EQUITIES

The Impact of Public Information on the Stock Market

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In this article, we ask whether the amount of information that is publicly reported affects the trading activity and the price movements in securities markets. The underlying motivation for our analysis is the fact that much of the behavior of financial markets is difficult to explain using conventional models of information and trading.

We study the relation between the number of news stories reported daily by Dow Jones and measures of market activity, including trading volume, the absolute value of market returns and the sum of the absolute value of firm-specific returns. We find that the number of news stories and market activity are directly related and share common day-of-the-week patterns. The relation between news and market activity remains significant in regressions that control for the day of the week.

The relation between public information and market activity is also robust to analysis that includes two proxies for news importance — the size of New York Times headlines and a dummy variable for days having at least one of 17 major macroeconomic announcements. The days having large New York Times headlines have market returns of above-average magnitude, while trading volume on those days is not significantly different than that for the full sample. Neither trading volume nor market returns is significantly different on days having macroeconomic announcements.

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