

<p>Financial Economics News</p> <p style="text-align: center;">News</p> <p>If the forecast is rational, then <i>news</i> determines the unexpected rate of return.</p> <p>News refers to something truly new, not to something known previously. News cannot be forecasted, so it is uncorrelated with previous news.</p> <p style="text-align: center;">1</p>	<p>Financial Economics News</p> <p style="text-align: center;">Good and Bad News</p> <p>Good news causes the asset price to be higher than expected, so the forecast error is positive.</p> <p>Conversely, bad news causes the asset price to be lower than expected, so the forecast error is negative.</p> <p>No news implies that the rate of return should equal the market interest rate.</p> <p style="text-align: center;">2</p>
<p>Financial Economics News</p> <p style="text-align: center;">News Must Be New</p> <p>Many items in the media are not news in this sense, as the information was known previously.</p> <p>For example, a statement of the time of the sunrise in the newspaper does not qualify as news.</p> <p>For example, the newspaper may report that property taxes in Albany are rising. Yet a weak budget situation may have been known previously, and hence a tax increase was expected.</p> <p style="text-align: center;">3</p>	<p>Financial Economics News</p> <p style="text-align: center;">News Is Unexpected</p> <p>One can see news as something different from what had been expected.</p> <p style="text-align: center;">4</p>
<p>Financial Economics News</p> <p style="text-align: center;">Confirmation</p> <p>The confirmation of something that was likely but not certain is news.</p> <p style="text-align: center;">5</p>	<p>Financial Economics News</p> <p>For example, on any particular day, it is expected that no airliner will crash, although a crash is possible. When no crash occurs, this fact is news, but is not surprising.</p> <p>In an efficient market, perhaps an airline stock might rise slightly each day that no crash occurs, but fall significantly after a crash. On average the price appreciation might equal the market interest rate.</p> <p>News of a crash is usually reported quickly on the internet. The price drop will occur immediately once the news is known, not the following day or week.</p> <p style="text-align: center;">6</p>