

# **Politics and Idiosyncrasy of Information: Evidence from Financial Analysts' Earnings Forecasts in a Relationship-based Economy**

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This paper examines whether and how politics shapes the kind of information that enhances analysts' forecast accuracy in a relational economy. Since political influence is exerted on firms primarily through relationships, information about firms' performance is highly specific. Even for firms that are within the same industry, these relationships can differ significantly. We posit that politics increases the idiosyncrasy of analysts' information that is accuracy-enhancing. Using Latent Dirichlet Allocation (LDA), a topical modeling method, on a comprehensive sample of 87,332 reports of Chinese financial analysts from 2010 to 2015, we find that when political influence on firms increases, the idiosyncratic topics (i.e. topics that are specific to fewer firms) in the analysts' reports are more positively associated with their relative forecast accuracy. However, we do not find that politics influences the relation between industry-specific topics (i.e. topics that are specific to firms in the same industry) and forecast accuracy. Finally, we validate our LDA measures using the earnings component model in Ball and Brown (1967) and the stock return synchronicity model in Morck et al. (2000).

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