Accuracy of Exchange Valuation Rules

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Various approaches to valuation have often been regarded as empirical proxies for a common, unobservable, theoretical construct of value. From this viewpoint, the main objective of research in valuation is to determine how well each method approximates the underlying value. There is no unique measure of how “good” a proxy is, and several attributes such as relevance to decisions, objectivity, freedom from bias, and cost have been examined in the accounting literature. Most analyses have been centered on historical cost, general price level, current valuation, and their variations. Since little attention has been paid to the underlying analytical structure of the above-mentioned valuation rules, a rigorous comparative study of their attributes has not been possible. The purpose of the present study is to introduce a new approach to the comparative analysis of valuation systems. This is accomplished in three steps.