

Information and the Pre-Announcement Drift

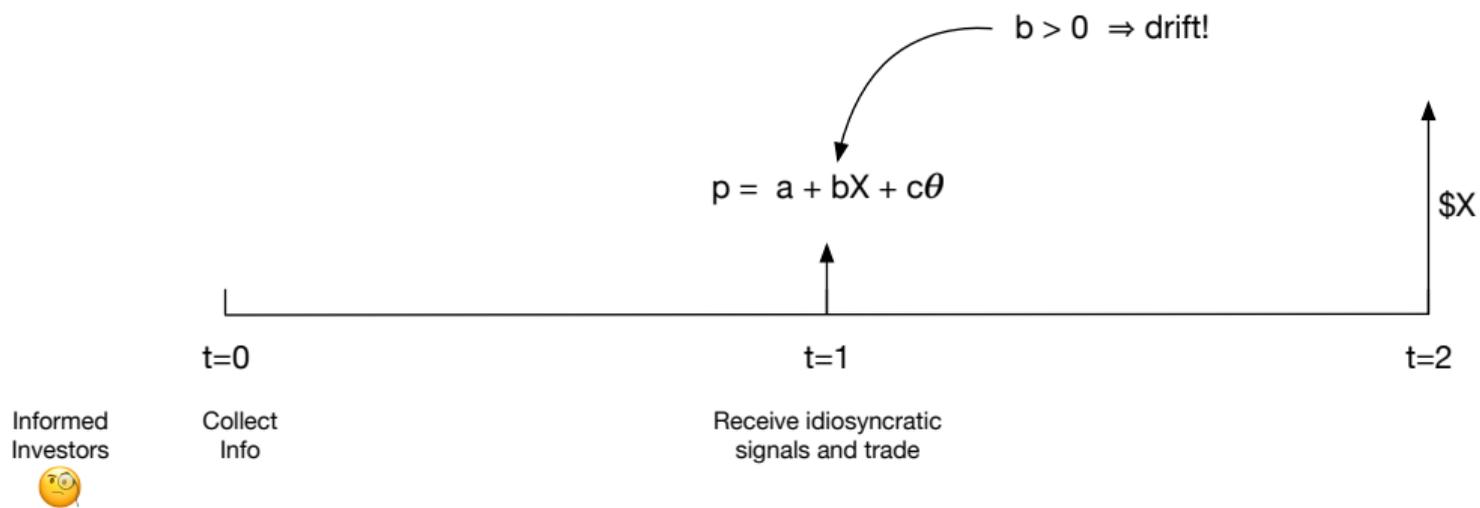
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April 22, 2022

- Why I liked this paper:
 - Compelling question with big stakes.
 - Novel mechanism that addresses question fully.
 - Tractable and (relatively) easy to digest results.
- Where I struggled:
 - Understanding what was necessary vs sufficient.
- What's coming:
 - My five stages of grief over continuous time models.
 - One comment. One question.

