Economics Of Asymmetric Information

Essay from the year 2012 in the subject Economics - Finance, , language: English, abstract: The main reason why companies decide to proceed with IPO is mainly to gain access to new funding. The proceeds from the share issue itself are not necessarily intended for direct expansion. The prospects for growth from acquisitions, the funds available for organizational expansion and refinancing of current borrowings have shown, among other things, to be the main motives that newly listed companies consider as very important. The general initial public offering procedure enhances the image and publicity of enterprises and gets not only an initial certification of the professionals in the financial markets but also a long-term price bidding (price signal) to suppliers, workforce and customers. According to Roell (1996), a robust equity value in the subsequent acquisition (during the trading of securities after their initial bid for public offering) reassures suppliers that they can safely grant trade credit, employees are convinced that they can expect a fairly stable job, and customers think that the products of the company will be supported as a result of their purchase (in the aftermath of their purchase).

This is an extract from the 4-volume dictionary of economics, a reference book which aims to define the subject of economics today. 1300 subject entries in the complete work cover the broad themes of economic theory. This volume concentrates on the topic of allocation information and markets.

The problems arising from the existence of asymmetric information in public decision making have been widely explored by economists. Most of the traditional analysis of public sector activities has been reviewed to take accountofthe possible distortions arising from an asymmetric distribution of relevant information among the actors of the public decision-making process. A normative approach has been developed to design incentive schemes which tackle adverse selection and moral hazard problems within public organisations: our understanding of these problems is now much better, and some of the mechanisms designed have had important practical implications. While this analysis is still under way in many fields of public economics, as the papers by Jones and Zanola, and Trimarchi witness, a debate is ongoing on the possible theoretical limitations ofthis approach and on its actual relevance for public sector activities. This book encompasses different contributions to these issues, on both theoretical and practical areas, which were firstly presented at a conference in Catania. The innermost problem in the current discussion arises from the fact that this normative analysis is firmly rooted in the complete contracting framework, with the consequence that, despite the analytical complexities of most models, their results rely on very simplified assumptions. Most complexities of the organisation of public sector, and more generally, of writing "contracts", are therefore swept away.

Handbook of Insurance

Essays on the economics of asymmetric information

The Core of Economies with Asymmetric Information

An Introduction to the Economics of Information

Financial Markets, Asymmetric Information, and Macroeconomic Equilibrium

A textbook on optimal contract theory, An Introduction to the Economics of Information covers the consequences for the character and efficiency of the interaction between individuals or organizations when one party has more or better information on some aspect of the relationship. This is thecondition of asymmetric information, under which the information gap will be exploited if, by doing so, the better-informed party can achieve some advantage. The book is written for a one semester course for advanced undergraduates taking specialized course options, and for first year postgraduatestudents of economics or business. After an introduction to the subject and the presentation of a benchmark model in which both parties share the same information throughout the relationship, chapters are devoted to the three main asymmetric information topics: Moral Hazard--when the asymmetryarises after the contract has been signed Adverse Selection--when the agent has relevant private infromation before the contract is signed Signalling--when the informed part is able to reveal private information through behaviour before the agreement is formalized The wide range of economicsituations where the conclusions are applied includes such areas as finance, regulation, insurance, labor economics, health economics, and even politics. Each chapter presents the basic theory before moving on to applications and advanced topics. The problems are presented in the same frameworkthroughout to allow easy comparison of the different results. Solved exercises test the student's understanding of the material, and develop the tools and skills provided by the main text to solve other, original problems.

Seminar paper from the year 2014 in the subject Economics - Finance, , course: MBA and Engineering, language: English, abstract: The specter of decreased economic activities, financial crisis, unbecoming ethical standards have in the recent past and fore going, characterized asymmetric information on corporate finance. The consequences normally have a ricochet effect and can be generally catastrophic to normal economic activities to mention the least. This paper considers scenario's where information asymmetry was prevalent or may have had its effects play out. The typical investor mindset and the opportunity cost associated with the preferred capital structure of the capitalizing process were mentioned. A basis for proper appreciation of the concept Corporate finance under asymmetric information was initiated here, with a detailed explanation of corporate finance and its components, this was succeeded by a summary of scenarios were asymmetric information were prevalent and an intelligent look was also taken at asymmetric information between insiders and investors and the concomitant lemon problem, where the effects were carefully highlighted in a progression to the level of severity - Market breakdown and costly signaling. The fact that asymmetric information has been widely recognized as bad and generally viewed in a negative light must warrant it being viewed with a high level of seriousness. It is widely known that while lot of effort have been put into stemming the tides of the consequences of asymmetric information, a lot of effort too, have been dedicated to innovation and risk assessment, to capture the interest of investors, who have been affected by the consequences of asymmetric information. These may have formed a veritable platform for a recent paper by Pierre Barbaroux (2014), that elucidated the rise of innovation and innovative entrepreneurs based on the management of asymmetric information. An attempt has in any case, been made here to suggest efforts at marginalizing the negative impacts of asymmetric information and also remedies at reducing the far reaching impacts on the lenders and the aggregate economic activity in general.

