship among gross domestic product, oil earning investment in buildings and accounting variables of sale. Outcomes, finished costs of sealed goods, and functional earnings. Ahmad poor and Ebrahimpor (2010) in a research showed that, there is a significant relationship between financial lacer, sales growth, average price of the shares, GDP and profitability. In another study Yaniv and Panos (2014) concluded that accounting earning can remarkably predict gross domestic product.

### Applied offers of the research

The following offers are presented based on the results of the present study:

Based on the results of first hypothesis net earning does not affect GDP. So, it is recommended to politicians, budgeting organizations and managers not to use net earning variable to predict GDP. Because the findings show that based on the second hypothesis, the net earnings growth can not affect future GDP. So, it is recommended not to use net earnings growth variable to predict gross domestic product.

Based on the findings, it is recommended to the managers, shareholders and investors to consider macroeconomic indexes and not use them in their decisions. They should not highlight accounting earnings to predict GDP, because the results showed that it cannot predict GDP. The results also showed that the net earnings growth cannot predict future GDP.

It is recommended to researchers, students and investigators to study the reasons why net earnings do not affect gross domestic product. Also it is recommended to them to find optimal and applicable ways to promote GDP through industrial productions not through Oil.

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