

Essays on Multiple Strategic Producers of Information

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Tuesday, April 2, 2013

10:00 am

GSIA 324 (West Wing)

The first essay provides the analytical framework of my dissertation. It discusses a generic game with an exogenous strategic complementarity and reviews models developed to explain economic agents' herding behavior. Extending and applying these analytical tools cast light on (puzzling) observations that emerge in the accounting literature about the way information is produced, communicated, and used. The essay also includes numerical examples I would like to work on in the future.

The second essay (based on my job market paper) reconciles independent analysts' disciplining role over affiliated analysts' biased forecasting behavior and the observed herding behavior among financial analysts. While conventional wisdom suggests that herding behavior would jeopardize independent analysts' ability to discipline affiliated analysts, the paper shows that (strategically) herding with affiliated analysts is exactly what independent analysts would behave in order to discipline affiliated analysts most effectively. The paper focuses on strategic interactions between an independent analyst and an affiliated analyst when the analysts' information acquisition and the timing of their recommendations are endogenous. I show that herding with the affiliated analysts can actually motivate the independent analyst to acquire more information upfront, reinforce his disciplining role, and ultimately benefit the investor. The reason is that herding introduces an indirect benefit to information acquisition, which creates an induced complementarity between the independent analyst's ex-post herding and ex-ante information acquisition. The finding is contrary to the prevailing view that herding discourages ex-ante information production and leads to ex-post information cascades, which had been derived in settings where either information acquisition or the sequence of actions is exogenous.

The third essay (co-authored with Jonathan Glover) studies relational contracting based on subjective/non-verifiable performance measures as a foundation for bonus pools. Using a two-agent, multi-period contracting model, we find the optimal contract can pay the agents for bad performance for two reasons. The first is the standard explanation that the principal's ability to commit to pay based on subjective performance measure is limited and leads to such pay. The second explanation is that pay for bad performance is sometimes used to create a strategic independence in the agents' payoffs that reduces their incentives to collude. That is, for some parameters, if the principal did not have to prevent tacit collusion between the agents, she would not reward the agents for bad performance. She would instead use a relative performance evaluation scheme. The unappealing feature of relative performance evaluation is that it creates a strategic substitutability in the agents' payoffs that encourages them to collude on an undesirable equilibrium that has the agents taking turns making each other look good—they alternate between (work, shirk) and (shirk, work).