Untitled

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To specify the exact mechanism, I present the following analytical framework to generate my key hypotheses. Suppose there is a stock market with two types of firms: connected (R_c) and unconnected firms (R_u). Thanks to information disclosure, investors are informed the firm type and firm profitability. The strategy of investor depends on their beliefs of the returns. We assume that the firm returns follow a normal distribution as follows:

$$
\begin{aligned}
R_c &\sim \mathcal{N}(\mu_\rfloor, \sigma_\rfloor^\in) \\
R_{-c} &\sim \mathcal{N}(\mu_\sqcap, \sigma_\sqcap^\in)
\end{aligned}
$$