

Faculti Summary

<https://faculti.net/a-social-network-transmission-model/>

This video discusses the role of investor relations (IR) in facilitating the flow of information to the investment community. The focus is on how IR can enhance understanding among investors through effective communication strategies. It highlights the importance of not only sharing information but ensuring that investors process it, which can occur through social transmission—whereby information is communicated among individuals rather than solely from official sources.

The study examines how targeting specific individuals or groups, especially those with many connections (hubs), can speed up the dissemination of information through networks. If IR efforts can initially reach only a small fraction of the investor population, targeting these hubs proves beneficial. Conversely, if the initial communication can reach a large number of people directly, a more general broadcast approach may be more effective.

Furthermore, the text explains how the structure of networks, characterized by heterogeneous individuals, influences the flow of information. It models this information spread using concepts from disease propagation, as both processes involve person-to-person transmission.

The implications of information flow on bid-ask spreads in trading are also explored. Information spreads create a hump pattern in bid-ask spreads: initially low due to a few informed traders, then rising as more become informed, followed by a decline as information is fully absorbed. Rapid information flow leads to sharp initial increases in spreads followed by quick decreases, while slower information flow results in more gradual changes.

In conclusion, effective IR strategies differ depending on the ability to reach specific groups versus a broader audience, with implications for how quickly information spreads and the resulting market effects.