

The ability of investors to predict the decisions of competition authorities, and the ways competition authorities affect the value of investments, are important inputs into models of firm-authority interaction. We investigate how well the decisions of the UK Office of Fair Trading (OFT) are predicted by investors, and in what ways investigations affect the value of their investments, using an event study analysis of the pattern and magnitude of share price reactions to information released by the OFT during the course of Competition Act 1998 investigations. We find that (1) most decisions are well predicted and that decreases in predictability may partly be explained by the market capitalization of the firm investigated; and (2) that changes in investment value are not always explained by fines, costs, and forfeited profits from the business segments under investigation. Our findings suggest that OFT investigation can change investors' expectation of profitability in business segments unrelated to the inquiry.