Information sharing is frequently promoted as a mean to improve the supply chain performance. This work shows the results of behavioral experiments, in which the participants share private information in order to influence the contract terms in a Just-in-Time environment. It is shown that the impact of information sharing is ambiguous, and dependent on several factors, such as contract flexibility and complexity or the interacting behavioral types. The experimental results form the basis for a behavioral principal-agent model that gives valuable insights on how the interaction of trust, trustworthiness and the information sharing strategy impacts the supply chain performance.

Incomplete Contracts and Asymmetric Information

Behavioral Economics and Financial Big Data

Economic Analysis of Contract Law

Asymmetric Information, Corporate Finance, and Investment

Foundations of Real-World Economics

The 2008 financial crisis, the rise of Trumpism and the other populist movements which have followed in their wake have grown out of the frustrations of those hurt by the economic policies advocated by conventional economists for generations. Despite this, textbooks continue to praise conventional policies such as deregulation and hyperglobalization. This textbook demonstrates how misleading it can be to apply oversimplified models of perfect competition to the real world. The math works well on college blackboards but not so well on the Main Streets of America. This volume explores the realities of oligopolies, the real impact of the minimum wage, the double-edged sword of free trade, and other ways in which powerful institutions cause distortions in the mainstream models. Bringing together the work of key scholars, such as Kahneman, Minsky, and Schumpeter, this book demonstrates how we should take into account the inefficiencies that arise due to asymmetric information, mental biases, unequal distribution of wealth and power, and the manipulation of demand. This textbook offers students a valuable introductory text with insights into the workings of real markets not just imaginary ones formulated by blackboard economists. A must-have for students studying the principles of economics as well as micro- and macroeconomics, this textbook redresses the existing imbalance in economic teaching. Instead of clinging to an ideology that only enriched the 1%, Komlos sketches the outline of a capitalism with a human face, an economy in which people live contented lives with dignity instead of focusing on GNP.

This book examines interesting new topics in applied economics from the perspectives of the economics of information and risk, two fields of economics that address the consequences of asymmetric information, environmental risk and uncertainty for the nature and efficiency of interactions between individuals and organizations. In the economics of information, the essential task is to examine the condition of asymmetric information under which the information gap is exploited. For the economics of risk, it is important to investigate types of behavior including risk aversion, risk sharing, and risk prevention, and to reexamine the classical expected utility approach and the relationships among several types of the changes in risk. Few books have ever analyzed topics in applied economics with regard to information and risk. This book provides a comprehensive collection of applied analyses, while also revisiting certain basic concepts in the economics of information and risk. The book consists of two parts. In Part I, several aspects of applied economics are investigated, including public policy, labor economics, and political economics, from the standpoint of the economics of (asymmetric) information. First, several basic frameworks of the incentive mechanism with regard to transaction-specific investment are assessed, then various tools for market design and organization design are explored. In Part II, mathematical measures of risk and risk aversion are examined in more detail, and readers are introduced to stochastic selection rules governing choice behavior under uncertainty. Several types of change in the random variable for the cumulative distribution function (CDF) and probability distribution function (PDF) are discussed. In closing, the part investigates the comparative static results of these changes in CDF or PDF on the general decision model, incorporating uncertain situations in applied economics.

and should therefore constitute a part of every area of economic 3 theory. The spectrum covered by information economics today ranges from Stigler's search theory4 to industrial economics, including oligopoly theory, innovation, as well as research and develop 5 ment. However, the area information economics is most closely connected with is the theory of optimal contracts, mainly ana 6 lyzed in principal-agent models. Contract theory deals primar ily with the question of how optimal arrangements (contracts) for the purchase and sale of commodities and services between two or more agents should be structured. In these models, it is often assumed that the parties to the contract are informed differently or asymmetrically about relevant variables (e. g. the health of one party in the case of insurance contracts, or the effort in relation to employment contracts). As a result of this asymmetric in formation, phenomena such as moral hazard, adverse selection, signaling, and screening may arise. Frequently, results from con tract theory are referred to when making statements about the effects of asymmetric information on an economy. Models of this kind are often used to explain phenomena such as fixed wages or unemployment, among others. 7 However, such conclusions must be treated with caution for two reasons. In the first place, in these models, a contract (explicit or implicit) is determined by the solution of an optimization prob lem.

