THE ROLE OF INVESTMENT OPPORTUNITY SETS (IOS) IN THE RELATION BETWEEN CAPITAL EXPENDITURES AND UNCERTAINTY OF FUTURE EARNINGS

Thesis

Presented as Partial Fulfillment of the Requirements
for the Degree of Sarjana Ekonomi (S1) in Accounting Program
Faculty of Economics Universitas Atma Jaya Yogyakarta

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FACULTY OF ECONOMICS
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AUTHENTICITY ACKNOWLEDGEMENT

I hereby declare that the thesis with the title:

The Role of Investment Opportunity Sets (IOS) in the Relation between Capital Expenditures and Uncertainty of Future Earnings

Is really my own thinking and writing, I fully knowledge that my writings does not contain others' or part(s) of others' writing, except for those that have been cited and mentioned it in the references.

Yogyakarta, 8th December 2014

Vini Agustiani

MOTTO

If we believe that tomorrow will be better

We can bear hardship today.

-Thich Nhat Hanh-

Always be responsible to

every commitment you have decided….

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I aware that this thesis is far from perfect. So suggestions or recommendations are needed in order to improve this thesis. I hope that my writing can be useful for everyone. *Sabbe Satta Bhavantu Sukhitatta* May all being be happy…..

Yogyakarta, 28th January 2015

Vini Agustiani

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THE ROLE OF INVESTMENT OPPORTUNITY SETS (IOS) IN THE RELATION BETWEEN CAPITAL EXPENDITURE AND UNCERTAINTY OF FUTURE EARNINGS

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Abstract:

This study emphasizes on examining the moderating effect of Investment Opportunity Sets (IOS) in the relation between Capital Expenditures and Uncertainty of Future Earnings. I estimated that the IOS can mitigate the positive effect of capital expenditures to Uncertainty of future earnings. Since, the greater the IOS, the firm will have more option in valuable investments which have more certain return. Thus, by executing those valuable investments, firm can reduce its future earnings uncertainty that is caused by the capital investment. This study also can reveal the investment behavior of Indonesian firms, especially the manufacturing firms. By using 299 samples which are taken from 80 listed manufacturing firms from 2006- 2009, it found that the capital expenditures have positive effect towards the uncertainty of future earnings. Moreover, the IOS is proven to be able to mitigate that positive effect and make the effect become negative. Therefore, the manufacturing firms in Indonesia are proven to be able to execute the valuable opportunity and invest in the prospective investment.

Keywords :*capital expenditures; capital investments; Investment Opportunity Sets; uncertainty of future earnings.*