

Political Polarization in Financial News*

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Abstract

Standard explanations for political polarization of the news do not apply to financial news. Nevertheless, comparing coverage of the same firm-specific events by newspapers with opposing ideologies, we find strong evidence of political polarization in corporate financial news on both the intensive and extensive margins of coverage. We show that politics-induced disagreement in financial news about a stock leads to an increase in trading in that stock, and herding by investors who read the same news, indicating that political polarization leads to information segregation among investors.

Keywords: Media bias, Financial news, Finance and politics, Textual analysis, Trading volume, Individual investors.

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1. Introduction

Reporting on Amazon’s quarterly earnings announcement on January 31, 2020, a *New York Times* article headline read “Amazon Powers Forward With Hefty Quarterly Profit”, while the *Wall Street Journal* headline said “Amazon Misses \$1 Trillion Milestone”. In 2020, 85% of Amazon’s employee and PAC campaign contributions supported political candidates from the Democratic Party. Is the difference in the tone of coverage between the (conservative) *Wall Street Journal* and (liberal) *New York Times* explained by the company’s political alignment with the news source, and does this affect investor behavior?

Readers seeking confirmation of their political views can lead to polarization in the coverage of political news (Mullainathan and Shleifer (2005); Groseclose and Milyo (2005); Gentzkow and Shapiro (2006)).¹ However, financial news is read not to confirm political beliefs but to inform financial decisions.² Moreover, news that is non-political in nature or *ex post* verifiable, such as weather, sports, and earnings announcements, is not expected to be politically biased (Gentzkow and Shapiro (2006)). And in fact most major newspapers have separate business and editorial page editors.

We contribute to the study of the effect of the news on investors by showing that political polarization affects financial news coverage and leads to segregation in the information sets of investors. First, we show that newspapers are more likely to publish, write longer articles, report good instead of bad news, and use more positive language in their coverage of politically aligned firms. Second, we find that disagreement in financial news about more politically active firms increases trading in their stocks. Third, we show that individual investors trade more in a stock when news about that stock appears in the newspaper they are likely to read rather than a different paper, and that they trade in the same direction as other investors who read the same newspaper.

To identify the impact of political polarization on financial news we need to measure political alignment between the newspaper and firm, and distinguish political alignment

¹Mullainathan and Shleifer (2005) show that if readers are biased then the media will report news with a slant, and Gentzkow and Shapiro (2006) show that reputation concerns will lead the media to report news that confirms readers’ prior beliefs.

²For example, Huberman and Regev (2001); Tetlock (2007); Barber and Odean (2008); Engelberg and Parsons (2011); Dougal et al. (2012); Garcia (2013); Hillert, Jacobs, and Muller (2014).

from other newspaper and firm characteristics that may also affect coverage. To address the first issue, we compare three decades of articles published in the conservative *Wall Street Journal (WSJ)* and the liberal *New York Times (NYT)* covering financial news on the 100 largest listed firms in the United States. These are the two most widely circulated national newspapers with business news sections, and their editorial pages occupy opposite ends of the political spectrum (Gentzkow and Shapiro (2010)).³ We use campaign contributions by firms to Democratic and Republican Party candidates to identify firm-level political alignment.⁴

To address the second issue we follow the methodology in Fracassi, Petry, and Tate (2016) and Kempf and Tsoutsoura (2020) and include interacted $Firm \times Time$ and $Paper \times Time$ fixed effects, which absorb time-varying firm and newspaper characteristics that can affect coverage. We show that the results are not driven by journalists' ideology, hold for the most politically extreme firms, and become more pronounced following the sale of the *WSJ* to News Corporation. We also control for firm-newspaper specific advertising expenditures and compare coverage of the same firm-specific news events.

On the extensive margin, we show that a newspaper is more likely to publish good rather than bad financial news about politically aligned firms. Specifically, compared to the *NYT*, the *WSJ* is significantly more likely to write articles that mention positive stock returns about firms that donate more to the Republican Party. We find that newspapers are also significantly more likely to cover and write longer articles about politically aligned firms. For example, the *WSJ* publishes 37% more good news articles, is 9% more likely to cover, and write articles that are 11% longer than the *NYT*, about a firm that donates only to the Republican Party versus a firm that donates only to the Democratic Party.

On the intensive margin, we find that the tone of an article varies based on the political alignment between the firm and the news source. For example, articles in the *WSJ* use 27% more positive tone than the *NYT* about firms that donate only to Republicans versus firms

³We define newspaper ideology based on Gentzkow and Shapiro's (2010) language-based measure of political slant, which identifies the *New York Times* as left of center and the *Wall Street Journal* as right of center (Figure 1 in their paper).

⁴Campaign contributions are an informative signal of a firm's politics, including the politics of top executives (Babenko, Fedaseyev, and Zhang (2020); Fos, Kempf, and Tsoutsoura (2021)), and has been widely used to measure corporate political affiliation (see Claessens, Feijen, and Laeven (2008); Cooper, Gulen, and Ovtchinnikov (2009); Aggarwal, Meschke, and Wang (2012); Ovtchinnikov and Pantaleoni (2012); Akey (2015), among others).

that donate only to Democrats.⁵ Using a sub-sample of articles written by journalists who switch jobs between the two newspapers, we control for journalist fixed effects and show that the tone of coverage depends on the firm’s political alignment with the newspaper, not the journalist.

Since polarization causes individuals to seek out news sources that match their views (Iyengar and Hahn (2009); Gentzkow and Shapiro (2011)), disagreement in financial news coverage can segregate the information sets of investors. Theory suggests that disagreement among investors about the value of a stock can lead to trade (Milgrom and Stokey (1982); Karpoff (1986); Harris and Raviv (1993)). Therefore, we test whether politics induced disagreement in financial news coverage will increase firm-level abnormal trading volume.⁶

Our results suggest that political polarization in financial news coverage increases segregation in the information sets of investors, thereby affecting investor behavior. We find that the greater the likelihood of disagreement between the two newspapers, the greater the increase in abnormal trading volume for the most politically extreme firms. For example, abnormal trading volume for a politically extreme firm is about 10% higher on days when there is disagreement in the news compared to days without disagreement. We also show that the greater the difference in the tone of coverage between the two newspapers, the greater the increase in abnormal trading volume for the most politically extreme firms. These results are not driven by major firm-specific events, news characteristics, and observable and unobservable time-varying firm factors that may be correlated with political alignment and volume.

Lastly, we provide direct evidence that individual investors respond to the news they read. We match retail brokerage data on individual investor trades to newspaper circulation data in the zipcode of the investor and study whether individual investors trade on the news. We find that individual investors trade more in a stock if the newspaper they are more likely to read publishes a story about that stock, but do not respond to news published in the

⁵An anecdote from our sample: On July 20, 2004, 3M Co. announced earnings. The *WSJ* led with: “Quarterly Net for 3M Rose 25% on Units’ Strength,” while the *NYT* reported: “3M Shares Fall in Disappointing Earnings Outlook.” In 2004, 80% of political contributions from 3M were to Republicans.

⁶In contrast, the effect of disagreement in the news on stock market returns is ambiguous if one source reports it as good news and the other as bad news. In fact, most studies find a small or temporary impact of news on stock returns (Tetlock (2007); Tetlock, Saar-Tsechansky, and Mackassy (2008); Tetlock (2010)).

newspaper they are less likely to read. We also find that financial news coverage induces herding. Investors respond to news about a stock in the newspaper they read by trading in the same direction as other investors who read the same newspaper. These results support our hypothesis that investors read different news sources and that disagreement in financial news coverage affects investor behavior.

1.1. Related literature

Our paper contributes to the politics and finance literature that finds positive effects of political connections, campaign contributions, and lobbying on firm value (see for example Fisman (2001); Faccio (2006); Borisov, Goldman, and Gupta (2016); Akey (2015)), and documents the effect of political bias on economic expectations (Mian, Sufi, and Khoshkhoh (2017); Meeuwis et al. (2019); Kempf and Tsoutsoura (2020); Cookson, Engleberg, and Mullins (2020)). For example, Mian, Sufi, and Khoshkhoh (2017) find that Republican party aligned households had more optimistic economic expectations following the 2016 election than Democratic party aligned households, Meeuwis et al. (2019) show that political party affiliation affected household investment behavior following the 2016 presidential election, Kempf and Tsoutsoura (2020) show that credit rating analysts behave in a partisan fashion based on the party of the president, which affects their broad economic outlook, and Cookson, Engleberg, and Mullins (2020) find that during the COVID-19 crisis Republican investors were more optimistic about stocks that had suffered the most. While these papers study how political biases affect the broad economic outlook of individuals, we study how political biases affect the production of information about a cross-section of firms. We find political bias in the reporting of corporate financial news based on the political alignment between firms and newspapers, and show that biased reporting influences individual investors' trading decisions.

Second, our paper is related to recent studies that examine the responses of firms and investors to political bias in the media. In a working paper, Luo, Manconi, and Massa (2020) find that following the acquisition of Dow Jones by News Corporation, stock prices of Republican firms respond less to Dow Jones Newswires sentiment although they do not find an increase in bias, which they interpret as a 'fake news' effect. In two related papers,

Baloria and Heese (2018) assume that Fox News is politically biased against Democratic firms, and show that firms affiliated with the Democratic Party that are located in markets with Fox News channels suppress bad news; and Knill, Liu, and McConnell (2019) show that firms led by Republican-leaning CEOs headquartered in regions where Fox News was introduced increased their investment expenditures during the Bush presidency. While these studies assume there is political slant in a single media outlet, we find strong evidence of political polarization in the coverage of corporate financial news, and show that this can lead to segregation in the information sets of investors.

Third, our paper is broadly related to studies that examine whether connections between firms and the media affect coverage. For example, Reuter and Zitzewitz (2006) and Gurun and Butler (2012) show that coverage may be correlated with advertising, and Dyck, Volchkova, and Zingales (2008) show that public relations by an investment fund increased coverage of corporate governance violations by Russian firms. We show that our results are robust to advertising expenditures by firms in each newspaper.

