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ANNUAL REVIEW OF FINANCIAL ECONOMICS (/CONTENT/JOURNALS/FINANCIAL) Volume 6, 2014. (/content/journals/financial/6/1)

# **Information Transmission in Finance**

Paul C. Tetlock (/search?value1=Paul+C.+Tetlock&option1=author&noRedirect=true&sortField=prism\_publicationDate&sortDescending=true).

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Because theories in finance rely critically on what agents know, designing powerful tests of these theories requires measuring information transmission. In this re view, I characterize the rapidly growing subfield directly analyzing information in financial markets. Its three hallmarks are the examination of (a) a wide array of informative events, (b) different mechanisms for transmitting information, and (c) measures of information content based on nonnumeric information. Recent research directly measures flows of information to shed light on diverse phenomena in asset pricing, such as market reactions to news and nonnews, investors' portfolio choices, and mutual fund flows and returns, and in corporate finance, such as mergers and acquisitions, initial public offering (IPO) underpricing, and executive compensation. Continued improvements in access to data and computing power are likely to propel this line of research for years to come.

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