

**The IT Revolution and the Stock Market**  
ABSTRACT

A new technology or product is often developed by the single entrepreneur. Whether he reaches the initial public offering stage or is acquired by a listed firm, it takes time for the innovator to add value to the stock market. Indeed, the innovation may, at first, reduce the market's value because some firms --- usually large or old --- will cling to old technologies that have lost their momentum. This paper argues that (a) the market declined in the late 1960s because it felt that the old technologies either had lost their momentum or would give way to IT, and that (b) IT innovators boosted the stock market's value only in the 1980s. If the stock market provides a forecast of future events, then the recent dramatic upswing represents a rosy estimate about growth in future profits for the economy. This translates into a forecast of higher output and productivity growth, holding other things equal (such as capital's share of income).

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Jeremy Greenwood  
Department of Economics  
University of Rochester  
Harkness Hall  
Rochester, NY 14627

[gree@db1.cc.rochester.edu](mailto:gree@db1.cc.rochester.edu)

Boyan Jovanovic  
Department of Economics  
New York University  
NY, NY 10003

[jovanovi@fasecon.econ.nyu.edu](mailto:jovanovi@fasecon.econ.nyu.edu)