Stage 1: Denial

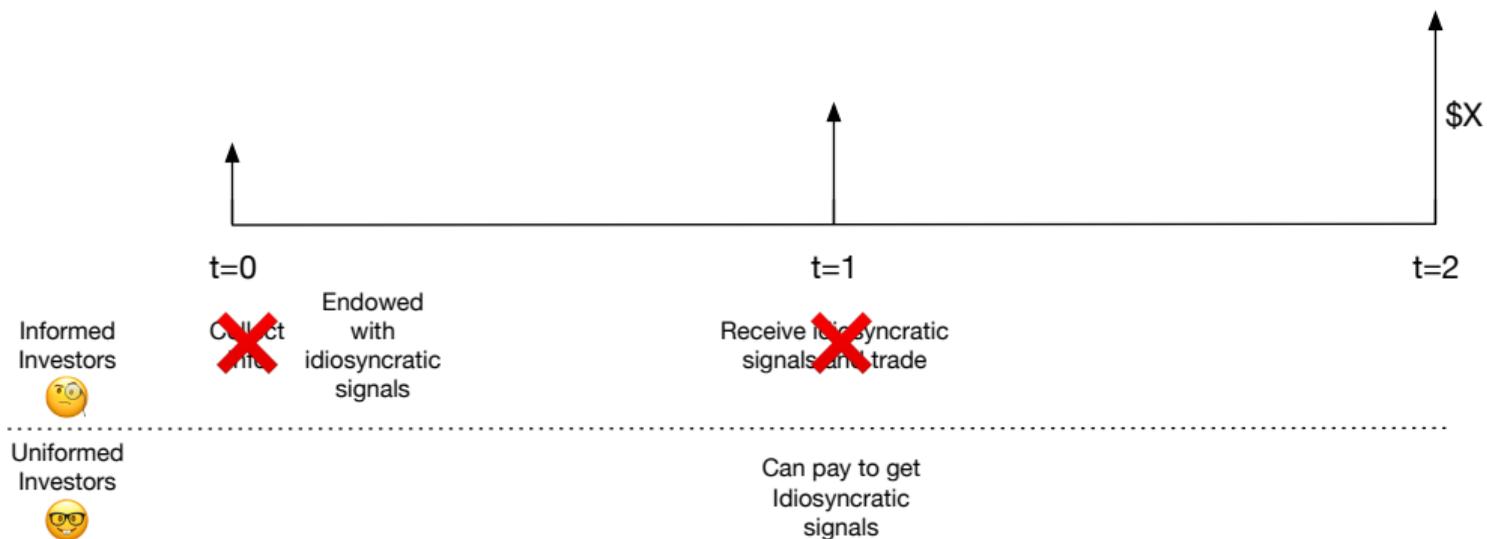


Stage 1: Denial

This isn't good enough

- Requires information leakage for any drift.
- Solid evidence that leakage can't be that big.
- Volatility properties are wrong (high vol before)

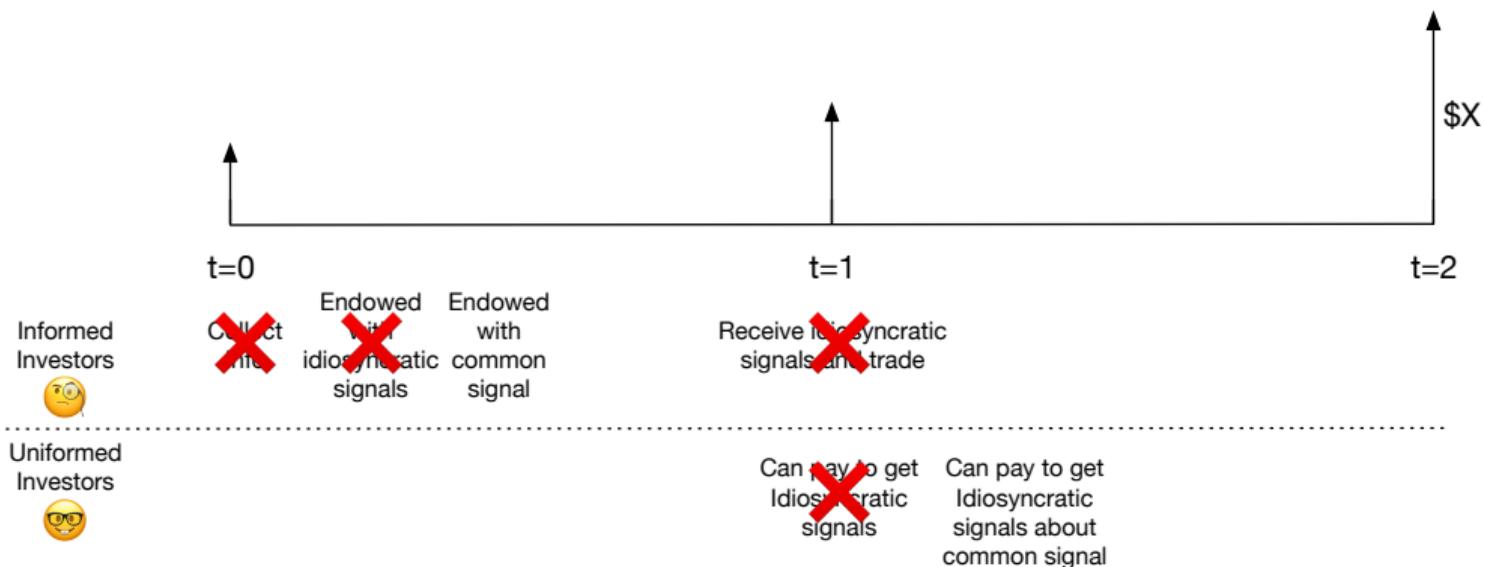
Stage 2: Anger



This still isn't good enough

- Can't have truth plus idiosyncratic noise.
- Each individual signal contains 'new' information.
- Back to leakage problem (though definitely weaker).

