

May 04, 2011

Comment [Editor1]: Please enter the date of submission here.

Dear Editor,

Comment [Editor2]: Please enter the name of the editor-in-chief of your target journal here.

Please find enclosed my manuscript titled "Time Series Models of Expectation Bias in Stock Markets" as an Original Article for publication in XXX.

Comment [Editor3]: Please enter the name of your target journal here, in italics.

This paper examines the time series models of expectation bias using frequently administered questionnaire surveys on stock price forecasts. In the survey, participants were asked to forecast the Nikkei 225 at three forecasting times: one-day, one-week, and one-month ahead. Assuming proxies for overconfidence and optimism as the expectation biases, we found that overconfidence is likely to stabilize over time but optimism is less likely to do so. We also found a relationship between optimism and stock price movement, demonstrating a general tendency of not anticipating moderate to significant changes in forecasting stock prices. From this tendency, we can deduce the existence of status quo bias in such forecasts.

I believe these findings are of particular interest to the readers of *Journal of Urban Economics* because they provide strong evidence on the stability of expectation bias. Knowledge on the stability of expectation bias is crucial for economists to explain various phenomena by incorporating specific but small departures from rational expectations.

This manuscript has not been published and is not under consideration for publication elsewhere. The manuscript has been carefully reviewed by an experienced editor whose first language is English and who specializes in editing papers written by scientists whose native language is not English.

I appreciate your review of this manuscript for publication in *Journal of Urban Economics*.

Sincerely,

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Comment [Editor4]: Please enter all details of the corresponding author here, including the fax number.