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Stock Prices and Economic News

Douglas K. Pearce & V. Vance Roley

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This paper examines the daily response of stock prices to announcements about the money supply, inflation, real economic activity, and the discount rate. Except for the discount rate, survey data on market participants' expectations of these announcements are used to identify the unexpected component of the announcements in order to test the efficient markets hypothesis that only the unexpected part of any announcement, the surprise, moves stock prices. The empirical results support this hypothesis and indicate further that surprises related to monetary policy significantly affect stock prices. There is only limited evidence of an impact from inflation surprises and no evidence of an impact from real activity surprises on the announcement days. There is also only weak evidence of stock price responses to surprises beyond the announcement day.

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