

Essays on Multiple Strategic Producers of Information

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The guiding theme of my dissertation is that investigating strategic interactions among multiple information producers can cast light on observed accounting practices and institutions that conventional thinking and existing theories have difficulty explaining. Chapter 1 provides the analytical framework of the dissertation and explains how Chapters 2 and 3 fit into the framework.

Chapter 2 investigates strategic interactions between an independent analyst and an affiliated analyst when the analysts' information acquisition and the timing of their recommendations are endogenous. Compared to the independent analyst, the affiliated analyst has superior information but faces a conflict of interest. I show that the independent analyst's recommendation, albeit endogenously less informative than the affiliated analyst's, disciplines the affiliated analyst's biased forecasting behavior. Meanwhile, the independent analyst sometimes herds with the affiliated analyst in order to improve forecast accuracy. Contrary to conventional wisdom, I show that herding with the affiliated analyst may actually motivate the independent analyst to acquire more information upfront, reinforce his ability to discipline the affiliated analyst, and benefit investors.

Chapter 3 studies relational contracting based on subjective performance measures as a foundation for bonus pools (a joint work with Jonathan Glover). 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.

Chapter 4 concludes with two extensions. The first extension highlights the possibility that regulations aimed at facilitating information acquisition can actually distort analysts' incentive to acquire information to the detriment of investors. The second extension provides a rationalization for the empirical evidence that financial analysts only release a subset of their information by showing that this practice can be in the best interest of investors.