

Intellectual Property Rights Protection, Analyst Attention Reallocation, and Information Environment

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Abstract

This study reveals the critical role of financial analysts in enhancing innovative firms' information environment following the strengthening of intellectual property rights (IPR) protection. Leveraging China's phased rollout of specialized Intellectual Property (IP) tribunals as an exogenous shock, we find that strengthened IPR protection incentivizes financial analysts to reallocate their attention to innovative firms. Specifically, analysts redirect their coverage and forecasting efforts toward innovative firms within tribunal jurisdictions, while reducing coverage and efforts on non-innovative firms. The increased attention toward innovative firms leads to an enhanced information environment, as evidenced by increasing forecast accuracy and decreasing bid-ask spread. Our analysis reveals that this reallocation is attributable to three primary factors of innovative firms following the strengthening of IPR protection: their enhanced growth prospects, increased information supply through patent disclosures, and elevated investor demand. The reallocation effect is more pronounced among male analysts, those with doctoral degrees, analysts with less general experience, and those with lower workloads.

Keywords: intellectual property protection; financial analysts; attention allocation; earnings forecast; information environment

JEL Codes: G14; G20; G24; M41

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