Fourth, our paper is related to the literature on the impact of financial news on markets. For example, Huberman and Regev (2001) and Tetlock (2011) observe that stock market returns respond to stale news; Barber and Odean (2008) find that individual investors buy stocks reported in the news; Fang and Peress (2009) show that media coverage reduces information frictions; Engelberg and Parsons (2011) find that local media coverage predicts local trading; Dougal et al. (2012) show that short-term returns can be predicted using fixed-effects for columnists at the *WSJ*; Garcia (2013) finds that the predictability of stock returns using news content is concentrated in recessions; Hillert, Jacobs, and Muller (2014) show that the media can exacerbate investor biases; and Ben-Rephael, Da, and Israelsen (2017) develop a measure of abnormal institutional investor attention using searching and reading activity on Bloomberg terminals, and show that the impact of news on financial markets depends on the nature of the readership. Finally, Goldman, Martel, and Schneemeier (2021) provide a theory of the informational role of financial media in selectively disseminating firm announcements. The above studies do not study political bias in the reporting of the news.

2. Data

Our sample consists of the 100 largest publicly traded firms (based on market capitalization in 2016) between 1990 and 2016 in the United States, for which we collect all news articles published in the *New York Times* and the *Wall Street Journal* that mention these firms. We focus on larger firms because they are likely to receive more news coverage. We choose the *New York Times* and *Wall Street Journal* for three reasons: First, these are the two most widely circulated national newspapers in the United States that are also important sources of business news; Second, their editorial positions occupy opposite ends of the political spectrum (Gentzkow and Shapiro (2010)), which allows us to study the effects of political polarization on financial news coverage; Third, the finance literature has used both newspapers to study the effect of financial news on markets (e.g. Huberman and Regev (2001); Tetlock (2007); Dougal et al. (2012); Garcia (2013)).

From Factiva we gather all articles from the print editions of the *New York Times* and the *Wall Street Journal* that mention any of the firms in our sample between 1990 and 2016. We collect the text of each article, section and page numbers, topic codes that classify articles, and the name of the journalist when identified. To clearly identify the content of the article with a specific firm, we focus on articles that mention either a single firm or at most two firms.

We use the standard Loughran and McDonald (2011) financial dictionary to classify the tone of a financial news article. We count the number of positive and negative words in each article to create our measures of tone, and control for the length of articles by dividing by the total number of positive and negative words in the article. Specifically we measure the tone of an article using the following three variables: $Positive\ Words / (Positive + Negative\ Words)$, which is the ratio of positive words to the total number of tone words in the article (in hundreds); $Negative\ Words / (Positive + Negative\ Words)$, which is the ratio of negative words to the total number of tone words in the article (in hundreds); and $Tone$, equal to $(Positive - Negative\ Words) / (Positive + Negative\ Words)$.

To measure a firm's political alignment, we collect data on campaign contributions made by employees and Political Action Committees (PACs) of firms from the Center for Respon-

sive Politics, which obtains the data from the Federal Election Commission. Donations are available for every two-year election cycle between 1990 and 2016. We aggregate donations to the firm level and construct the fraction of total campaign contributions by employees and firm-level PACs to Republican Party candidates in an election cycle (*% Contributions to Republican Party*), which is approximately equal to $1 - \%$ *Contributions to Democratic Party* since 98% of firm contributions go to the two parties. We match campaign contributions data from the previous two-year election cycle for each firm to each year of the financial news data. Lastly, we obtain firm-level market data from CRSP and financial characteristics from Compustat.

To study the information sets of investors and whether their trading behavior is affected by the news, we collect data on newspaper readership and trading activity. We use newspaper circulation data from the Alliance for Audited Media, which tracks the number of paid newspaper subscriptions across the United States. The data provide annual subscription information for each newspaper in 210 Designated Market Areas (DMAs). We match the circulation data to a large discount brokerage dataset on individual investors from Barber and Odean (2000). The brokerage data are from 1991 to 1996, which makes it well suited to examine the impact of printed news since it predates most online news. Using zip codes, we identify the DMA from the newspaper circulation data associated with each investor in the brokerage data. For each year, we classify each investor into one of two groups, DMA_{WSJ} and DMA_{NYT} , based on which newspaper has the largest circulation in that year in the DMA where the investor is located. DMAs with more subscriptions to the *NYT* are mostly concentrated in the Northeast region during this period, while those with more subscriptions to the *WSJ* are more geographically dispersed.⁷

Lastly, we obtain advertising data from Kantar Media. These data report advertising expenditures for each firm in each newspaper starting in 1995. We use these data to control for newspaper-specific advertising expenses by each firm.

⁷The five DMAs with the highest *New York Times* subscriptions during this period are: New York, CT-NJ-NY-PA; Albany-Schenectady-Troy, MA-NY-VT; Binghamton, NY-PA; Hartford-New Haven, CT; and Elmira, NY. The top five DMAs for the *Wall Street Journal* are: Bakersfield, CA; Beaumont-Port Arthur, TX; Monroe-El Dorado, AR-LA; Cheyenne-Scottsbluff-Sterling, NE-WY; and Casper-Riverton, WY.

Tables 1 and 2 report summary statistics that describe the data. From Table 1 Panel A, we observe that firms in our data donated about \$900,000 on average per election cycle, of which 54% was to Republican Party candidates and 44% to Democratic Party candidates. The remaining contributions are to third party and independent candidates. Table 1, Panel B describes the size, profitability, market value, abnormal trading volume, and total advertising expenditures of the firms in our sample. On average, firms spent over \$1 million advertising in both the *NYT* and the *WSJ* during the sample period.

Table 2 describes the number of articles and the tone of financial news coverage in both newspapers. On average, both newspapers write between 1600 to 1700 articles about each firm in our sample over the sample period. Both the *WSJ* and the *NYT* use more negative than positive words, and the number of positive and negative words used is similar across both newspapers, which shows that the papers use similar tone in their coverage and our results will not be driven by systematic differences in tone between the two papers.

3. Empirical Strategy

To identify the impact of political polarization on financial news we need to address the concern that newspapers may choose to cover particular firms and report with a slant for reasons other than politics. For example, coverage may vary because the newspaper focuses on specific topics, or because the firm advertises in the paper. Coverage may also vary between the two newspapers because they cover different firm-specific events, or because of the political ideology of the journalist rather than the newspaper. Firms can also be subject to idiosyncratic shocks that lead to differences in coverage that are unrelated to their political alignment with the newspaper.

Our identification strategy removes these confounding effects in the following ways: First, in the most restrictive specifications we include firm-time fixed effects so that we compare coverage of the same firm at the same time between the two papers. We also include newspaper-time fixed effects, which controls for newspaper-specific idiosyncratic shocks that can drive changes in coverage over time. In addition, we control for journalist fixed effects and show that the results are driven by political alignment between the firm and the newspaper and not the journalist. We also control for advertising by firms in each newspaper.

Lastly, we control for topic fixed effects, using two-digit topic codes from Factiva, to ensure coverage of similar topics across the papers.

We also conduct a number of robustness checks: (i) We estimate our main specifications for firms that are at the political extremes to establish that the results are about politics; (ii) we use the acquisition of the *Wall Street Journal* by News Corporation as a shock that may have shifted the ideology of the paper further to the right; (iii) we compare articles written on the same day about the same firm in both newspapers to show that the results are not driven by newspapers covering different news events, and (iv) we show that the results are robust in a sub-sample of articles that originate in the financial news section and articles about earnings announcements.

4. Likelihood of financial news coverage

The media “may not be successful much of the time in telling people what to think, but it is stunningly successful in telling its readers what to think about” (Cohen (1963)). In this section, we study coverage along the extensive margin.

4.1. Likelihood that article is in politically aligned newspaper

We start by studying the relative likelihood that an article in our data is published in the *Wall Street Journal* or the *New York Times* based on the firm’s political alignment with the newspaper.⁸ To ensure that the articles are about a specific firm, we conduct the analysis on the sub-sample of articles that mention only 1 firm and estimate the following linear probability specification:

$$Pr(Coverage_{i,j,t} = 1) = \beta Political\ Alignment_{i,t} + \alpha_i + \alpha_t + \alpha_{Topic} + \epsilon_{i,j,t} \quad (1)$$

where *Coverage* is equal to 1 if an article about firm *i* is in the *Wall Street Journal* and zero if it is in the *New York Times*, and *j* denotes the newspaper. We control for firm, quarter, and two-digit topic fixed effects.⁹ Our baseline measure of political alignment is

⁸We do not study the likelihood that there is an article about a firm on any given day because on most days there are no articles.

⁹In this specification we do not include newspaper fixed effects because they are collinear with the dependent variable, or firm-time fixed effects because they are collinear with the political alignment variable.

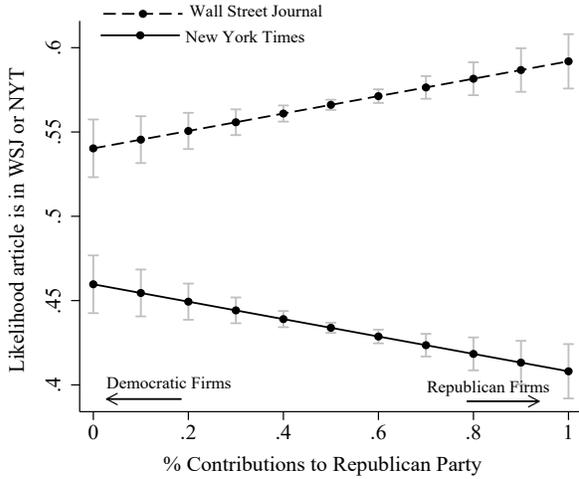


Figure 1A: Likelihood article is in WSJ or NYT

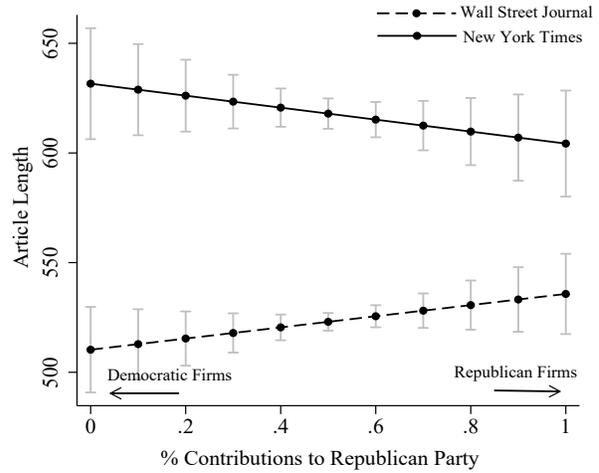


Figure 1B: Article Length

Figure 1: Results from Table 3 of likelihood of coverage and article length as a function of % *Contributions to Republican Party*. Figure 1A (left) describes the likelihood that an article about a firm appears in the *WSJ* (dashed line) or the *NYT* (solid line). Figure 1B (right) describes article length (total words) in the *WSJ* (dashed line) and *NYT* (solid line). Spikes represent 90% confidence intervals for the coefficient estimates.

