ABSTRACT

Using the introduction of high-speed rail (HSR) as exogenous shocks to analysts’ costs of information acquisition, we show that reductions in costs of acquiring information lead to higher frequency of analysts visiting portfolio firms, and higher forecast accuracy; suggesting a significant increase in information production and improvement in output quality. We find that information production represents the channel through which acquisition costs affect output quality. Large-scale surveys of financial analysts provide consistent evidence. More information production is also associated with improved price efficiency. Finally, both the empirical and survey results highlight the importance of soft information in analysts’ information production. Overall, exogenous reductions in the costs of information raise production and generate a positive externality by increasing price efficiency.

(Copies of the paper are available in the AOIS Department offices)