

THE EFFECT ON STOCKHOLDER'S WEALTH ON CRITICAL SYSTEMS FAILURE AND REMEDY: THE BOEING 787 CASE.

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ABSTRACT

In this paper we analyze the effect of Boeing Dreamliner 787's battery problems on stockholder wealth. Using agency theory and event study methodology, we show that the recall in January of 2013 initially caused the company's cumulative abnormal returns to fall by almost 4% in four trading days after the recall. This was followed by an announcement by two major airlines to ground all of the 787 Dreamliner jets. The FAA also ordered all US airlines to ground their 787s and announced an investigation to review all critical systems of 787s. However within four months of the investigation, FAA approved Boeing's revisions to its 787 design. This caused Boeing's abnormal returns to rise by almost 2% . On April 24th Boeing reported it's greater than expected quarterly results which caused its abnormal returns to rise by an additional 3% . The Boeing case shows how a manufacturer can solve asymmetric information problems by being proactive and sending a positive signal to the market.

Keywords: *Agency Theory, Event Study, Aerospace Industry, Stock Returns.*