The Perils of Crying 'Fake News'
by Mancy Luo, Alberto Manconi, and Massimo Massa

Discussant: Asaf Manela
Washington University in St. Louis

October 2019
Textual Partisanship
Defined as ease of guessing speaker’s party by reading only their speech

- Gentzkow-Shapiro-Taddy (2019 ECTA)
  - Partisanship of congressional speech rose sharply since 1990s
  - Use DMR (Poisson per phrase)

![Graph showing average partisanship over time](image)

Source: Kelly-Manela-Moreira (2019), *Text Selection*
Textual Partisanship
Defined as ease of guessing speaker’s party by reading only their speech

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  - Partisanship of congressional speech rose sharply since 1990s
  - Use DMR (Poisson per phrase)
- Kelly-Manela-Moreira (2019 WP)
  - Text Selection model (HDMR) gives a more nuanced answer
  - Partisanship was as high in 1920s
    - Manifested in repetition
  - Since 1990s parties select entirely distinct language

Source: Kelly-Manela-Moreira (2019), Text Selection
## Partisan phrases

**US Congress, Session 114 (2015-2016)**

<table>
<thead>
<tr>
<th>Inclusion (HDMR)</th>
<th>Republican</th>
<th>#R</th>
<th>#D</th>
<th>Democratic</th>
<th>#R</th>
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<table>
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<tr>
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<th>#D</th>
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<th>#D</th>
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<td>210</td>
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<td>find way</td>
<td>453</td>
<td>541</td>
</tr>
</tbody>
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Source: Kelly-Manela-Moreira (2019), *Text Selection*
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Does the perception of a news source’s political affiliation affect its credibility?

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What this paper does

▶ Uses News Corp’s 2007 acquisition of DJNW as shock to its perceived partisanship
▶ Classifies firm/stock partisanship by political contributions
▶ Finds that post-2007
  ▶ Republican stocks are less sensitive to positive news from DJNW
  ▶ Democrat stocks are less sensitive to negative news from DJNW
  ▶ But DJNW sentiment seems unchanged
▶ Concludes that investors leave money on the table by discounting DJNW post-2007
Contribution

► One of few papers on media and finance to study bias
  ► Dyck-Zingales (2003 WP): stocks respond to type of earnings emphasized by press
  ► Solomon (2012 JF): IR firms’ spin affects both media coverage and returns
  ► Natural experiment and link to political affiliation is novel
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- Corporate political affiliation literature
  - Documents a new cost to firms when media is perceived to be partisan
Suggestion 1: Remove endogenous controls

- Baseline specification:
  \[ \text{CAR}_{it} = \alpha_t + \alpha_i + \beta_1 \text{Post}_t \times \text{Takeover}_{it} + \beta_2 \text{DJ}_t \times \text{Sentiment}_{it} + \beta_3 \text{Republican}_{it} + \]
  \[ + \beta_4 \text{Post}_t \times \text{DJ}_t \times \text{Sentiment}_{it} + \beta_5 \text{Post}_t \times \text{Republican}_{it} + \beta_6 \text{Republican}_{it} \times \]
  \[ + \text{DJ}_t \times \text{Sentiment}_{it} + \beta_7 \text{Post}_t \times \text{Republican}_{it} \times \text{DJ}_t \times \text{Sentiment}_{it} + \text{Controls}_{it-1} + \epsilon_{it} \quad (5) \]

- Controls: \textit{Firm Size, Book-to-market, Leverage, ROA, CAR(−11, −2)}
  - Independent / dependent variables?
  - Better to use fixed effects (Angrist-Pischke, 2009; Gormley-Matsa 2014)
Suggestion 2: Political affiliation is endogenous

- Even for individuals, where affiliation is highly persistent, political scientists have long appreciated its endogeneity
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- But firms especially may strategically allocate donations

Total Contributions by Party of Recipient

Source: opensecrets.org, Wells Fargo contributions

- Instrument or at least acknowledge
Suggestion 3: Triple-difference

- Current design assumes the only thing that changes in 2007 is the perceived political bias of the DJNW
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- Current design assumes the only thing that changes in 2007 is the perceived political bias of the DJNW
- But trading strategy performance suggests a preexisting trend

Figure 2 Performance of a trading strategy tracking DJNW news sentiment
Suggestion 3: Triple-difference

- Triple-diff relative to Reuters sentiment would be better
- Requires a weaker assumption of parallel trends
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- Triple-diff relative to Reuters sentiment would be better
- Requires a weaker assumption of parallel trends
- Quick look at point estimates suggest it is not there
- But again, I would remove the controls from both

<table>
<thead>
<tr>
<th>Sentiment source</th>
<th>Press Releases</th>
<th>Reuters Newswire</th>
<th>Dow Jones Newswire</th>
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<td>(1)</td>
<td>(2)</td>
<td>(4)</td>
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<tr>
<td>$DJ_{\text{Sentiment}}$</td>
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<td>0.015***</td>
<td>0.016***</td>
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<td></td>
<td>(5.36)</td>
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<td>Republican</td>
<td>0.000</td>
<td>0.001</td>
<td>-0.001*</td>
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<td></td>
<td>(0.44)</td>
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<td>$Post_{\text{Takeover}} \times DJ_{\text{Sentiment}}$</td>
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<td>0.003**</td>
<td>-0.009***</td>
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<tr>
<td></td>
<td>(1.18)</td>
<td>-2.48</td>
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<td>Republican $\times DJ_{\text{Sentiment}}$</td>
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<td>-0.001</td>
<td>0.001</td>
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<tr>
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<td>0.003**</td>
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<td>117,184</td>
<td>168,987</td>
<td>367,328</td>
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Tables 6 and 2 spliced together
Suggestion 4: Sentiment measures for alternative sources

- Sentiment scores for DJNW use proprietary RavenPack algorithm
- Scores for alternative sources use rudimentary Loughran-McDonald (2011) approach
- Non-results for Reuters could be due to measurement error
  - Table 6 shows Reuters mean sentiment increasing post-2007 ...
- Thomson Reuters News Analytics’s sentiment scores would be more comparable
- Even better, get the text and do yourself for both with same algorithm
My Take

- Paper examines a largely ignored question about how investors respond to perceived media bias
- Major improvement over existing work that treats news media as a judgment-free ice cream producer
  - Neat natural experiment
  - Careful and creative analysis
- Properly differencing out Reuters would be especially useful
Something seems weird about the t-stats reported in Table 6, perhaps a confusion between negative and parentheses?