% *Contributions to Republican Party*. In Section 7.3 we study the most politically extreme firms in the top 20th percentile of donations to either political party. The main parameter of interest is β , which captures the differential likelihood that on a given day an article about a firm will appear in the politically aligned paper. The results from estimating model (1) are reported in Table 3, columns (1) and (2).

Figure 1A describes the results from column (2) of Table 3 with the predicted likelihood that an article in our data about a firm appears in either paper as a function of the political alignment between the firm and the newspaper. In the graph we also show the linear prediction using *NYT* as the dependent variable, which is equal to 1 if the article appears in that paper. The upward sloping (dashed) line for the *WSJ* shows that an article about a firm that donates primarily to Republican Party candidates is disproportionately more likely to appear in the *WSJ* than an article about a firm that donates primarily to Democratic Party politicians. The downward sloping (solid) line for the *NYT* illustrates the negative re-

All our results are robust to using alternative time variables including year and election cycle. Lastly, in unreported estimates we find similar results using the sample of articles that mention at most 2 firms.

relationship between campaign contributions to Republicans and the likelihood that an article appears in that newspaper.

We report results without fixed effects in column (1) of Table 3 and include firm, quarter, and two-digit topic fixed effects in column (2). As suggested by Figure 1A, the results show that articles about firms that donate more to the Republican Party are significantly more likely to appear in the *WSJ* than in the *NYT* (columns (1) and (2)). From column (2), compared to a firm that donates only to Democrats, an article about a firm that donates only to Republicans has a 9% higher chance of being in the *WSJ* than the *NYT*, relative to the mean.¹⁰

4.2. Length of article

Next, we study whether newspapers write longer articles about politically aligned firms.¹¹ We estimate model (2) below with the dependent variable equal to the total number of words in an article:

$$Words_{i,j,t} = \beta \text{WSJ} \times \text{Political Alignment}_{i,t} + \alpha_{i,t} + \alpha_{j,t} + \alpha_{Topic} + \epsilon_{i,j,t} \quad (2)$$

where *Words* is equal to the total number of words in an article, and the main variable of interest is the interaction between the indicator variable *WSJ* and the political alignment measure, *% Contributions to Republican Party*. In the most restrictive specification we control for firm-quarter-year and newspaper-quarter-year fixed effects to absorb variation in length of coverage arising out of firm-specific and paper-specific idiosyncratic shocks. We also include two-digit topic fixed effects. The results are reported in Table 3, columns (3)-(6). The key parameter of interest is β , which captures whether newspapers write longer articles about politically aligned firms.

In Figure 1B, we describe the predicted article length in the two newspapers as a function of political alignment, from the coefficient of the interaction between *WSJ* and *% Contributions to Republican Party* reported in column (4) of Table 3. The upward sloping line for

¹⁰Calculated as $\hat{\beta}/\bar{y}$, where $\hat{\beta} = .052$ and $\bar{y} = 56\%$.

¹¹The positive relationship described in Table 3 could arise if the *WSJ* prints more articles than the *NYT*, and more firms are aligned with the Republican Party. In contrast, length and tone are unlikely to be driven by a mechanical correlation.

WSJ (dashed line) shows that the paper writes longer articles about firms that donate more to Republican Party candidates. In contrast, the downward sloping line for *NYT* (solid line) shows that the paper writes shorter articles for firms that donate more to the Republican Party.

We report results without fixed effects in column (3) and progressively include more restrictive fixed effects in the remaining columns. The positive and statistically significant coefficient of the interaction between *WSJ* and campaign contributions confirm the results described in Figure 1B. The *Wall Street Journal* writes longer financial news articles about more Republican firms compared to the *New York Times*, which writes longer articles about more Democratic firms. From the coefficient of the interaction term in column (5), the *WSJ* writes 11% longer articles than the *NYT* about a firm that donates only to Republicans versus a firm that donates only to Democrats, relative to the mean.¹² The coefficient is still positive but no longer statistically significant when we control for the most restrictive set of fixed effects. In unreported estimates we find that in the sample of articles that mention at most 2 firms this coefficient is statistically significant.

4.3. Likelihood of covering good versus bad news

Does the likelihood of coverage depend on whether the news is good or bad? Newspapers may be quick to highlight good news about a politically aligned firm, but may choose not to report on the firm when the news is bad. The challenge lies in objectively measuring good and bad news. To address this issue, we use the reported sign of the firm’s stock returns in the article. Specifically, we examine whether a newspaper’s political alignment with a firm affects its propensity to mention positive versus negative returns in the firm’s stock.

We search for any sentences describing the firm’s stock returns, share price, etc. and determine whether the sentence describes positive returns (e.g., “share prices rose”, “prices soared”, “positive return”, etc.), or negative returns (e.g., “stock price fell”, “prices were down”, “negative return”, etc.). We then aggregate the number of times a newspaper reports positive returns and negative returns for each stock during each 2-year election cycle, and create the variable *% Good News* as the number of articles that mention positive returns

¹²Calculated as $\hat{\beta}/\bar{y}$, where $\hat{\beta} = 89.3$ and $\bar{y} = 500$.

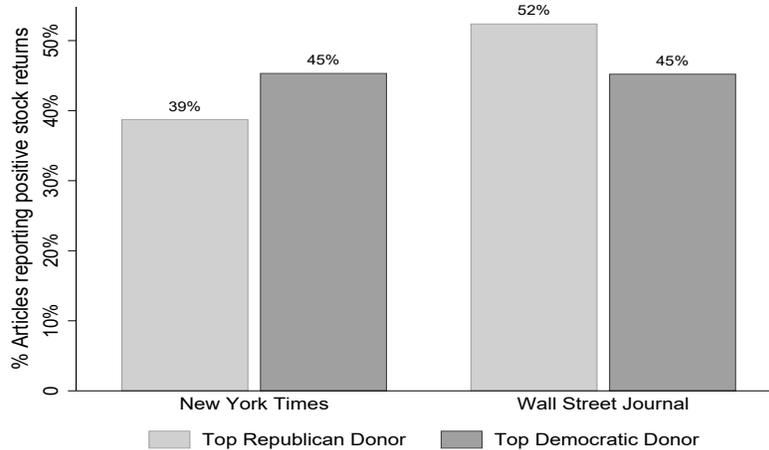


Figure 2: Percent of articles that mention positive returns about firms in the top 20th percentile of campaign contributions to the Republican and Democratic Parties, in the *New York Times* and *Wall Street Journal*.

divided by the total number of articles mentioning either positive or negative returns about a stock in each newspaper. To reduce noise, we require a minimum of 1 mention per quarter, on average, during a given election cycle.

Figure 2 describes the frequency with which the *New York Times* and the *Wall Street Journal* report on positive stock returns for *Top Republican Donor* and *Top Democratic Donor* firms. The summary statistics suggest that newspapers are more likely to publish positive stock returns news about politically aligned firms.

We estimate the following model:

$$\% \text{ Good News}_{i,j,t} = \beta \text{ WSJ} \times \text{Political Alignment}_{i,t} + \alpha_{i,t} + \alpha_{j,t} + \epsilon_{i,j,t} \quad (3)$$

where i denotes the firm and j the newspaper and the variables are described above. Our empirical strategy compares coverage of the same firm between the two newspapers and includes firm-cycle-year and newspaper-cycle-year fixed effects.¹³ The key parameter of interest is β , which captures whether newspapers write more articles that mention positive returns about politically aligned firms. The results are reported in Table 3, columns (7)-(10).

¹³The news variables are constructed at the cycle level because there are not many articles that mention positive or negative stock returns at the quarter level for each firm - particularly articles that mention only one firm.

The regression results show that newspapers report significantly more favorable financial news articles about politically aligned firms. The positive coefficient of the interaction term *WSJ* × % *Contributions to Republican Party* in columns (7)-(10) shows that compared to the *NYT*, the *WSJ* is significantly more likely to publish articles that mention positive stock returns about firms that donate more to the Republican Party. From the coefficient of the interaction term in column (8), we find that the *WSJ* writes 37% more good news articles than the *NYT* about a firm that donates only to the Republican Party compared to a firm that donates only to the Democratic Party, relative to the mean.¹⁴

5. Tone of financial news coverage

We study whether political polarization affects newspaper coverage on the intensive margin by comparing the tone of coverage based on political alignment between the firm and newspaper. We estimate the following specification:

$$Tone_{i,j,t} = \beta \text{WSJ}_{j,t} \times \text{Political Alignment}_{i,t} + \alpha_{i,t} + \alpha_{j,t} + \alpha_{Topic} + \epsilon_{i,j,t} \quad (4)$$

We use two measures of article tone: *Positive Words* / (*Positive + Negative Words*), which captures positive tone and $Tone = (Positive - Negative Words) / (Positive + Negative Words)$, which captures the difference in positive and negative words. *Political Alignment* is described previously. We use two way clustered standard errors at the firm and quarter-year level.

The main parameter of interest is β , which captures how the *Wall Street Journal* covers politically aligned firms (firms that donate more to Republican Party candidates), compared to the *New York Times*. We remove potential confounding factors by comparing coverage of the same firm between the two newspapers and controlling for firm-quarter-year fixed effects and paper-quarter-year fixed effects, which shuts down variation in coverage stemming from firm-specific and newspaper-specific idiosyncratic shocks.

In Figure 3A, we describe the predicted values of positive words in an article as a function of political alignment from the regression results in column (2) of Table 4. The downward slope for the *New York Times* (solid line) shows that it uses fewer positive words in articles

¹⁴Calculated as $\hat{\beta}/\bar{y}$, where $\hat{\beta} = .17$ and $\bar{y} = 46\%$.

