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The pricing effects of ambiguous private information*

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Abstract

When private information is observed by ambiguity averse investors, asset prices may be informationally inefficient in rational expectations equilibrium. This inefficiency implies lower asset prices as uninformed investors require a premium to hold assets and higher return volatility relative to informationally efficient benchmarks. Moreover, asset returns are negatively skewed and may be leptokurtic. Inefficiency also leads to amplification in price of small changes in news, relative to informationally efficient benchmarks. Public information affects the nature of unrevealed private information and the informational inefficiency of prices. Asset prices may be lower (higher) with good (bad) public information.

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