



SFB/Transregio 266

ACCOUNTING FOR TRANSPARENCY

Research on Corporate Transparency

Element 14: Disclosure Processing Costs

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TRR 266 Accounting for Transparency

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Awareness Costs

- Costs to uncover information
- E.g.: Search for sustainability information, identify relevant information in the notes

Acquisition Costs

- Costs to acquire and process information
- E.g.: Obtain, read and understand complex note disclosures, obtain alternative textual data and process it into usable data

Integration Costs

- Adapt decision model to incorporate information
- E.g.: Adjust financial models to incorporate alternative data, build decision model that reflects financial and new non-financial information

- Perfect competition for information: e.g., Grossman and Stiglitz (AER, 1980)
- Imperfect competition for information: e.g., Kyle (REStud, 1989)
- Multiple assets: e.g., Admati (Econometrica, 1985)
- Rational Inattention: e.g., Kacperczyk et al. (Econometrica, 2016)

Based on the empirical evidence that is hard to reconcile with models assuming rational behavior, behavioral finance has developed a series of explanations based on psychological biases.

Some examples

- Limited Attention: DellaVinga and Pollet (JoF, 2009), Barber and Odean (RFS, 2008)
- Attention and Overconfidence: Peng and Xiong (JFE, 2006), Barber and Odean (QJE, 2001)
- Conservatism and representativeness bias: Barberis et al. (JFE, 1998)

- Admati (Econometrica, 1985): <https://doi.org/10.2307/1911659>
- Barber and Odean (QJE, 2001): <https://doi.org/10.1162/003355301556400>
- Barber and Odean (RFS, 2008): <https://doi.org/10.1093/rfs/hhm079>
- Barberis, Shleifer and Vishny (JFE, 1998): [https://doi.org/10.1016/S0304-405X\(98\)00027-0](https://doi.org/10.1016/S0304-405X(98)00027-0)
- Blankespoor, deHaan and Marinovic (JAE, 2020): <https://doi.org/10.1016/j.jacceco.2020.101344>
- Dellavigna and Pollet (JoF, 2009): <https://doi.org/10.1111/j.1540-6261.2009.01447.x>
- Grossman and Stiglitz (AER, 1980): <https://www.jstor.org/stable/1805228>
- Kacperczyk, Van Nieuwerburgh, and Veldkamp (Econometrica, 2016):
<https://doi.org/10.3982/ECTA11412>
- Kyle (REStud, 1989): <https://doi.org/10.2307/2297551>
- Peng and Xiong (JFE, 2006): <https://doi.org/10.1016/j.jfineco.2005.05.003>