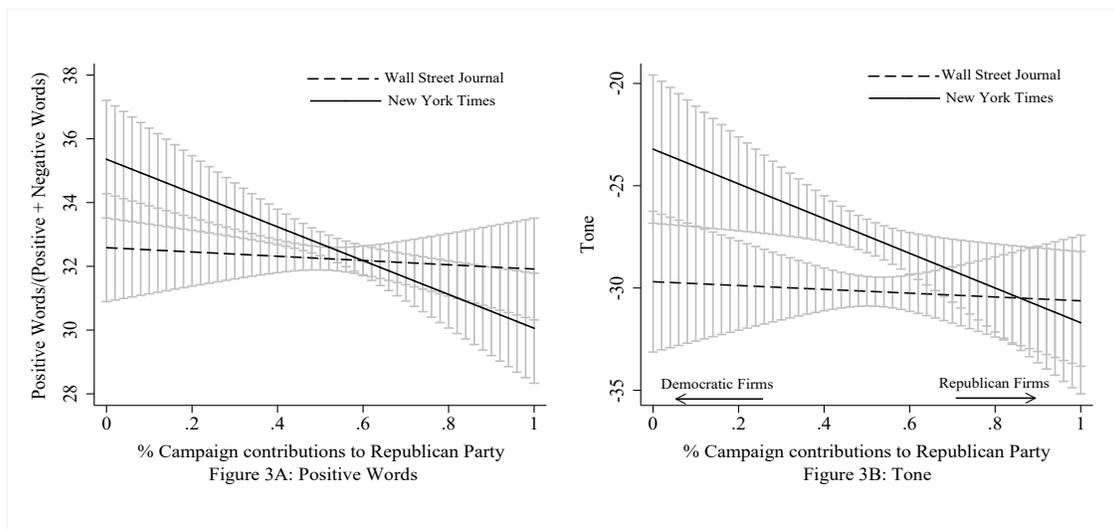


Figure 3: Results from Table 4 of number of positive words and tone in an article as a function of % *Contributions to Republicans*. Figure 3A (left) describes results from Table 4, column (2) for *Positive Words/(Positive Words + Negative Words)* in the *WSJ* (dashed line) and the *NYT* (solid line). Figure 3B (right) describes results from Table 4, column (6) for *Tone* in the *WSJ* (dashed line) and the *NYT* (solid line). Spikes represent 90% confidence intervals for the coefficient estimates.

about firms that donate more to the Republican Party. In contrast, the *Wall Street Journal* (dashed line) does not appear to write more positively about politically aligned firms.

In Table 4, columns (1)-(4) we describe the results from estimating model (3) with *Positive Words/(Positive + Negative Words)* as the dependent variable. We start by reporting the results without any fixed effects and include more restrictive fixed effects in the remaining columns. The coefficient of the interaction between % *Contributions to Republican Party* and *WSJ* in columns (1)-(4) is positive and statistically significant, which suggests that compared to the *NYT*, financial news coverage in the *WSJ* is more positive for firms that are aligned with the Republican Party, and less positive for firms that are aligned with the Democratic Party. This coefficient remains stable as we saturate the model with more restrictive fixed effects suggesting that firm and newspaper-specific idiosyncratic shocks do not bias our estimates.

The results are also economically significant. From the coefficient of the interaction term in column (2) of Table 4, we find that the *WSJ* uses 14% more positive words than the *NYT*

about a firm that donates only to the Republican Party versus a firm that donates only to the Democratic Party, relative to the mean.¹⁵

In Figure 3B we describe the results from column (6) of Table 4 comparing the predicted tone of coverage across the two newspapers as a function of political alignment. The downward sloping predicted tone for the *NYT* (solid line) suggests that firms that donate more to the Republican party receive less positive coverage in that newspaper. In contrast, the tone of coverage in the *WSJ* does not appear to vary significantly based on political alignment with the firm (dashed line).

In Table 4, columns (6)-(9) we report the results from estimating model (3) with *Tone* as the dependent variable, and the interaction between *WSJ* and political alignment as the main explanatory variable of interest. To save space we do not report results without fixed effects but these are similar in magnitude and significance to the results in column (6). The results confirm that the tone of coverage in the *NYT* is less positive than the tone in the *WSJ* for Republican-leaning firms. From the coefficient of the interaction term in column (6), we find that the *WSJ* is 27% more positive than the *NYT* about a firm that donates only to the Republican Party versus a firm that donates only to the Democratic Party, relative to the mean.¹⁶ The coefficient of the interaction term retains its positive sign but is not statistically significant in column (8), although in unreported estimates using the sample of articles that mention 2 firms it is statistically significant.

In unreported estimates we find no difference in negative coverage based on political alignment. Together with the results about good news in Section 4.3, it appears that differences in coverage based on political alignment are driven by differences in positive coverage between newspapers.

5.1. Journalist versus newspaper ideology

We show that our results are explained by the newspaper’s political alignment with the firm rather than the journalist’s ideology. Specifically, we identify journalists who write for both newspapers and study the sub-sample of articles written by journalists who switch jobs

¹⁵Calculated as $\hat{\beta}/\bar{y}$, where $\hat{\beta} = 4.63$ and $\bar{y} = 32$.

¹⁶Calculated as $\hat{\beta}/\bar{y}$, where $\hat{\beta} = 7.7$ and $\bar{y} = 29$.

between the *New York Times* and the *Wall Street Journal*. We restrict the sample to journalists who have written at least one article in the financial news sections of both newspapers. During this period, 165 journalists wrote at least one article for both newspapers.

In Table 4, columns (5) and (9) we compare the tone of articles written by the same journalist when they worked for either newspaper by including journalist fixed effects in addition to firm, newspaper, topic, and election cycle fixed effects. Thus, we control for firm and newspaper characteristics and electoral cycle shocks, while addressing the fact that journalists may be influenced by their personal politics.

The results reported in Table 4, columns (5) and (9) are similar to the baseline results, indicating that when journalists switch newspapers, they adopt the ideology of their new employer in their reporting. A journalist who switches from the *New York Times* to the *Wall Street Journal* uses more positive words (column (5)) and a more positive tone (column (9)) about firms that donate more to the Republican Party. These results support our hypothesis that political alignment captures the ideological affinity between the firm and the newspaper.

6. Political bias in financial news and investor behavior

Our results show that political polarization can generate disagreement in the reporting of corporate financial news. Since polarization causes individuals to seek out news sources that match their views (Iyengar and Hahn (2009); Gentzkow and Shapiro (2011)), this may segregate the information sets of investors. Theory suggests that disagreement among investors is central to trading in financial markets (Milgrom and Stokey (1982); Karpoff (1986); Harris and Raviv (1993)).¹⁷ Therefore, we study whether disagreement in financial news due to political polarization is correlated with abnormal trading volume.

Empirically, it is challenging to determine that financial news affects markets since news is also more likely to be reported when there are newsworthy events that affect markets. We start with a sub-sample of news days with exactly two articles on a given firm, which eliminates major news events when there are likely to be more articles about a firm, and

¹⁷Empirically, investor disagreement has been linked to portfolio choices (Meeuwis et al. (2019)) and trading volume (Xiong (2013); Carlin, Longstaff, and Matoba (2014)), generated by differences in information sets (Cookson and Niessner (2020)).

ensures similar levels of coverage across newspapers. We also control for major events by including the total number of articles about a firm on a given day in all 30,000 news sources on Factiva. We then compare days on which both articles are printed in one newspaper to days on which one article is printed in each newspaper. If there is disagreement in coverage due to political polarization, then we expect abnormal trading volume to be higher on days when the news is reported in both newspapers, rather than days on which the same amount of coverage is concentrated in one newspaper.

In a second test, we use the full sample of trading days to study whether disagreement in the tone of coverage between the two papers affects abnormal trading volume. We test the hypothesis that if polarization leads to information segregation, then the greater the difference in the tone of coverage between the two newspapers, the higher will be abnormal trading volume.

6.1. Abnormal trading volume and disagreement

We start with a sub-sample restricted to days on which there are exactly two articles that mention just one firm in either one or both newspapers and estimate the model below:

$$\begin{aligned}
 \text{Abnormal Volume}_{i,t} = & \beta_1 \text{High Disagreement}_{i,t} + \beta_2 \text{High Disagreement}_{i,t} \times \text{Top Donor}_{i,t} \\
 & + \beta_3 X_{i,t} + \alpha_{i,t} + \epsilon_{i,j,t} \quad (5)
 \end{aligned}$$

where *Abnormal Volume* is the dollar trading volume on day t divided by the average daily dollar trading volume for the same stock over the previous 30 days;¹⁸ *High Disagreement* is equal to one if there is one article in each newspaper that mentions the firm, and equal to zero if both articles are reported only in one paper; *Top Donor* is an indicator variable that is equal to one if the firm is in the top 20th percentile of campaign contributions in the sample to either Republican or Democratic Party candidates in a given cycle; and $X_{i,t}$ includes stock characteristics that affect abnormal volume including *Absolute Returns*, *Lagged Absolute Returns*, and *Lagged Abnormal Volume*. To further control for major news events, we include

¹⁸We find similar results using average daily dollar trading volume look-back windows of 90 days, 180 days and 1 year.

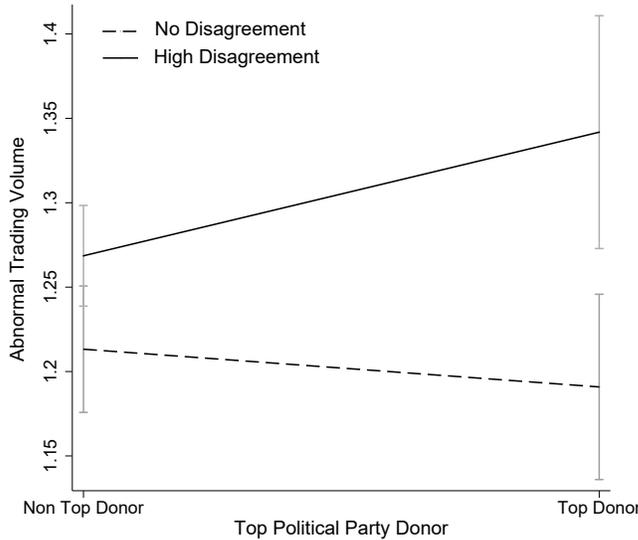


Fig. 4A: Disagreement in coverage and Abnormal Trading Volume

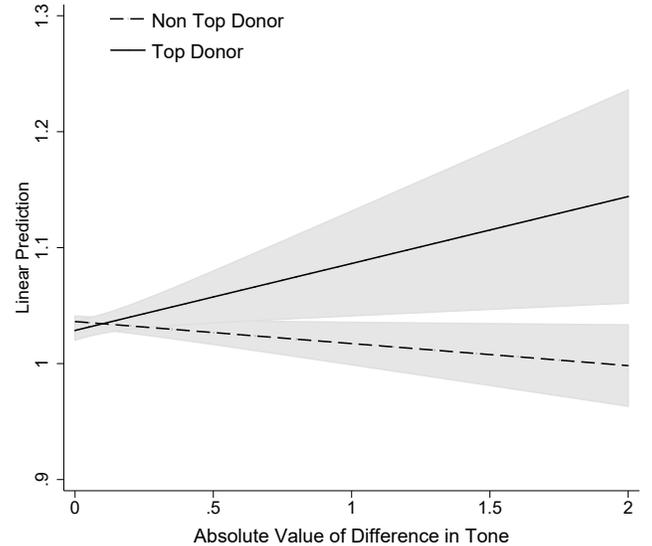


Fig. 4B: Disagreement in tone of coverage and Abnormal Trading Volume

Figure 4: Describes the linear prediction of *Abnormal Trading Volume* relative to previous 31 days from Table 5. Figure 4A (left) compares abnormal volume on *No Disagreement* days (dashed line) to *High Disagreement* days (solid line) based on whether the firm is a top political party donor. Figure 4B (right) compares abnormal trading volume for firms that are top donors (solid line) to those that are not top donors (dashed line) as a function of the absolute value of the difference in the tone of coverage between the two newspapers. Shaded area represents 90% confidence intervals.

the total number of articles about a firm on a given day across all 30,000 news sources in Factiva (*Total Number of Articles*) and article length (*Total Words*), since there is likely to be more coverage and longer articles about major events. Lastly, we include firm-quarter-year fixed effects to absorb time-varying firm characteristics and use two way clustered standard errors at the firm, quarter level. The results are reported in Table 5, columns (1)-(4).

