On the Economic Consequences of Index-Linked Investing

Jeffrey Wurgler

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Trillions of dollars are invested through index funds, exchange-traded funds, and other index derivatives. The benefits of index-linked investing are well-known, but the possible broader economic consequences are unstudied. I review research which suggests that index-linked investing is distorting stock prices and risk-return tradeoffs, which in turn may be distorting corporate investment and financing decisions, investor portfolio allocation decisions, fund manager skill assessments, and other choices and measures. These effects may intensify as index-linked investing continues to grow in popularity.

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"On the Economic Consequences of Index - Linked Investing," Challenges to Business in the Twenty - First Century: The Way Forward , edited by W.T. Allen, R. Khurana, J. Lorsch, and G. Rosenfeld, American Academy of Arts and Sciences, 2011.

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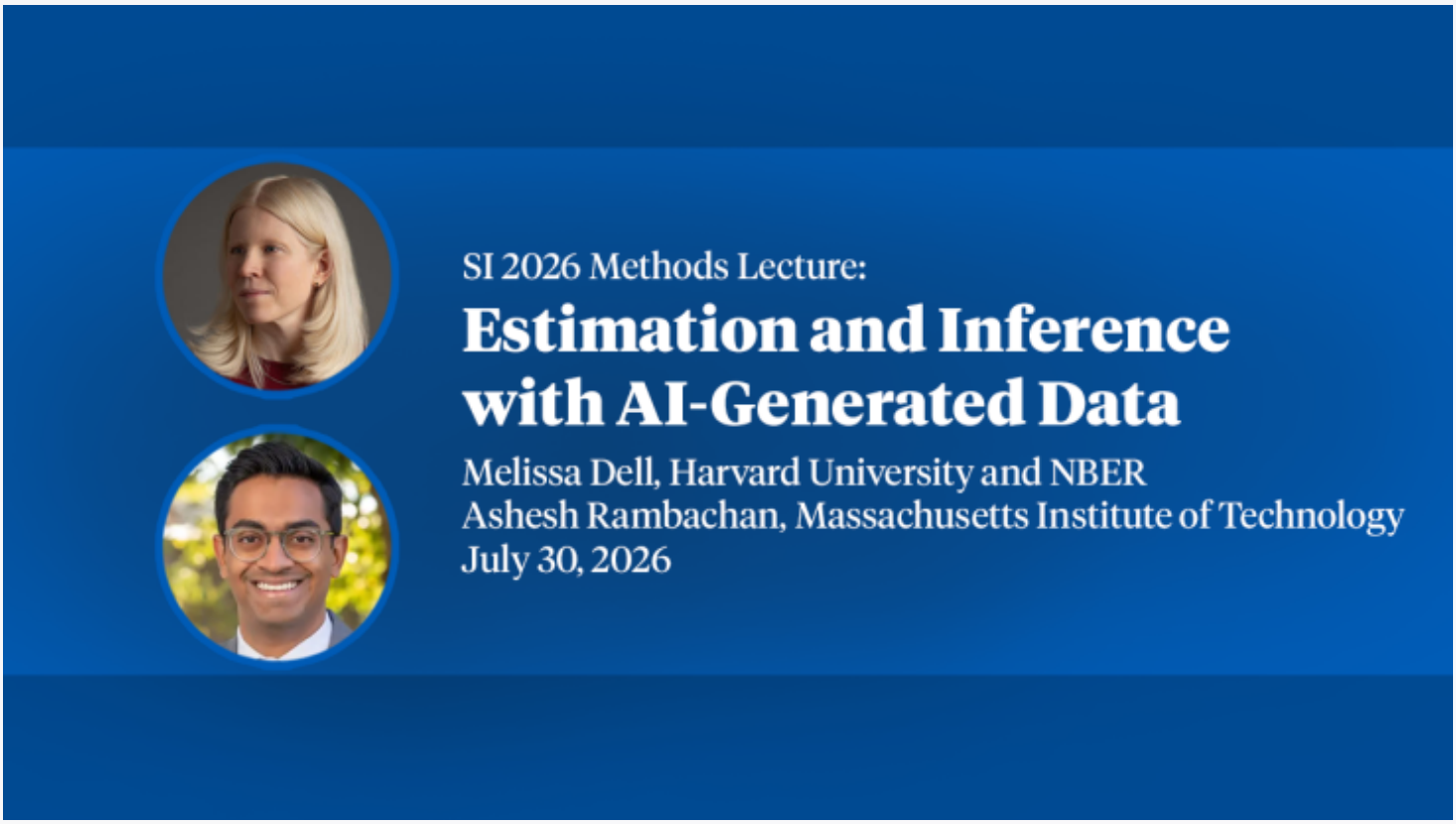


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Contact Us
1050 Massachusetts Avenue
Cambridge, MA 02138

617-868-3900
info@nber.org
webaccessibility@nber.org

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