CPA Speaker Series (ACCTG)

Alberta School of Business
Department of Accounting and Business Analytics

Presents:

Kevin Smith

Stanford University

Topic:

Disclosing to informed traders

Friday, December 4, 2020
10:00am – 11:30am
Please join Zoom to access the seminar remotely
Meeting ID: 991 0306 7097
Password: 773469

ABSTRACT

We develop a model of costly voluntary disclosure in the presence of diversely informed investors. The manager's disclosure strategy influences trading by investors, which in turn affects the manager's incentives to disclose. When the manager is known to be informed, there exists a unique threshold equilibrium in which only sufficiently good news is disclosed. This equilibrium exhibits two novel features. First, more public information can increase the likelihood of voluntary disclosure. Second, the firm is either over- or under-valued relative to fundamentals, depending on how investors use the information in prices. When investors are uncertain about whether the manager is informed and investors' information is sufficiently precise, this threshold equilibrium may break down.