Our main parameter of interest is β_2 , the coefficient of the interaction between disagreement and *Top Donor*. The identification assumption is that any systematic differences between stocks that are covered in one versus both papers do not interact differentially between top and non-top political donors. This is a reasonable assumption because if newsworthy events instead of disagreement drive volume, such events are unlikely to occur exclusively for more politically active firms.

In Figure 4A we describe linear prediction of abnormal trading volume from the results reported in column (3) of Table 5. Comparing “no disagreement” days (dashed line) to “high

disagreement” days (solid line), the graph shows that predicted abnormal trading volume is higher for more politically extreme firms compared to less politically extreme firms when there is disagreement in the news.

We start by reporting results with *High Disagreement* in column (1) of Table 5 and introduce the interaction with politically extreme firms in columns (2)-(4). The positive and statistically significant coefficient of *High Disagreement* shows that abnormal trading volume is significantly higher on days when both newspapers publish an article about the firm. In the remaining columns, we study the interaction of this variable with *Top Donors*.

We report results without fixed effects in column (2), and include more restrictive fixed effects in the remaining columns. We find that trading volume is significantly higher on days when there is more disagreement in coverage compared to days with no disagreement, and this is driven by the most politically extreme firms. The coefficient of the interaction between *High Disagreement* and *Top Donor* is positive and statistically significant across all specifications, indicating that the increase in abnormal trading volume is greater for politically extreme firms. From the coefficient of the interaction between *Top Donor* and *High Disagreement* in column (4) of Table 5, we find that abnormal trading volume for a politically extreme firm is 10% higher on days when there is disagreement compared to days without disagreement.

6.2. Disagreement in tone and abnormal trading volume

Next, we study whether abnormal trading volume is related to differences in the tone of coverage. To capture variation in tone we use the full sample of trading days between 1990 and 2016, which includes days on which there are no articles, and estimate the following specification:

$$Abnormal\ Volume_{i,t} = \beta_1\ Tone\ Differences_{i,t} \times Top\ Donor_{i,t} + \beta_2 X_{i,t} + \alpha_{i,t} + \epsilon_{i,j,t} \quad (6)$$

The *Abnormal Volume* variables and firm specific control variables are described under model (5). We use three measures of *Tone Differences*: *Difference in Positive Words* $_{i,t} = |(\frac{Positive\ Words}{Total\ Words})_{i,t}^{WSJ} - (\frac{Positive\ Words}{Total\ Words})_{i,t}^{NYT}|$; *Difference in Negative Words* $_{i,t}$; and *Difference in*

$Tone_{i,t}$, which are constructed similarly, for all articles that mention a given firm. On days when there are no articles, this variable is equal to zero.

We control for major events that are likely to have more news coverage by including *Number of Articles*, which is the total number of articles published in both newspapers on a given day about a firm. We also control for firm-quarter-year fixed effects, which absorb time-varying firm-specific factors that may affect volume, and use two-way clustered standard errors at the firm, quarter level. The results are reported in columns (5)-(9) of Table 5.

In Figure 4B we describe the results from column (8) of Table 5, which reports the predicted abnormal trading volume for the most politically extreme firms as a function of the absolute value of the difference in the tone of coverage between the two newspapers. The positive slope of “Top Donor” (solid line) compared to the negatively sloped line for non top donors (dashed line) suggests that abnormal trading volume is higher for more politically active firms compared to less politically active firms on days on which there is greater disagreement in the tone of financial news coverage about a firm between the two newspapers.

We start by reporting results without fixed effects in column (5) of Table 5, and include more restrictive fixed effects in subsequent columns. The results show that disagreement in tone between the two newspapers is associated with higher abnormal trading volume for firms at the political extremes. The coefficients of the two interaction terms, *Top Donor* \times *Difference in Positive Words* and *Top Donor* \times *Difference in Negative Words* in columns (5)-(7) of Table 5 are positive and statistically significant showing that the greater the difference in positive and negative words between the two papers, the higher the trading volume for more politically extreme firms.

Using absolute differences in *Tone* between the two newspapers in columns (8) and (9) we observe a similar pattern. Abnormal trading volume is higher when there is more disagreement in news coverage about a firm, and this difference is greater for the most politically extreme firms. For example, from column (9) of Table 5 we find that comparing days with no difference in tone to days with the maximum difference in tone, daily abnormal trading volume is 16% higher for a top political donor compared to a non-top political donor.¹⁹

¹⁹Calculated as $\hat{\beta} \times \max[\text{Difference in Tone}]$, where $\beta = .08$ and $\max[\text{Difference in Tone}] = 2$

Consistent with the theory that disagreement between investors is key to trading in stock markets, our results show that politics generated disagreement in financial news coverage is associated with higher abnormal trading volume.

6.3. Readership and herding behavior

Another way in which the political polarization of financial news can impact readers is through their trading decisions. Using individual investor trades and newspaper circulation data we examine whether investors respond to news published in the paper they are more likely to read, and whether investors herd with other investors who read the same newspaper.

Using the large discount brokerage dataset from Barber and Odean (2000), which has data on individual investor trades,²⁰ we match investors by their zipcode to annual newspaper circulation data in that zipcode. Each year, we classify each investor into one of two information groups, DMA_{WSJ} and DMA_{NYT} , based on whether the *WSJ* or the *NYT* has the largest number of paid subscriptions in the investor’s zipcode. We assume that an individual investor is more likely to read the newspaper with the highest circulation in the zipcode where they live.

For these two groups of investors, we aggregate daily dollar trading volume in a given stock for each group and divide that number by the trailing average over the previous year in the same group. This normalization allows us to compare investment behavior across the two groups even if the total number of investors and trades are not always balanced.²¹

For each day, and for each stock, we have two observations, one for the set of investors living in the DMAs that are more likely to read the *WSJ*, and one for those in the DMAs that are more likely to read the *NYT*. To study the reaction of investors to the news we estimate the following model:

$$Abnormal\ Volume_{i,j,t} = \beta_1 News\ Read_{i,j,t} + \beta_2 News\ Other_{i,j,t} + \beta_3 X_{i,t} + \alpha_{DMA} + \alpha_{i,t} + \epsilon_{i,j,t} \quad (7)$$

²⁰These data are for the years 1991 to 1996, which pre-dates online news, making it particularly well suited to examine the impact of print articles in newspapers on investor trading behavior.

²¹Average daily dollar trading volume is \$1.3 million in the sample stocks from the DMA_{WSJ} investors. The investors in DMA_{NYT} have an average daily dollar trading volume of about \$0.1 million in our sample stocks.

where i refers to the stock, and $j \in (NYT, WSJ)$ is the DMA group where the investor lives based on which newspaper has higher circulation. We regress abnormal daily dollar trading volume on *News Read* and *News Other*, which are binary variables indicating whether there was at least one article that mentions the firm on a given day, published in the newspaper with more subscriptions and fewer subscriptions respectively in the zipcode where the investor lives. We include fixed effects for the DMA where the investor lives to control for differences in regional characteristics between the two groups of investors. The control variables in $X_{i,t}$ include absolute returns and lagged absolute returns. Additionally, we control for firm-year fixed effects and use two-way clustered standard errors at the firm, year level.

In Table 6, columns (1)-(3) we report the results from estimating model (7), which show that investors respond to news printed in the newspaper they are more likely to read. In column (1) we find that abnormal trading volume is positively related both to news printed in the newspaper that an investor is more likely to read (*News Read*) and to news in the other newspaper (*News Other*). But, controlling for firm and firm-year fixed effects in columns (2) and (3), we find that investors respond only when news about a stock is printed in the newspaper they are more likely to read and not when it is printed in the other newspaper.

We also show that investors trade in the same direction as other investors who are likely to read the same newspaper. Using the aggregated dollar value of all buys and sells in each of the two information groups, DMA_{WSJ} and DMA_{NYT} , for a given stock on a given day we measure the signed dollar volume as the total sells minus the total buys. Using the absolute value of this measure, we divide by its 365-day trailing average. The variable *Herding* captures herding or agreement between traders. It is greater than one in value when investors behave more similarly - mostly buying or mostly selling - than they have over the previous year, on average. We hypothesize that if investors respond to the news they read, then herding will be stronger when news is published in the newspaper that the investors are more likely to read, than when news is published in the paper they are less likely to read.

Table 6, columns (4)-(6) provides the results with *Herding* as the dependent variable, and the main explanatory variables *News Read* and *News Other*. Controlling for firm and time fixed effects, we find that investors herd with other investors who read the same newspaper

when news about a firm is published in that paper, but not when the news is published in the other newspaper (columns (4) and (5)).

These results suggest that differences in exposure to the news printed in the *WSJ* versus the *NYT* directly affects investors' trading behavior. Investors trade more if news about a stock is published in the newspaper they are more likely to read, than if it is published in a newspaper they are less likely to read, and investors trade in the same direction as other investors who read the same paper when news about a stock appears in that paper.