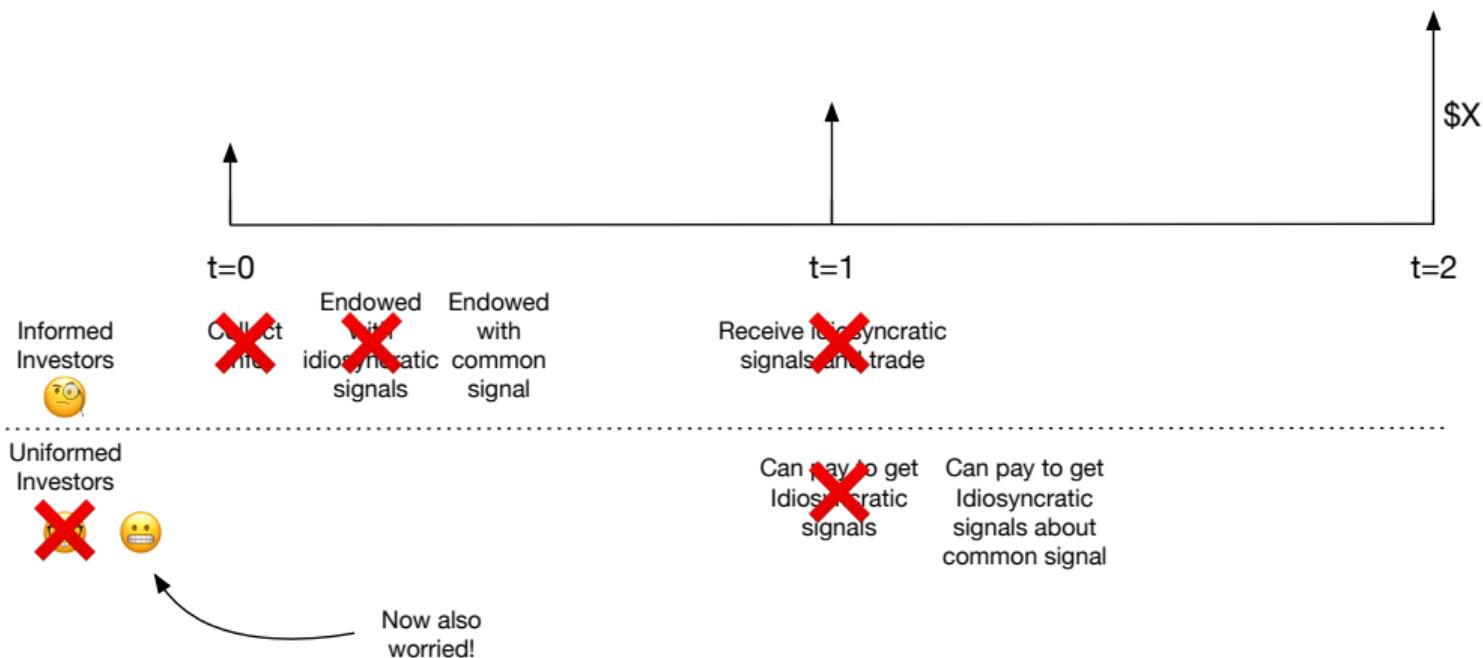
Stage 3: Bargaining



This still isn't good enough

- Information is costly, but learning from price isn't.
- So why would uninformed buy information?
- Need uninformed to care about info *more than* just price signal.

Stage 4: Depression



Stage 4: Depression

This is still not good enough

- Now you get pre-announcement drift with no leakage.
- But depending on info, still get high vol prior to announcement.
- Need comparative statics instead of smooth change in incentives.

Stage 5: Acceptance

I understand (mostly) why the assumptions in this paper are necessary to deliver the result.

Comment: Confusion over GRS and Information Type

Authors say there are three key ingredients to paper:

- Endogenous information acquisition.
 - **Necessary** to produce any drift at all.
- Asymmetric information over incomplete information set.
 - **Necessary** to prevent information leakage.
- GRS
 - **Necessary**...?

Comment: Confusion over GRS and Information Type

- Without GRS what happens when $k = 0$? When $k \rightarrow 0$?
- Relationship between GRS and information acquisition *strategy* unclear.
- Would GRS be necessary if uninformed could get orthogonal signals about x_t ?
- Motivation/intuition for having GRS depend on \hat{x}_t as opposed to x_t is lacking

Question: Unanswered puzzle

- Introduction says 100% of premium is realized prior to announcement.
- Not true in model, and impossible without leakage, unless determinism holds.
- What's the point of the announcement?
- Deterministic environment? Coordinating signal?

What have we learned?

- Generating pre-announcement drift without leakage is hard!
- Paper does a thorough job of generating tractable model to do so.
- Delivered sufficient conditions, would be nice to know where 'necessary' lies.
- (minor) Cocoma (2021) deserves more highlighting, especially wrt volume claims.