Balancedness and the Core in Economics with Asymmetric Information

Information Asymmetry in Online Advertising

Sources of Economic Fluctuations and Employment Determination Under Asymmetric Information

Incentives and Contracts

Three Essays in Financial Economics Under Asymmetric Information

It is by now well-known that, in the presence of moral hazard or adverse selection, randomization of insurance premia and benefits may be Pareto efficient. This paper: i) provides a typology of the various forms that randomization may take; ii) derives necessary and/or sufficient conditions for the desirability of these various forms of randomization; iii) obtains some simple characterization theorems of the efficient random policies; iv) gives some intuition behind the results; and v) considers why randomization appears to occur less often in practice than the theory suggests it should

The study of the interaction between the financial sector and the sector of the economy is one of the most recent advances in macroeconomic theory. While mainstream economics assigns a passive role to the financial sector there is a growing body of literature which emphasizes the importance of financial intermediaries in explaining fluctuations and the determination of the process through which monetary policy impulses are transmitted to the rest of the economy. This literature has its origin in the models that rely on asymmetric information to explain imperfections in financial markts and in empirical evidence collected through various econometric techniques and through historical studies. This book surveys the relevant work ion the subject, evaluates the empirical evidence and the explanatory power of the theories proposed and furnishes new and empirical results.

This book presents recent developments in the economics of asymmetric information. The problems of selection and moral hazard, with hidden actions or hidden information, are introduced by examining how they affect the market for investment finance. The ideas are then used to analyse the market for insurance, signalling and screening models of education, efficiency wages, industrial regulation, public procurement and auctions. Coverage is thorough while avoiding excessive mathematical detail. Diagrams and verbal reasoning make the ideas accessible to intermediate level undergraduate students and beyond.

Asymmetric Information and Adverse Selection

Asymmetric Information in Financial Markets

Asymmetric information in economics

Credit Markets with Asymmetric Information

Asset Pricing Under Asymmetric Information

A collection of essays exploring the consequences of making non-standard economic assumptions. Breaking away from traditional economic theory, they cover a wide range of microeconomic and macroeconomic fields as well as anthropology, psychology and sociology.

Advertising is a company's major form of communication with the market; it is a component of the IMC system, having a special impact on the addressee, and is a form of persuasive communication affecting consumer behaviour. Advertising may reflect information asymmetry between an advertiser and recipients. This book presents an assessment of the forms and range of consumer behaviour manipulation through information asymmetry in online advertising and explores the possible causes, forms, and effects. The work offers a new approach to the role of advertising in the digital world, especially its forms and impact strategies. The theoretical framework presented is based on issues related to online advertising, information asymmetry, and social manipulation. The book describes the ways in which these areas can be explored, and it presents the results of empirical studies. Empirical research allows for identifying companies' moral hazard strategies and their consequences – e-consumers' adverse selection. The research provides an empirical answer to the question: to what extent is advertising a transparent form of communication, and to what extent does it represent the world of manipulation? Based on an interdisciplinary theoretical approach, empirical studies conducted by the authors, and theoretical and managerial implication, the book encourages its readers to find their own answers. Given the interdisciplinary nature of this work, it will be of interest to scholars and researchers within the fields of marketing, media and communication, economics, psychology, sociology, and ethics.

The Economics of Asymmetric InformationBloomsbury Publishing

Economie de L'incertain Et de L'information

Introduction and Applications

Randomization with Asymmetric Information

Information Sharing and Contracting in a Just-in-Time environment.

Information Economics

In this revised second edition, An Introduction to the Economics of Information covers the consequences for the character and efficiency of the interaction between individuals and organizations when one party has more or better information on some aspect of the relationship. This is the condition of asymmetric information, under which the information gap will be exploited if, by doing so, the better-informed party can achieve some advantage. The book is written for a one-semester course for advanced undergraduates taking specialized course options, and for first-year postgraduate students of economics or business. After an introduction to the subject and the presentation of a benchmark model in which both parties share the same information throughout the relationship, chapters are devoted to the three main asymmetric information topics of Moral Hazard, Adverse Selection, and Signalling. The wide range of economic situations where the conclusions are applied includes such areas as finance, regulation, insurance, labour economics, health economics, and even politics. Each chapter presents the basic theory before moving on to applications and advanced topics. The problems are presented in the same framework throughout to allow easy comparison of the different results. This new edition incorporates extended exercises to test the student's understanding of the material, and to develop the tools and skills provided by the main text to solve other, original problems.

The role of information is central to the academic debate on finance. This book provides a detailed, current survey of theoretical research into the effect on stock prices of the distribution of information, comparing and contrasting major models. It examines theoretical models that explain bubbles, technical analysis, and herding behavior. It also provides rational explanations for stock market crashes. Analyzing the implications of asymmetries in information is crucial in this area. This book provides a useful survey for graduate students.