7. Robustness checks

7.1. Advertising expenditures

We show that our results are not explained by firms influencing coverage in the newspaper through advertising. Below, we include quarterly advertising expenses (divided by total assets) by each firm in the newspaper publishing an article about the firm, as a control variable in the baseline regressions.

The results in Table 7 are similar to the baseline results reported in Tables 3 and 4. In column (1) of Table 7 we show that the average likelihood that an article in our data is published in the *WSJ* rather than the *NYT* remains significantly higher for a firm that donates more to the Republican Party, controlling for advertising expenses by that firm in the newspaper publishing the article. In column (2) the interaction between *WSJ* and % *Contributions to Republicans* shows that on average the *WSJ* writes longer articles about firms that donate more to the Republican Party after controlling for firm-level advertising expenses in either newspaper. Columns (3) and (4) show that the *WSJ* uses more positive words and a more positive tone than the *NYT* in articles about firms that donate more to the Republican Party. *Advertising Expenses/Assets* has a negative and statistically significant coefficient on the likelihood that an article is published in the *WSJ* although the magnitude is small. It is not significantly different from zero in the remaining specifications.

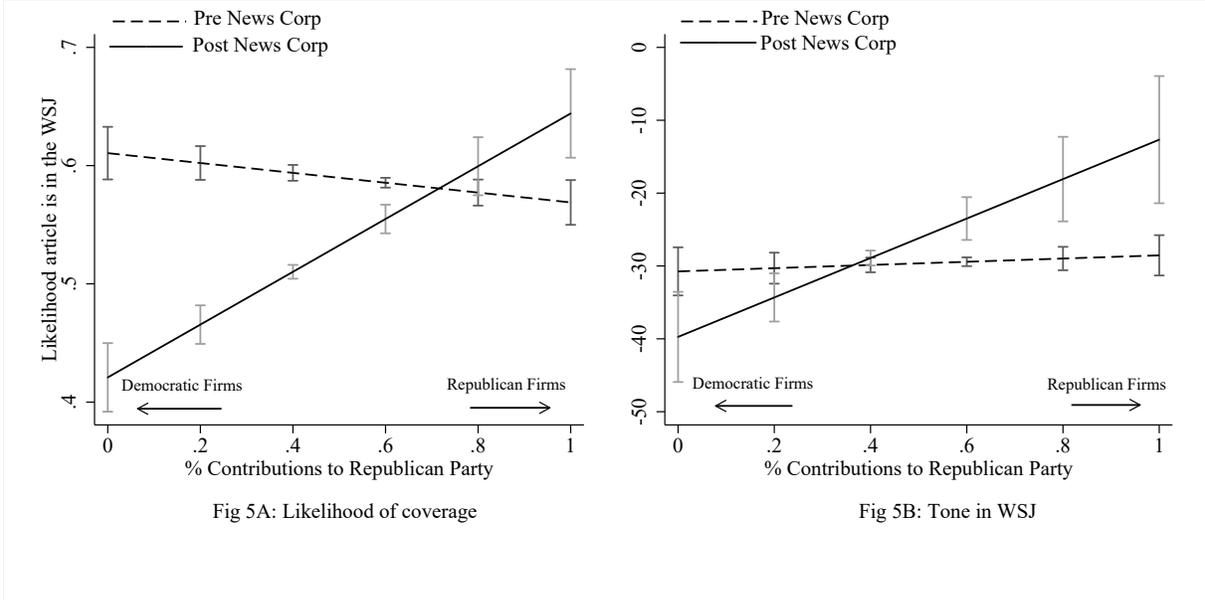


Figure 5: Results from Table 8 comparing the likelihood and tone of coverage as a function of % Contributions to Republican Party before and after the *WSJ* was acquired by News Corporation. Fig 5A (left) shows the likelihood that an article about a firm on a given day appears in the *WSJ* versus the *NYT* in the Pre-News Corp (dashed line) and Post-News Corp (solid line) years. Spikes represents 90% confidence intervals. Figure 5B (right) shows the ratio of positive words to total words in the *WSJ* in the Pre-News Corp (dashed line), and Post-News Corp (solid line) years. Spikes represent 90% confidence intervals.

7.2. News Corporation acquisition of *The Wall Street Journal*

In December 2007, Dow Jones, the parent company of the *Wall Street Journal*, was acquired by the News Corporation. We study the effect of this change in ownership of the *WSJ* to a more politically conservative owner as a potential shock to the political ideology of the newspaper that may have shifted it further to the right.

First, we compare the likelihood that an article about a firm appears in the newspaper based on political alignment, before and after the News Corporation acquisition of the *WSJ*. We use two sub-samples of data: articles published from 1990 to 2007 (Pre-News Corporation) and articles published from 2008 to 2016 (Post-News Corporation). The results are reported in Table 8, columns (1) and (2) and described graphically in Figure 5. The upward sloping solid line in Figure 5A shows that following the acquisition, the likelihood that an article appears in the *WSJ* rather than the *NYT* is significantly higher for more Republican

firms in the post-News Corporation years. In contrast, the slope of the dashed line in Figure 5A representing the likelihood of coverage in the pre-News Corporation years is flatter and slightly negative.

We also examine if the tone of coverage changes in the *Wall Street Journal* following its acquisition by News Corporation, by estimating model (4) using the sample of articles in the *WSJ* and with *Tone* equal to $(Positive-Negative\ Words)/(Positive+Negative\ Words)$ as the dependent variable. The results are reported in Table 8, columns (3) and (4). In Figure 5B we graphically describe the results. Prior to its acquisition by News Corporation, the flat slope of the dashed line suggests that the tone of an article in the *WSJ* did not vary significantly based on the politics of the firm. In contrast, the upward sloping solid line shows that after being acquired, the *WSJ* uses a more positive tone about firms that donate more to Republicans.

The results in columns (3) and (4) of Table 8 confirm that the tone of articles in the *WSJ* was not significantly different for more Republican firms in the pre-News Corporation years (column (3)), but became significantly more positive in the post-News Corporation era (column (4)).

7.3. Financial news coverage of politically extreme firms

In this section we study the most politically extreme firms, which are more likely to be identified with a political party. We use two different measures of *Political Alignment*: *Top Republican Donor* is an indicator variable that is equal to one for firms that are in the 20th percentile of campaign contributions to the Republican Party, and *Top Democratic Donor* is an indicator variable that is equal to one for firms that are in the 20th percentile of campaign contributions to the Democratic Party. We report the results in Table 9.

The dependent variables are *WSJ* in columns (1) and (2), *Positive Words* in columns (3)-(5) and *Tone* in column (6)-(8). We report results both with and without fixed effects because *Top Republican Donor* and *Top Democratic Donor* do not vary much over time. We find that an article about a *Top Republican Donor* is significantly more likely to appear in the *WSJ* than the *NYT* (column (2)), while an article about a top Democratic Donor is significantly less likely to appear in the *WSJ* than in the *NYT* (column (1)). In columns

(3)-(8) studying *Positive Words* and *Tone* we find that compared to the *NYT*, the *WSJ* uses more positive words in articles about top donors to the Republican Party (columns (3), (6) and (7)), and fewer positive words in articles about top donors to the Democratic Party (columns (3)-(5) and (8)).

7.4. Newsday at both newspapers

If newspapers cover different firms or topics, this may generate differences in tone irrespective of the politics of the firm. Below, we compare coverage of the same firm-specific events between the two newspapers by considering the sub-sample of articles written about the same firm on the same day by both newspapers. In columns (1) and (2) of Table 10 we report the results from this subsample using $Positive\ Words / (Positive + Negative\ Words)$ as the dependent variable. The results are similar to our baseline results in Table 4. From the coefficient of the interaction between *WSJ* and *% Contributions to Republican Party* in columns (1) and (2), we again find that on average the *WSJ* uses more positive words about firms that donate more to the Republican Party compared to the *NYT*. Our results show that the same firm-specific events are covered differently based on the political alignment between the firm and the newspaper.

7.5. Financial news and earnings announcements

To ensure that we capture financial news coverage and not political news, we conduct some additional analysis. First, although over 80% of the articles in our baseline sample are in the financial news section, we restrict the sample to articles that originate in the financial sections of either newspaper, and second, we focus on articles that cover a specific financial topic: earnings announcements. We use $Positive\ Words / (Positive + Negative\ Words)$ as the dependent variable in columns (3)-(6) of Table 10.

In columns (3) and (4) of Table 10 we focus on articles that originate in the financial news sections of the *WSJ* and *NYT*. The results are similar to the baseline results in Table 4, and confirm that compared to the *NYT*, articles in the *WSJ* about Republican leaning firms use more positive words in articles that are in the financial news section. Studying the sub-sample of articles reporting on corporate earnings announcements in columns (5)

and (6), we show that even in the case of quarterly announcements of earnings statistics, newspapers use more positive tone about politically aligned firms.

8. Conclusion

We show that newspapers may cater to their readership even when covering corporate financial news, such as quarterly earnings announcements, which does not lend itself to partisan interpretation. Comparing over 25 years of financial news articles in the liberal *New York Times* to the conservative *Wall Street Journal*, we find that the likelihood of coverage of firm-specific financial news varies based on the political alignment between the firm and newspaper. Firms that donate more to Republican Party politicians are more likely to be covered by the *Wall Street Journal* and less likely to be covered by the *New York Times*, and the reverse is true for firms that donate more to Democratic Party politicians. We also show that newspapers report positive stock market news more frequently for politically aligned firms. Finally, our results suggest that newspapers write more positively about the financial news of politically aligned companies, and less positively about the financial news of companies that are aligned with the opposing political party.

To support our hypothesis that the likelihood and tone of coverage are affected by the political alignment between the newspaper and the firm, we show that the *Wall Street Journal* becomes more partisan in its coverage following its acquisition by the more conservative News Corporation. We also find that journalists who work for both newspapers switch their tone to reflect the ideology of the paper that employs them. Lastly, we find similar results when the sample is restricted to articles about the same firm that appear in both newspapers on the same day, suggesting that our results are not driven by newspapers covering different firm-specific events.

Political polarization implies that market participants may be exposed to different news. Consistent with this argument, we find that disagreement between news sources increases trading volume, and these effects are larger for firms at the political extremes. Studying the direct link between investors and the news they read, we show that investors respond to news about a stock printed in the newspaper they are more likely to read by trading more

in that stock, whereas they do not respond to news printed about a stock in a newspaper they are less likely to read. We also find that investors tend to trade in the same direction as other investors who are likely to read the same newspaper.

