Abstract

In this paper, we develop and test the hypothesis that product market advertising positively affects a firm’s stock price informativeness. Theories suggest that advertising potentially enhances the information content of stock prices through increasing the firm visibility thereby lowering information asymmetry, reducing information cost and promoting more active private information collection and trading on such information. Employing a sample of Compustat firms spanning the period 1972-2012, we find consistent empirical evidence of a positive relation between advertising and stock price informativeness. Additionally, such advertising-induced informational benefit is more pronounced for firms that are subject more to information asymmetry. These findings are robust to the inclusion of other known determinants of price informativeness, the choice of the measure of price informativeness, different model specifications and endogeneity concern.