



Spring Term 2024 (FS 2024)

**Doctoral Seminar «Information in Capital Markets»**  
by Professor Itay Goldstein (Wharton, University of Pennsylvania)

### Course schedule and reading list

#### 1) Session schedule

Session	Day	Time	Location
1	Monday, 15.07.2024	10:30 – 12:00	<a href="#">PLM-F-103/104</a>
2	Monday, 15.07.2024	14:00 – 15:30	PLM-F-103/104
3	Monday, 15.07.2024	16:00 – 17:30	PLM-F-103/104
4	Tuesday, 16.07.2024	10:30 – 12:00	PLM-F-103/104
5	Tuesday, 16.07.2024	14:00 – 15:30	PLM-F-103/104
Research Seminar	Tuesday, 16.07.2024	16:15 – 17:45	PLM-F-103/104
6	Wednesday, 17.07.2024	10:30 – 12:00	PLM-F-103/104
7	Wednesday, 17.07.2024	14:00 – 15:30	PLM-F-103/104
8	Wednesday, 17.07.2024	16:00 – 17:30	PLM-F-103/104

On Tuesday, 16.07.2024, 16:15-17:45 Professor Goldstein will present his latest research paper in the Department's Research Seminar in Accounting, Auditing & Governance (AAG). The talk is considered as a part of the doctoral seminar, see: <https://www.business.uzh.ch/de/research/professorships/managerialaccounting/lehre/aag.html>

#### 2) Seminar content and reading list

The goal of this mini-course is to review theories of information and trading in financial markets and their implications for important market variables, such as liquidity and informativeness, and the real economy. I will start by reviewing foundational models of information and trading in financial markets. I will then discuss tradeoffs involved with information disclosure in financial markets. I will delve into the implications that information in financial markets has for the real economy. I will use these frameworks to think about sources for amplification and fragility in financial markets. I will conclude with thinking about new dimensions exposed by recent market phenomena, focusing on the role of ESG trading. As the detailed plan below shows, the lectures will combine general reviews with detailed coverage of specific models. While the course will focus on the theories, there will be vast discussion on connection to empirical work and policy implications.



#### Sessions 1+2

I will review the **foundational models of information and trading in financial markets**, falling into two categories: Rational-Expectations-Equilibrium (REE) models





and game-theoretic strategic models. I will provide detailed coverage of Grossman and Stiglitz (1980) and Kyle (1985) and brief overviews of Hellwig (1980) and Glosten and Milgrom (1985).

References:

- Glosten and Milgrom, 1985, "Bid, ask and transaction prices in a specialist market with heterogeneously informed traders," *Journal of Financial Economics*
- Grossman and Stiglitz, 1980, "On the impossibility of informationally efficient markets," *American Economic Review*
- Hellwig, 1980, "On the aggregation of information in competitive markets," *Journal of Economic Theory*
- Kyle, 1985, "Continuous auctions and insider trading," *Econometrica*

**Session 3**

I will review theories of **information disclosure in financial markets** and the tradeoffs that disclosure introduces. I will base the discussion on the unified framework introduced in the review article by Goldstein and Yang (2017), and through that discuss papers such as: Diamond (1985), Diamond and Verrecchia (1991), Gao and Liang (2013), Kurlat and Veldkamp (2015), Morris and Shin (2002), and Verrecchia (1982).

References:

- Diamond, 1985, "Optimal release of information by firms," *Journal of Finance*
- Diamond and Verrecchia, 1991, "Disclosure, liquidity, and the cost of capital," *Journal of Finance*
- Gao and Liang, 2013, "Informational feedback effect, adverse selection, and the optimal disclosure policy," *Journal of Accounting Research*
- Goldstein and Yang, 2017, "Information disclosure in financial markets," *Annual Review of Financial Economics*
- Kurlat and Veldkamp, 2015, "Should we regulate financial information?," *Journal of Economic Theory*
- Morris and Shin, 2002, "The social value of public information," *American Economic Review*
- Verrecchia, 1982, "Information acquisition in a noisy rational expectations economy," *Econometrica*

**Session 4-6**

I will review the literature on the **real effects of information in financial markets**. I will provide an overview of theoretical insights and empirical evidence following review articles by Bond, Edmans, and Goldstein (2012) and Goldstein (2023). I will then cover in detail the models in Goldstein and Guembel (2008), Goldstein, Ozdenoren, and Yuan (2013), and Goldstein and Yang (2019). I will also provide brief overviews of Dow, Goldstein, and Guembel (2007) and Edmans, Goldstein, and Jiang (2015).

References:



- Bond, Edmans, and Goldstein, 2012, “The real effects of financial market,” *Annual Review of Financial Economics*
- Dow, Goldstein, and Guembel, 2007, “Incentives for information production in markets where prices affect real investment,” *Journal of the European Economic Association*
- Edmans, Goldstein, and Jiang, 2015, “Feedback effects, asymmetric trading, and the limits to arbitrage,” *American Economic Review*
- Goldstein, 2023, “Information in financial markets and its real effects,” *Review of Finance*
- Goldstein and Guembel, 2008, “Manipulation and the allocational role of prices,” *Review of Economic Studies*
- Goldstein, Ozdenoren, and Yuan, 2013, “Trading frenzies and their impact on real investment,” *Journal of Financial Economics*
- Goldstein and Yang, 2019, “Good disclosure, bad disclosure,” *Journal of Financial Economics*

### Session 7

I will review the forces that lead to **amplification and fragility in financial markets** based on a perspective from models of trading and information. I will base the discussion on the unified framework introduced in the review article (in preparation) by Goldstein, Huang, and Yang (2024), and through that discuss papers such as: Eyster and Rabin (2005), Gennotte and Leland (1990), and Ozdenoren and Yuan (2008).

#### References:

- Eyster and Rabin, 2005, “Cursed equilibrium,” *Econometrica*
- Gennotte and Leland, 1990, “Market liquidity, hedging, and crashes,” *American Economic Review*
- Goldstein, Huang, and Yang, 2024, “Financial market fragility,” *Annual Review of Financial Economics (in preparation)*
- Ozdenoren and Yuan, 2008, “Feedback effects and asset prices,” *Journal of Finance*

### Session 8

I will discuss how new developments in financial markets provide **new dimensions for thinking about information and trading in financial markets**. I will cover this through the recent paper by Goldstein, Kopytov, Shen, and Xiang (2024) on the rise of ESG trading and its interaction with traditional trading.

#### References:

- Goldstein, Kopytov, Shen, and Xiang, 2024, “On ESG investing: heterogeneous preferences, information, and asset prices,” working paper

### 3) Exam

Grading is based on a take-home assignment (3 ECTS).