Our results show that political polarization can segregate the information sets of investors, which in turn can affect investor behavior. In future work it would be interesting to study whether polarization in traditional news media coverage has changed over time, particularly in response to the increased importance of social media.

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Table 1: Political and Financial Characteristics of Firms

This table describes the political and financial characteristics of firms for the years 1990 to 2016. In Panel A, *Total Contributions* is the dollar value of campaign contributions made by political action committees and employees of firms in every two year election cycle between 1990 and 2016. *Contributions to Democratic (Republican) Party* is the dollar value of contributions made by firms to Democratic (Republican) Party candidates between 1990 and 2016, *% Contributions to Democratic (Republican) Party* is the fraction of total campaign contributions made to Democratic (Republican) Party candidates. In Panel B, we describe the financial characteristics of firms from 1990-2016. *Assets* are Total Assets in millions of \$; *Profitability* is firm-level EBIT in millions of \$; *Market Value* is market capitalization in millions of \$; *Advertising Expenses* are firm-level advertising expenditures in the *New York Times* and the *Wall Street Journal* in 1995 dollars.

Table 1A: Political Characteristics

Variable	Number of Firm-Cycles	Mean	Median	Minimum	Maximum	Standard Deviation
<i>Total Contributions (\$)</i>	1,127	888,577	441,045	0	12,800,000	1,231,220
<i>Contributions to Democratic Party (\$)</i>	1,127	377,518	145,550	0	9,411,943	624,687
<i>Contributions to Republican Party (\$)</i>	1,127	511,059	243,652	0	7,620,591	704,240
<i>% Contributions to Democratic Party</i>	1,127	44%	42%	0	1	24%
<i>% Contributions to Republican Party</i>	1,127	54%	57%	0	1	24%

Table 1B: Financial Characteristics

Variable	Number of Firm-Years	Mean	Median	Minimum	Maximum	Standard Deviation
<i>Assets</i>	1420	56,841	29,896	11.93	797,769	91,675
<i>Profitability</i>	1420	5947.823	3345.5	-11982	71230	7973.252
<i>Market Value</i>	1420	72,725	42,255	33.68	626,550	83,516
<i>Advertising Expenses</i>	734	1,069,016	212,749	0	34,100,000	2681905

Table 2: Tone of Financial News Coverage

This table describes the variables we used to capture tone. We use the Loughran and McDonald (2011) financial dictionary to classify the tone of a financial news article. *Positive Words* is positive words per 100 tone words in the article; *Negative Words* is negative words per 100 tone words in the article; and *Tone* is defined as $(Positive - Negative Words) / (Positive + Negative Words)$.

Variable	<i>The Wall Street Journal</i>					
	Observations	Mean	Standard Deviation	Median	Minimum	Maximum
<i>Articles per firm</i>	34,608	1665	1262	1297	2	4641
<i>Positive words</i>	34,608	32.5	27.6	28.6	0	100
<i>Negative words</i>	34,608	61.9	30.5	66.7	0	100
<i>Tone</i>	34,608	-29.4	53.4	-33.3	-100	100
<i>Total Words</i>	34,608	522	445	411	24	9836
Variable	<i>The New York Times</i>					
	Observations	Mean	Standard Deviation	Median	Minimum	Maximum
<i>Articles per firm</i>	26,481	1734	1257	1434	3	4641
<i>Positive words</i>	26,481	32.4	27.9	28.6	0	100
<i>Negative words</i>	26,481	60.8	31.2	66.7	0	100
<i>Tone</i>	26,481	-28.5	53.5	-33.3	-100	100
<i>Total Words</i>	26,481	620	673	497	6	20578

Table 3: Likelihood of Coverage and Political Alignment

In columns (1) and (2) the dependent variable is *WSJ*, an indicator variable equal to one if an article about the firm is published in the *Wall Street Journal*, and equal to 0 if the article is published in the *New York Times*. In columns (3)-(5) the dependent variable is *Article Length*, which is the total number of words in an article about the firm. In columns (6)-(8) the dependent variable is *% Good News*, which is the ratio of articles about a firm that report positively about stock market returns to the total number of articles that report positively or negatively about returns. *% Contributions to Republican Party* is the percentage of campaign contributions donated to Republican Party candidates by the firm in a given election cycle. *Firm FE* control for firm-level fixed effects; *Time FE* control for *Quarter-Year* in columns (1)-(6), and *Electoral Cycle* in columns (7)-(10); *Paper FE* control for the paper the article is published in columns (3)-(8); *Topic FE* control for 2-digit topic dummies; *Firm × Time FE* control for interacted firm-time fixed effects; *Paper × Time FE* fixed effects control for interacted newspaper-time fixed effects. Standard errors are reported in parentheses. *significant at the 10% level, ** significant at the 5% level and *** significant at the 1% level.

	WSJ		Article Length				% Good News			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<i>WSJ × % Contributions to Republican Party</i>			95.434***	52.557**	89.301***	22.021	0.149*	0.167**	0.160*	0.191*
			(22.405)	(21.386)	(24.263)	(27.341)	(0.079)	(0.080)	(0.098)	(0.117)
<i>% Contributions to Republican Party</i>	0.090***	0.052***	-190.719***	-26.905			-0.070	-0.114		
	(0.010)	(0.020)	(19.192)	(28.884)			(0.062)	(0.109)		
<i>WSJ</i>			-144.884***				-0.045		-0.032	
			(12.470)				(0.043)		(0.049)	
<i>Firm FE</i>		✓		✓				✓		
<i>Time FE</i>		✓		✓				✓		
<i>Paper FE</i>				✓	✓			✓		
<i>Topic FE</i>		✓		✓	✓	✓				
<i>Firm × Time FE</i>					✓	✓			✓	✓
<i>Paper × Time FE</i>						✓				✓
Observations	61,083	61,021	61,083	61,021	59,601	59,601	406	406	406	406
R-squared	0.001	0.196	0.011	0.112	0.187	0.193	0.02	0.23	0.80	0.82

Table 4: Tone of financial news coverage and political alignment

Columns (1)-(4) and (6)-(8) use the full sample of articles and columns (5) and (9) report results for the subsample of articles written by journalists who switch between the two newspapers and have written at least 1 article in the financial news section at both papers. The dependent variable in columns (1)-(5) is *Positive Words*, which is the number of Positive Words/(Positive + Negative Words) and in columns (6)-(9) is *Tone* measured as the ratio of (Positive-Negative Words) to (Positive + Negative Words) in an article. *WSJ* is an indicator variable that is equal to 1 if the article is published in the *Wall Street Journal* and 0 if it is published in the *New York Times*; *% Contributions to Republican Party* is the percentage of campaign contributions given by the firm to Republican Party candidates in a given election cycle. *WSJ* is an indicator variable that is equal to 1 if the article is published in the *Wall Street Journal* and 0 if it is published in the *New York Times*; *Firm FE* control for firm-level fixed effects; *Time FE* control for Quarter-Year in columns (1)-(4) and (6)-(8), and *Cycle-Year* in columns (5) and (9); *Paper FE* control for the paper the article is published; *Topic FE* control for 2-digit topic dummies; *Journalist FE* control for the journalist; *Firm × Time FE* control for interacted firm-time fixed effects, *Paper × Time FE* fixed effects control for interacted newspaper-time fixed effects. Standard errors are reported in parentheses. *significant at the 10% level, ** significant at the 5% level and *** significant at the 1% level.

	Positive Words					Tone			
	Full Sample				Journalist Subsample	Full Sample			Journalist Subsample
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>WSJ × % Contributions to Republican Party</i>	3.931*** (1.099)	4.633** (1.796)	4.478** (1.765)	4.125** (1.723)	10.455* (5.397)	7.655** (3.747)	6.340* (3.610)	5.315 (3.589)	19.225* (10.767)
<i>% Contributions to Republican Party</i>	-12.400*** (0.813)	-5.302* (2.801)			-16.258** (7.220)	-8.679 (5.642)			-30.874** (14.434)
<i>WSJ</i>	-1.752*** (0.605)								
<i>Firm FE</i>		✓			✓	✓			✓
<i>Paper FE</i>		✓	✓		✓	✓	✓		✓
<i>Time FE</i>		✓			✓	✓			✓
<i>Topic FE</i>		✓	✓	✓	✓	✓	✓	✓	✓
<i>Journalist FE</i>					✓				✓
<i>Firm × Time FE</i>			✓	✓			✓	✓	
<i>Paper × Time FE</i>				✓				✓	
Observations	61,083	61,021	59,601	59,601	2,468	61,021	59,601	59,601	2,468
R-squared	0.006	0.101	0.210	0.211	0.378	0.119	0.232	0.233	0.384

Table 5: Disagreement in news coverage and Abnormal Trading Volume

The dependent variable is *Abnormal Volume* = Ratio of Dollar Trading Volume on day 31 to Average Daily Trading Volume over previous 30 days. In columns (1)-(4) the sample is restricted to days on which there are exactly two articles that mention only 1 firm on a given day in the same or both newspapers. In columns (5)-(9) the sample includes all days for which there is trading volume data on firms in our sample. *High Disagreement* is equal to one if there is one article that mentions only this firm in each newspaper, and equal to zero if the articles are in one paper only; *Difference in Positive Words*, *Difference in Negative Words*, and *Difference in Tone* are the absolute value of the difference between Positive Words/Total Words, Negative Words/Total Words, and Tone between the *WSJ* and the *NYT*; *Top Donor* is equal to one if the firm is in the top 20th percentile of donations to either the Republican or the Democratic parties in the sample in a given election cycle. All specifications control for *Lagged Abnormal Volume*, *Total Words*, *Absolute Returns*, *Lagged Absolute Returns*, *Total Articles* in columns (1)-(4), which is the total number of articles in all news sources on Factiva on that day that mention the firm, *Number of Articles* in columns (5)-(9), which is the total number of articles about this firm published in the *NYT* and the *WSJ* on that day. *Firm FE* control for firm-level fixed effects; *Time FE* control for *Quarter-Year* fixed effects; *Firm × Time FE* control for interacted firm-time fixed effects. Standard errors are reported in parentheses. *significant at the 10% level, ** significant at the 5% level and *** significant at the 1% level.

