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Data Abundance and Asset Price Informativeness*

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Abstract

Information processing filters out the noise in data but it takes time. Hence, low precision signals are available before high precision signals. We analyze how this feature affects asset price informativeness when investors can acquire signals of increasing precision over time about the payoff of an asset. As the cost of low precision signals declines, prices are more likely to reflect these signals before more precise signals become available. This effect can ultimately reduce price informativeness because it reduces the demand for more precise signals (e.g., fundamental analysis). We make additional predictions for trade and price patterns.

JEL classification: G14, D4, L1, L15.

Keywords: Asset price informativeness, Big data, FinTech, Information processing, Markets for information.

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