

Information Economics and Finance

preliminary syllabus

GIANCARLO SPAGNOLO*

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Abstract

The course will deal with the effects of different kinds of information asymmetries on the functioning of markets, in general and then in particular for financial markets, taking information asymmetries for granted. It will then deal with incentives for market participants to search and disclose information and with the ability of different market mechanisms to aggregate such information. Finally, we will deal with how market and technological institutions affect information production and transmission, so that reputational mechanisms can better govern economic transactions. Most of the applications will be to Corporate Finance, Corporate Governance, and Electronic Markets.

* giancarlo.spagnolo@uniroma2.it

1 COURSE TOPICS (PRELIMINARY)

INTRODUCTORY TOPICS

- Review of the Moral Hazard (Hidden Action) Problem
- Review of the Adverse Selection (Hidden Information) Problem
- Static Interaction Between the Two Problems
- Agency Costs and Optimal Corporate Financing
- Dynamic Interaction: Managerial Career Concerns and Reputation Formation

APPLICATIONS

- The Debate on Privacy, Price Discrimination and Markets Efficiency
- Information Acquisition in Competitive and Imperfect Financial Markets
- More on Agency Costs and Optimal Corporate Financing
- Exit and Voice in Financial Markets: Passive and Active Corporate Monitoring
- Stock Markets, Stock Options, and Top Managers' Compensation
- IPOs as Incentive Schemes for Information Acquisition
- Investment Banks as Certifiers of Soft Information
- Stock Markets, Information Acquisition and Innovation
- Information Transmission, Manipulations and Reputation Formation in e-Markets
- Information Acquisition, Reputation Formation, and The Degree of Competition
- Auctions and Information Acquisition

2 REFERENCES

Background Readings (we will use only selected chapters of these books)¹

- **Tirole, J. (2005), *The Theory of Corporate Finance*, Princeton University Press
- *Macho-Stadler, I., and J.D. Perez-Castrillo (2001), *An Introduction to the Economics of Information: Incentives and Contracts*, Oxford University Press
- Copeland, Thomas E. and J. Fred Weston (1998), *Financial Theory and Corporate Policy*, 3rd edn. Addison-Wesley.

Most lectures will be based on recent articles. These will be posted on my homepage(s) before the lectures, or they will be distributed in class.

¹The number of stars signals the degree of relevance: **for extremely relevant, *for relevant, the rest is more indirectly relevant and are suggested readings for those who like the topic and think to study or work in this field in the future.