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Abstract

We study a firm's manager's voluntary disclosure decisions and those disclosure decisions' asset pricing, cost of capital, and information transfer effects in a model where investors trade multiple securities. We: develop new asset pricing formulas when the manager makes no disclosure that impose testable cross-equation restrictions on firms' market values; develop a wide array of comparative statics; obtain surprising findings about nondisclosure's effects on investors' perceptions of uncertainty about firms' future cash flows; develop simple, interpretable expressions for firms' cost of capital; and show how no disclosure by one firm generates informational externalities on other firms.

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1 Introduction

In this paper we study a model of a firm's manager's equilibrium voluntary disclosure decisions when investors are risk-averse and can invest either in the disclosing firm's or in other firms' securities after the manager has made her disclosure decision. We produce an array of new findings. We develop simple, easily interpretable and testable, equilibrium asset pricing equations both when the manager discloses her information and when she makes no disclosure. We

*Formerly titled "Equilibrium Voluntary Disclosures under Mean-Variance Pricing with Multiple Assets."