

ARE UNCERTAIN FIRMS RISKIER?

Baba-Yara, Davis, Grigoris, and Kantak
Indiana University

Discussion by Stephen J. Terry
U Michigan & NBER

July 2023

WHAT DOES THE PAPER PROVIDE?

1: A New Measure of Firm \times Time-Level Uncertainty

Scary Data: company \times date consumption of news articles

Fancy Measure: attention to articles with EPU topics

2: A Link to Risk

Sanity Checks: correlated with “uncertainty betas,” hedging, etc

Cost of Capital: correlated with higher firm cost of capital

3: A Link to Real Outcomes

Various Measures: growth of assets, employment, sales

Robust Finding: negatively correlated with firm-level growth

MY VIEWS

This is an interesting, well executed paper, with exciting new data and a link to both real and asset pricing literatures. Nicely done!

Will focus my discussion on:

1. Firm-level uncertainty measures
2. Flavors of uncertainty
3. Endogenous information models

MANY MEASURES OF FIRM-LEVEL UNCERTAINTY

Measure exists in a space with many other firm-level uncertainty proxies, virtually all of which are negatively correlated with real investment.

- ▶ Options-implied or realized vol (many, many papers)
- ▶ SEC statement textual analysis (e.g., Handley & Li 2020)
- ▶ Earnings call textual analysis (e.g., Hollander, et al. 2019)
- ▶ Survey uncertainty from fcst dist's (e.g., Altig, et al. 2020)
- ▶ Survey uncertainty from fcst errors (e.g., Bachmann, et al. 2013)

So what are the contributions? In my view, 1) the asset pricing notion of risk, 2) the tight empirical link to firm risk mitigation, and 3) the novel measure of firm demand for information can make this paper stand out from the crowd.

MANY FLAVORS OF UNCERTAINTY

Dramatically overgeneralizing, there are at least three major “flavors” of uncertainty floating around the literature.

Real

Uncertainty stemming from economic fundamentals at the plant, firm, or macro levels, e.g., demand, profits, productivity, etc.

Financial

Uncertainty stemming from the financial system itself, e.g., potential crises, systemic risks, intermediary balance sheets, etc.

Policy

Uncertainty stemming from policy and living at the firm, product, market, or macro levels, e.g., fiscal policy, trade policy, etc.

The distinctions often matter for causality, fundamental attribution, or first vs second moments. Does the distinction matter here? Measure is explicitly linked to EPU, i.e., the policy flavor, but correlated against many measures across categories.

A LINK TO MODELS OF INFORMATION ACQUISITION?

Literal Interpretation of the Paper

Measures the attention a firm's employees pay to particular topics, finding that attention to uncertainty goes up during (macro-level) uncertain times and during bad (firm-level) times.

Big Literature on Endogenous Information

Models of rational inattention and endogenous information acquisition include agents facing information constraints and endogenously choosing actions plus information.

A Future Paper to Write Using the Data?

Direct measures of firm attention allocation are hard to find and can offer valuable quantitative discipline. Topics broader than uncertainty alone would offer substantial variation to exploit.

WRAPPING UP

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