

On the Importance of Information Asymmetry:

Essays on Local Bias and Managerial Myopia

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AKADEMISK AVHANDLING

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## Abstract

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This thesis consists of three essays on home (or local) bias and one essay on managerial myopia. It is based on data from Euroclear Sweden, the book series *Owners and Power in Sweden's Listed Companies*, Nordic Investor Services, and Thomson Reuters Datastream. In the first essay, local bias is examined based on equally and value-weighted distance measurements and the share of local stocks in the portfolios of individual and institutional investors. The results suggest that investors place a larger amount of their capital in the local stocks and that the local bias is higher for institutional investors than for individual investors. In the second essay, local bias dynamics and whether investors are gaining from local biased investments are studied by controlling for the explanations of local bias that have been suggested in the previous local bias literature. The results reveal a positive state dependence in local bias although there is no gain from local biased investments. In the third essay, the effect of the mandatory IFRS adoption on foreign investments, and hence home bias is studied between different ownership origins. The results confirm that the mandatory IFRS adoption paved the way for more foreign investments. The fourth essay focuses on whether accounting performance tied bonus payments to managers and ownership concentration influence the firm's investment horizon. The results show that the annual bonus payments to managers induce managers to invest in short-term assets, while large firms and firms with concentrated ownership can induce managers to invest in long-term assets.

*Keywords:* Investor choice, home bias, local bias, state dependence, familiarity, cohort analysis, IFRS, incentives, ownership concentration, managerial myopia.

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