Economics Lunch

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Abstract: Psychology distinguishes between active information choices and affective, stimulus driven attention. Both are driving factors for the attention of a decision maker and are competing with each other. I present a model that incorporates this trade-off between active information choice and stimulus driven attention allocation, by assuming that the visibility or salience of information reduces the effort to gather this information. This model of information processing is applied to a simple asset pricing model. The main findings are that a higher visibility leads to a lower risk premium and more informativeness of the price. Furthermore, there exists a visibility threshold beyond which the investor decreases the attention resources spent on an information. Finally, investors will neglect an information flow, if the information flow is not visible enough.

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