Lucius Lu (Warwick Business School)

Asymmetric Asset Price Reaction to Earnings News: the Role of Ambiguity and Difference of Opinions

Market reacts much more strongly to bad news than to good news. This asymmetric reaction can be explained by the interacting effects of two key elements in an investor's decision making process: ambiguity (i.e. Knightian uncertainty) and difference of opinion. Ambiguity reduces investors' reaction to good news while increases their reaction to bad news. Difference of opinion similarly reduces reaction to good news, but it has no discernible effect on bad news response. Combining both generates a "yes" tick shape for earnings response coefficients. This asymmetry after controlling the amount of news explains away all the negative returns generated by leaked quarter earnings news.

Rebecca McDonald (Warwick Business School)

Intertemporal choice: cross modal "discounting"
(joint work with Robin Cubitt, Nottingham University and Daniel Read, WBS)

Frequently, individuals face choices between options separated in time. To explain these intertemporal choices we need to understand how individuals trade off present against future outcomes. Typically, this is addressed in the framework of uni-modal choices, where the quantity of a good later is matched with a smaller quantity of the same good today to derive a discount rate. But what if choices are between different goods at different times? This talk will outline experiments that explore the relationship between uni-modal and cross-modal intertemporal choices, with results suggesting systematically lower impatience in the cross-modal comparisons. Our findings raise questions about the use of traditional experimentally-derived discount rates to control for time preference in real choices.

Thursday 15th May, 2014, 2:30 p.m.—3:50 p.m.
Library, 3rd Floor Extension, Wolfson Research Exchange Area, Seminar Room 1

Join us for light refreshments (coffee/tea and biscuits) before the Forum at 2:15 p.m.
This event is free and open to public: go.warwick.ac.uk/draw