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The Causal Impact of Media in Financial Markets

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ABSTRACT

Disentangling the causal impact of media reporting from the impact of the events being reported is challenging. We solve this problem by comparing the behaviors of investors with access to *different* media coverage of the *same* information event. We use zip codes to identify 19 mutually exclusive trading regions corresponding with large U.S. cities. For all earnings announcements of S&P 500 Index firms, we find that *local* media coverage strongly predicts *local* trading, after controlling for earnings, investor, and newspaper characteristics. Moreover, local trading is strongly related to the timing of local reporting, a particular challenge to nonmedia explanations.

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