This new text book by Urs Birchler and Monika Butler is an introduction to the study of how information affects economic relations. The authors provide a narrative treatment of the more formal concepts of Information Economics, using easy to understand and lively illustrations from film and literature and nutshell examples. The book first covers the economics of information in a 'man versus nature' context, explaining basic concepts like rational updating or the value of information. Then in a 'man versus man' setting, Birchler and Butler describe strategic issues in the use of information: the make-buy-or-copy decision, the working and failure of markets and the important role of outguessing each other in a macroeconomic context. It closes with a 'man versus himself' perspective, focusing on information management within the individual. This book also comes with a supporting website (www.alicebob.info), maintained by the authors.

Essays on the Economics of Asymmetric Information

Supply Chain Coordination in Case of Asymmetric Information

Essays on Asymmetric Information Economics

Allocation, Information and Markets

Asymmetric Information relating to Initial Public Offering Underpricing

This new edition of the Handbook of Insurance reviews the last forty years of research developments in insurance and its related fields. A single reference source for professors, researchers, graduate students, regulators, consultants and practitioners, the book starts with the history and foundations of risk and insurance theory, followed by a review of prevention and precaution, asymmetric information, risk management, insurance pricing, new financial innovations, reinsurance, corporate governance, capital allocation, securitization, systemic risk, insurance regulation, the industrial organization of insurance markets and other insurance market applications. It ends with health insurance, longevity risk, long-term care insurance, life insurance financial products and social insurance. This second version of the Handbook contains 15 new chapters. Each of the 37 chapters has been written by leading authorities in risk and insurance research, all contributions have been peer reviewed, and each chapter can be read independently of the others.

Discusses risk and economic uncertainty, the theory of contingent markets, model systems of incomplete markets, and the use of the stock market and insurance to share risk

This book examines the main issues arising in economic analysis of contract law with special attention given to the incomplete contracts. It discusses both the main features of contract law as they relate to the problem of economic exchange, and how the relevant legal rules and the institutions can be analysed from an economic perspective. Evaluate the welfare impacts, analyses the effects and the desirability of different breach remedies and examines the optimal incentive structure of party-designed liquidated damages under the different dimensions of informational asymmetry. Overall the book aims to contribute to the legal debate over the adoption of the specific breach remedies when the breach victim's expectation interest is difficult to assess, and to the debate over courts' reluctance to implement large penalties in the event of breach of contracts.

What Every Economics Student Needs to Know

Applied Economic Analysis of Information and Risk

The Structure and Regulation of Financial Markets

Asymmetric Information and the Production of Health

Essays in the Economics of Asymmetric Information

In this volume, specialists from traditionally separate areas in economics and finance investigate issues at the conjunction of their fields. They argue that financial decisions of the firm can affect real economic activity—and this is true for enough firms and consumers to have significant aggregate economic effects. They demonstrate that important differences—asymmetries—in access to information between "borrowers" and "lenders" ("insiders" and "outsiders") in financial transactions affect investment decisions of firms and the organization of financial markets. The original research emphasizes the role of information problems in explaining empirically important links between internal finance and investment, as well as their role in accounting for observed variations in mechanisms for corporate control.

Aimed at advanced undergraduate and graduate students in economics, banking, and finance, this is a core textbook for the financial markets, institutions, and regulation option of courses in financial economics. It integrates modern theories of asymmetric information into the analysis of financial institutions, relating the theory to current developments. The text begins with an analysis of adverse selection in retail financial products like life assurance before looking at open capital markets where trades and prices provide information. It then progresses to the more complex areas of corporate governance and financial intermediation in which information is concealed or confidential and moral hazard and verification problems become important. These chapters study the various mechanisms that the financial markets have developed to allow investors to delegate the management of their assets to others. This analysis is used to show how regulation can reduce the risk of financial failure and how legal, accounting, and regulatory mechanisms can help shape a country's corporate and financial architecture. These difficult theoretical concepts are conveyed through the careful use of numerical illustrations and topical case studies. Each chapter ends with a set of exercises to test and reinforce students' comprehension of the material. Worked solutions are provided for the numerical exercises.

Examination of the features and implications of asymmetric information in financial markets.

Asymmetric Information Processing in Financial Markets

Corporate Finance Under Asymmetric Information

Economics of Asymmetric Information

The Economics of Asymmetric Information

Contributed papers presented at the one of the technical sessions of Indian Economic Association's 85th conference held at the Kerala University in 2002.

Asymmetric Information and the Trade-off Between Cash Flow and Net Present Value

Public Decision-Making Processes and Asymmetry of Information

the principal-agent problem

Intermediate Microeconomics

Bubbles, Crashes, Technical Analysis, and Herding