Abstract

Investors are in the business of acquiring information and using that information to manage a portfolio of assets. Information asymmetry, however, plays a central role in investors' information acquisition and occurs when one group of participants has better or more timely information than other groups. Typically, the source of the information asymmetry is the superior knowledge that managers have about the firm's prospects, while the investors in the firm comprise the uninformed group. With examples such as the recent accounting scandals of Enron, Lernout & Hauspie, Worldcom, it is obvious today that information on capital markets is asymmetrically distributed and that information differential between the management and investors can lead to a suboptimal allocation of resources within the firm. Clearly, managers, investors and regulators concerned with financial supervision are in need of methods to manage information asymmetry problems.

This Ph.D. dissertation contributes to the development of new methods to mitigate information asymmetries on capital markets and focuses on three specific sources of information, each of them corresponding to one part of the dissertation. Each can be read as stand-alone papers. In Part I, I define a prediction model that helps investors reduce information asymmetries by predicting financial analysts' forecast error. In Part II, I focus on the value of corporate social responsibility (CSR) information, such as the Kinder, Lyndenberg and Domini Research and Analytics database (KLD). In Part III, the objective is to decrease information asymmetries by defining more accurate measures of tone (or sentiment) in the narrative sections of voluntary disclosures, such as earnings press releases and CEO letters to shareholders. Overall, we show that investors, managers and regulators can manage and reduce information asymmetries on capital markets by either using advanced econometric methods, new databases on a firm’s stakeholder activities or the textual content of a firm's financial disclosures.