

## ABSTRACT FORM

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| Paper title         | Why do Sell-Side Analysts Still Prevail? Credible Optimistic Recommendation by Cheap Talk   |
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| Abstract            | <p>We investigate a cheap talk game between an analyst and an investor where the analyst's information about true state is imperfect and the combination of the optimistic bias and the precision is heterogeneous.</p> <p>Under specific conditions, there exists a Perfect Bayesian Equilibrium where the analyst's recommendation for investment decision is optimistic, and the investor who is aware of this bias still follows the recommendation.</p> <p>Our result can give some policy implications on the effectiveness of the European Union's introduction of Markets in Financial Instruments Directive (MiFID) II, which mandates the separation of brokerage and research.</p> |