Title: Sticky Prices and the Value of Public Information: What Can Financial Markets Tell Us?

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Abstract:

We construct a simple measure of output-price transparency using staggered disclosures of product indices by the Bureau of Labor of Statistics (BLS). The measure tells the extent to which investors or firms of a granular sector observe price changes from closely neighbored sectors. Transparency mitigates information asymmetry in the debt market and thereby reduces sticky-price firms' financing costs. Transparency also leads sticky-price firms to respond more to cost shocks, which reduces their exposure to systematic risks. We perform textual analysis on transcripts of earnings conference calls and find that managers of sticky-price firms have less private signals about the trend of input costs. To address endogeneity, we exploit the cross-sector heterogeneity of January 2004 coverage expansion by the Office of Publications at BLS.