thus more confident about their financial futures. Utilizing data for 11 European countries, covering the period 1986 to 2001, the authors find that the positive relationship between stock prices and consumer confidence is primarily driven by expectations about the future of the economy as a whole rather than by a personal wealth effect. In addition, the positive relationship between changes in stock prices and consumer confidence and is principally a short term phenomenon (less than 1 month). These results are noted to be consistent with those observed in the United States.

Analyzing the Analysts: Career Concerns and Biased Earnings Forecasts

by Harrison Hong and Jeffrey Kubik

Journal of Finance, Vol. 58, 2003, pp. 313–346.

This extensive study examines the impact of analysts' earnings forecast accuracy and optimism on their career success. In particular, the authors investigate whether analysts who were more accurate and or more optimistic tended to have career paths leading to personally more lucrative positions in higher status Brokerage houses. While upward mobility might naturally be expected for analysts who generate more accurate forecasts, others have suggested a similar path for more optimistic analysts since their behavior would tend to generate investment banking business and greater trading commissions. The data for this study covers the histories of approximately 12000 analysts working for 600 Brokerage houses for the period 1983 to 2000. After carefully adjusting for such factors as differences in forecasting difficulty, and job duties, etc. the authors found that there was a funneling up of the more accurate earnings forecasters to the more prestigious and larger Brokerage houses. Thus, the larger and more prestigious houses tended to have earnings forecasters who were, on average, more accurate. However the statistical results also confirmed that the more over optimistic analysts also moved up the company hierarchy, but at even a faster rate than the more accurate analysts. For example, analysts who were very accurate moved up about 62% of the time, whereas the most overly optimistic analysts moved up about 92% of the time. In addition, overly optimistic analysts who worked for Brokerage firms with greater amounts of investment banking business moved up the fastest. Finally, there appears to be some truth to the allegation that Brokerage houses lost discipline during the market mania of the later 1990s. Specifically, during this period analysts' rewards appeared less sensitive to accuracy and even more sensitive to over optimism.

The Impact of Affective Reactions on Risky Decision Making in Accounting Contexts

by Kimberly Moreno, Thomas Kida and James Smith

Journal of Accounting Research, Vol. 40, 2003, pp. 1331–1349

This laboratory study examined the impact of induced affect on the risk taking behavior of professional business managers. Specifically, 121 experienced business managers were presented with accounting information on hypothetical but realistic alternative capital budgeting projects. Subjects in the experimental conditions received additional information designed to induce positive or negative affect. The decision scenarios were constructed such that there were both gain and loss versions of the capital budgeting projects. In general, the results suggested that negative and positive affective information could alter the generally recognized pattern of risk averse behavior in gain situations and risk taking behavior under loss conditions. More specifically, when positive affect was present subjects tended to become risk taking in gain contexts and more risk taking in loss contexts. Conversely, when negative affect was induced, subjects became less risk taking in loss contexts and more risk averse in gain contexts. The authors suggest that business manager's choices seemed to be based upon a decision process wherein both analysis and affect were simultaneously at work. In addition, it was quite possible for affect to have the dominant influence on a decision, especially in very uncertain situations.

What Drives Stock Price Behavior Following Extreme Day Returns?

by Stephen Larson and Jeff Madura

Journal of Financial Research, Vol. 26, 2003, pp. 113–127.

Previous studies have provided evidence of market over or under reaction. This empirical study, using market data, investigates the degree to which market over or under reaction is influenced by public "explanations" of conditions related to extreme return events. The authors define an extreme return event as a one day stock price change of 10% or more. They also define a" public explanation" related to the event as an explanation in the Wall Street Journal of firm conditions at the time of the event. Using a sample of 2,186 extreme re-