Optimal Disclosure Windows[*]

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Abstract

I study a dynamic disclosure game between an agent and a decision maker in continuous time. Over time, the agent privately receives conclusive bad signals about an unknown state. He chooses a window of time over which this information flows to the decision maker who then takes an action. In a Markov perfect equilibrium, information asymmetry is (endogenously) generated by delayed start of disclosure. The later the agent starts disclosing, the longer he keeps disclosure open. While disclosure is in progress, the agent faces a tradeoff between a more favorable action and higher risks, which leads to delayed stopping by a more optimistic agent.

Keywords: dynamic disclosure, strategic timing, signaling.

JEL Codes: C73, D82, D83