Comment

Gustavo Suarez: In recent years, both theoretical and empirical economists have provided new insights that have significantly improved our understanding of the market for news. This very interesting paper by Rodrigo Taborda is a welcome addition to this area of research because of its innovative application of text analysis tools to the study of newspaper coverage of economic news in Colombia.

The paper documents three main facts. First, appreciations and depreciations of the Colombian peso–to–U.S. dollar exchange rate are not evenly covered by the most prominent Colombian newspapers. Instead, exchange rate appreciations appear to receive disproportionally more attention. Second, the language used to describe exchange rate appreciations in newspaper articles tends to make more frequent reference to "economic authorities" and "assistance" to affected groups compared with the language used to describe exchange rate depreciations. Third, the probability that the Colombian central bank intervenes in foreign exchange markets by buying dollars is positively correlated with the frequency of news covering exchange rate appreciations.

How should we interpret these three findings? The view preferred by the author is that newspapers reflect the interests of economic groups affected by exchange rate appreciations and that the central bank intervenes in the exchange market in reaction to the news coverage of appreciations. Although the results presented in the paper are indeed consistent with the preferred interpretation by the author, they cannot exclude other views, which are not explored in the paper. This suggests that it would be very useful to conduct additional research to test the view preferred by the author against alternative explanations.

The views expressed here are my own and do not necessarily reflect those of the Federal Reserve System or its Board of Governors.

Two avenues of additional research that are worth pursuing are documenting further supporting evidence for the media bias and government response view, and listing other plausible explanations for the facts and presenting explicit evidence against those alternatives. The rest of this comment discusses some alternative explanations of the main facts documented in the paper and offers some additional tests to distinguish between different interpretations of these facts.

Uneven Coverage of Appreciations and Depreciations

The author finds evidence that currency appreciations receive more intense news coverage in Colombia than currency depreciations and favors an explanation for this "bias" originating in the supply side of the markets for news. In other words, in the view of the author, journalists offer biased reporting to an ex ante unbiased public. However, alternative explanations of the uneven coverage of appreciations and depreciations may also come from the demand side of the news market (see, for example, Mullainathan and Shleifer 2005). In particular, unbiased journalists could cater to an ex ante biased public that demands biased news coverage, with the purpose of selling more newspapers or advertisement space.

A concrete demand-side explanation for the uneven reporting of exchange rate appreciations presumes journalists' exploitation of behavioral characteristics of readers. Under this view, for example, news topics that are "newer" or less common and for which affected groups are easier to identify are in higher demand by news consumers. In the context of the behavior of the exchange rate, historical data on the nominal exchange rate in Colombia published by the Colombian central bank suggest that, for many decades, exchange rate depreciation was far more common than exchange rate appreciation (see also figure 1 in the paper for the most recent history of the exchange rate). By comparison, significant exchange rate appreciation is a relatively new phenomenon. In other words, depreciation of the exchange rate is not news material in Colombia any more.

In addition, economic groups negatively affected by currency appreciation (for example, exporters) are highly concentrated, but groups negatively affected by depreciation (for example, consumers of imported goods) are widely dispersed. Newspaper articles that portray a concentrated negative effect on a small and well-defined group of individuals are likely to find more readers than those that portray a dispersed effect on a vaguely defined group.

In other words, news subjects that negatively and significantly affect a concentrated group allow the journalist to clearly identify the appropriate persons to interview and quote, so as to "put a human face" on the story.

Some evidence presented in the paper is in fact consistent with demand-side explanations of the uneven coverage of currency appreciations and depreciations. In particular, the regressions that study the determinants of the number of news articles indicate that the longer an episode of exchange rate appreciation lasts, the lower the probability of news coverage of the behavior of the exchange rate (see Taborda's table 4). This result is more suggestive of journalists' offering the kind of news the public prefers than of journalists' reflecting the view of interest groups. In particular, according to a demand-side explanation, we should expect less news coverage for longer periods of appreciation, as the phenomenon becomes more common and the news topic becomes stale. By contrast, if interest groups were the sole explanation for uneven news coverage, we should expect more coverage for longer periods of appreciation, as interest groups would likely redouble their efforts to alter media content the longer the appreciation episode took a toll on their profits.

Additional evidence could be used to make the case that organized interest groups play a central role in generating a biased coverage of exchange rate appreciations and depreciations. In particular, in future research the author could study the industry composition of the advertisement revenue for the newspaper under analysis to ask additional interesting questions that lead to testable hypotheses. For example, do newspapers receive more advertisement revenue from industries that are affected by exchange rate appreciations? Does more current news coverage of exchange rate appreciations disproportionately increase future advertisement revenue from industries that are affected by exchange rate appreciations? If more newspapers were included in the sample, the author could consider whether newspapers that rely more on advertisement revenue present more unbalanced coverage of exchange rate appreciations and depreciations.

Some additional evidence could come from studying the ownership structure of newspapers, a question that has received some recent attention in empirical work (for example, Djankov and others 2003). The converse question could also be interesting: Do the owners of newspapers that report exchange rate appreciations more intensely hold ownership stakes in industries that are negatively affected by exchange rate appreciations? Another question that can be raised to provide indirect evidence of the role of organized groups is whether journalists or editors leave newspapers for positions at organizations that represent industries affected by exchange rate appreciations.

Central Bank Intervention and News Coverage

One of the most intriguing results of the paper is the positive correlation between the probability that the Colombian central bank purchases dollars and the frequency of news about exchange rate appreciation. One possible explanation of this correlation is that the central bank reacts to news coverage of exchange rate appreciations. That the author heavily favors this view is evident from the original title of the paper.[1] However, an important alternative explanation for this correlation is omitted-variable bias in the regression of the probability of central bank intervention. In other words, variables excluded from the regression could alter the behavior of the exchange rate, both increasing the probability of news and making intervention more likely. Unfortunately for the empirical exercise at hand, there are many relevant variables that could have been omitted from the regression (for example, perceptions of differential country risk that are not embedded in interest rates).

A useful way to compare the hypothesis that the central bank responds to news coverage of appreciations with the omitted-variables explanation is to distinguish discretionary from nondiscretionary interventions by the central bank. More specifically, some interventions by the Colombian central bank during the sample period were based on predetermined rules, which are unlikely to be affected by media coverage immediately preceding the intervention. If the probability of central bank intervention is highly correlated with news coverage of appreciations only with respect to nondiscretionary policy, the case for the central bank's actually responding to news coverage would be severely weakened. On the other hand, if the probability of central bank intervention is correlated with news coverage of appreciations only with respect to the discretionary policy, the omitted-variables explanation would lose a lot of its appeal.

In conclusion, the paper documents intriguing facts by using tools that are innovative in the economics profession to study the market for news. However, the evidence provided by the paper is not conclusively supportive of the view favored by the author (that is, media capture by interest groups and policymakers' response to media coverage) to the exclusion of other explanations. The study of the very interesting facts documented by the author deserves evaluating all possible explanations for these facts in a balanced way.

1. "Bias in Economic News in Colombia: The Reporting of the Nominal Exchange Rate and the Central Bank Response."