Disclosure, Competition, and Learning from Asset Prices

Liyan Yang*

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Abstract
This paper studies the classic information-sharing problem in a duopoly setting in which firms learn information from a financial market. By disclosing information, a firm incurs a proprietary cost of losing competitive advantage to its rival firm but benefits from learning from a more informative asset market. Firms’ disclosure decisions can exhibit strategic complementarity, which is strong enough to support both a disclosure equilibrium and a nondisclosure equilibrium. Allowing minimal learning from asset prices dramatically changes firms’ disclosure behaviors: without learning from prices, firms do not disclose at all; but with minimal learning from prices, firms can almost fully disclose their information. Learning from asset prices benefits firms, consumers, and liquidity traders, but harms financial speculators.

Keywords: Disclosure, proprietary cost, learning from prices, multiplicity, welfare.

JEL Classifications: D61; G14; M41

*Yang: liyan.yang@rotman.utoronto.ca, Rotman School of Management, University of Toronto, 105 St. George Street, Toronto, M5S3E6, ON, Canada. I thank Laura Veldkamp and Xavier Vives for helpful comments and suggestions. I thank Social Sciences and Humanities Research Council of Canada (SSHRC) for financial support.