	Two Articles				Full Sample				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>Top Donor × High Disagreement</i>		0.112*** (0.035)	0.096** (0.038)	0.104** (0.042)					
<i>High Disagreement</i>	0.054* (0.027)	0.129*** (0.023)	0.057* (0.029)	0.023 (0.027)					
<i>Top Donor × Difference in Positive Words</i>					2.883*** (0.897)	2.554* (1.494)	2.582* (1.490)		
<i>Top Donor × Difference in Negative Words</i>					1.106*** (0.400)	0.896* (0.505)	0.949* (0.511)		
<i>Top Donor × Difference in Tone</i>								0.077*** (0.026)	0.080*** (0.028)
<i>Top Donor</i>		-0.013 (0.022)	-0.026 (0.057)		-0.026*** (0.002)	-0.007 (0.007)		-0.008 (0.007)	
<i>Difference in Positive Words</i>					1.673*** (0.521)	1.903*** (0.651)	1.799*** (0.658)		
<i>Difference in Negative Words</i>					-0.451** (0.179)	-0.350* (0.201)	-0.211 (0.199)		
<i>Difference in Tone</i>								-0.019** (0.009)	-0.017* (0.009)
<i>Control Variables</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓
<i>Firm FE</i>			✓			✓		✓	
<i>Time FE</i>			✓			✓		✓	
<i>Firm × Time FE</i>	✓			✓			✓		✓
Observations	6,509	7,779	7,771	6,509	554,374	554,374	554,374	554,374	554,374
R-squared	0.571	0.406	0.471	0.571	0.166	0.182	0.076	0.182	0.200

Table 6: Newspaper Readership and Herding

In columns (1)-(3) the dependent variable is *Abnormal Dollar Trading Volume* defined as the aggregate dollar trading volume of a stock on a given day within the DMA groups divided by the trailing 365 day average. In columns (4)-(6) the dependent variable is *Herding* defined as the net of the dollar volume of buys minus sells for a stock on a given day. *News Read* and *News Other* are equal to one if at least one article mentioning the firm is published in the newspaper with more subscriptions and fewer subscriptions respectively on a given day in the zipcode where the investor lives. *DMA_WSJ* and *DMA_NYT* indicate whether the investor lives in a region where the *WSJ* or the *NYT* has more subscriptions. All regressions also control for absolute value of lagged stock returns, and absolute value of contemporaneous stock returns. The regressions control for firm and year fixed effects and interacted firm-year fixed effects. Standard errors are reported in parentheses. *significant at the 10% level, ** significant at the 5% level and *** significant at the 1% level.

	Abnormal Dollar Trading Volume			Herding		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>News Read</i>	0.216*** (0.028)	0.086*** (0.016)	0.079*** (0.016)	0.180*** (0.022)	0.058*** (0.010)	0.051*** (0.010)
<i>News Other</i>	0.144*** (0.024)	0.019 (0.013)	0.014 (0.013)	0.122*** (0.019)	0.005 (0.009)	0.000 (0.009)
<i>DMA_NYT</i>	-0.319*** (0.025)	-0.349*** (0.023)	-0.358*** (0.022)	-0.306*** (0.025)	-0.333*** (0.023)	-0.343*** (0.022)
<i>Control Variables</i>	✓	✓	✓	✓	✓	✓
<i>Firm FE</i>		✓			✓	
<i>Time FE</i>		✓			✓	
<i>Firm × Time FE</i>			✓			✓
Observations	175,636	175,636	175,636	175,636	175,636	175,636
R-squared	0.02	0.05	0.05	0.02	0.05	0.05

Table 7: Controlling for firm-newspaper advertising

In column (1) the dependent variable *WSJ* is an indicator variable equal to one if an article about the firm is published in the *Wall Street Journal*, and equal to 0 if the article is published in the *New York Times*; in column (2) the dependent variable is *Article Length*, which is the total number of words in an article about the firm; in column (3) the dependent variable is *Positive Words*, which is the number of Positive Words/(Positive + Negative Words). In columns (4) the dependent variable is *Tone* which is $(Positive + Negative Words)/(Positive + Negative Words)$. *Advertising Expenditures* are quarterly expenditures in 1995 dollars by each firm in the newspaper where the article is published. *% Contributions to Republican Party* is the percentage of campaign contributions donated to Republican candidates by the firm in that election cycle. Firm FE conTime FE are Quarter-Year fixed effects. Standard errors are reported in parentheses. *significant at the 10% level, ** significant at the 5% level and *** significant at the 1% level.

	WSJ	Article Length	Positive Words	Tone
	(1)	(2)	(3)	(4)
<i>WSJ</i> × <i>% Contributions to Republican Party</i>		52.865** (21.498)	4.596** (1.787)	7.635** (3.744)
<i>% Contributions to Republican Party</i>	0.059*** (0.020)	-26.818 (28.841)	-5.312* (2.802)	-8.684 (5.643)
<i>Advertising Expenditures</i>	-0.000*** (0.000)	-0.011 (0.029)	0.001 (0.002)	0.001 (0.003)
<i>Firm FE</i>	✓	✓	✓	✓
<i>Paper FE</i>		✓	✓	✓
<i>Time FE</i>	✓	✓	✓	✓
<i>Topic FE</i>	✓	✓	✓	✓
Observations	61,021	61,021	61,021	61,021
R-squared	0.198	0.112	0.101	0.119

Table 8: News Corporation Acquisition

In columns (1) and (2) the dependent variable is *WSJ*, which is equal to one if there is an article that mentions the firm in the *Wall Street Journal* and equal to 0 if the article is published in the *New York Times*. In columns (3) and (4) we use articles in the *WSJ* and the dependent variable is *Tone* equal to the ratio of $(Positive - Negative \ Words) / (Positive + Negative \ Words)$ in the *Wall Street Journal*. Pre News Corporation includes the years 1990-2007 and Post News Corporation includes the years 2008-2016. % *Contributions to Republican Party* is the percentage of campaign contributions donated to Republican candidates by the firm in that election cycle. Standard errors are reported in parentheses. *significant at the 10% level, ** significant at the 5% level and *** significant at the 1% level.

	WSJ		Tone	
	Pre News Corporation	Post News Corporation	Pre News Corporation	Post News Corporation
	(1)	(2)	(3)	(4)
<i>% Contributions to Republican Party</i>	-0.042* (.025)	0.223*** (.040)	2.202 (3.635)	27.072*** (8.983)
<i>Firm FE</i>	✓	✓	✓	✓
<i>Time FE</i>	✓	✓	✓	✓
<i>Topic FE</i>	✓	✓	✓	✓
Observations	45,550	17,725	26,779	5,083
R-squared	0.195	0.245	0.135	0.181

Table 9: Financial News Coverage of Politically Extreme Firms

In columns (1) and (2) the dependent variable *WSJ* is an indicator variable equal to one if an article about the firm is published in the *Wall Street Journal*, and equal to 0 if the article is published in the *New York Times*; in columns (3)-(5) the dependent variable is *Positive Words*, which is equal to $Positive\ Words / (Positive + Negative\ Words)$; in columns (6)-(8) the dependent variable is *Tone*, which is equal to $(Positive - Negative\ Words) / (Positive + Negative\ Words)$. *Top Republican Donor* is an indicator variable equal to 1 if the firm's contribution to the Republican Party is in the top 20th percentile of all donations to the Republican party in the sample in a given cycle; *Top Democratic Donor* is an indicator variable equal to 1 if the firm's contributions to the Democratic Party is in the top 20th percentile of all donations to the Democratic Party in the sample in a given cycle. Time FE include Quarter-Year fixed effects. Standard errors are reported in parentheses. *significant at the 10% level, ** significant at the 5% level and *** significant at the 1% level.

	WSJ		Positive Words			Tone		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>WSJ</i> × <i>Top Republican Donor</i>			2.828*** (0.814)	2.601 (0.484)	2.157 (0.889)	3.521** (1.587)	3.663* (0.366)	1.905 (1.395)
<i>WSJ</i> × <i>Top Democratic Donor</i>			-1.378*** (0.527)	-1.423* (0.131)	-1.304** (0.033)	-1.242 (1.008)	-1.960 (0.336)	-1.862** (0.070)
<i>Top Republican Donor</i>	-0.009 (0.007)	0.008* (0.001)	-2.908*** (0.611)	-1.888 (1.177)		-5.028*** (1.189)	-3.260 (1.624)	
<i>Top Democratic Donor</i>	-0.063*** (0.005)	-0.001 (0.008)	6.477*** (0.386)	1.851 (0.436)		11.105*** (0.737)	3.167 (0.554)	
<i>WSJ</i>			0.484* (0.279)			-0.465 (0.539)		
Firm FE		✓		✓			✓	
Paper FE				✓	✓		✓	✓
Quarter FE		✓		✓			✓	
Topic FE		✓		✓	✓		✓	✓
Firm FE x Quarter FE					✓			✓
Observations	61,089	61,027	61,089	61,027	59,603	61,089	61,027	59,603
R-squared	0.003	0.196	0.009	0.101	0.210	0.008	0.119	0.232

Table 10: Controlling for same firm-events and topics

This table reports results for the sample of articles where both newspapers have published articles on the same firm on the same day in columns (1) and (2); for articles that begin in the financial sections of the *Wall Street Journal* and the *New York Times* in columns (3) and (4), and articles on earnings announcements topics in columns (5) and (6). The sample is restricted to articles that mention just 1 firm or at most 2 firms. The dependent variable is *Positive Words/Total Words* in an article. *WSJ* is a dummy variable that is equal to 1 if the article is published in the *Wall Street Journal* and 0 if it is published in the *New York Times*; *% Contributions to Republican Party* is the percentage of campaign contributions given by the firm to Republican Party candidates in a given election cycle;. Standard errors are reported in parentheses. *significant at the 10% level, ** significant at the 5% level and *** significant at the 1% level.

	Newsday		Financial Section		Earnings Announcement	
	1 firm	2 firms	1 firm	2 firms	1 firm	2 firms
	(1)	(2)	(3)	(4)	(5)	(6)
<i>WSJ</i> × % Contributions to Republican Party	3.842*	5.138**	5.220**	6.182***	3.815	6.868***
	(1.965)	(1.999)	(2.074)	(1.965)	(2.965)	(2.274)
<i>Firm</i> × Time FE	✓	✓	✓	✓	✓	✓
<i>Paper</i> × Time FE	✓	✓	✓	✓	✓	✓
<i>Topic</i> FE	✓	✓	✓	✓		
Observations	21,974	38,191	41,848	76,955	6,356	11,255
R-squared	0.273	0.230	0.241	0.200	0.458	0.393