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Information Disclosure, Firm Growth, and the Cost of Capital

Sunil Dutta, Alexander Nezlobin

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Information Disclosure, Firm Growth, and the Cost of Capital

Sunil Dutta
dutta@haas.berkeley.edu
Haas School of Business
University of California
545 Student Services #1900
Berkeley, CA 94720-1900
United States

Alexander Nezlobin*
nezlobin@haas.berkeley.edu
Haas School of Business
University of California
545 Student Services #1900
Berkeley, CA 94720-1900
United States
Tel.: +1 510 643-8011
Fax.: +1 510 643-1412

Abstract

We study how information disclosure affects the cost of equity capital and investor welfare in a dynamic setting. We show that a firm's cost of capital decreases (increases) in the precision of public disclosure if the firm's growth rate is below (above) a certain threshold. The threshold growth rate is higher when the firm's cash flows are more persistent, or when other firms in the economy are growing at low rates. While current shareholders always prefer maximum public disclosure, future shareholders' welfare decreases (increases) in the precision of public disclosure if the firm's growth rate is below (above) the threshold.

JEL Codes: D53, G12, M41.

Keywords: Cost of capital; Information disclosure; Risk premium; Growth.

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