ECON 4245 Corporate Governance – Fall 2018

Seminar I - Friday 14 September 2018

Problem 1.

Review Problem 2, parts (i) and (ii), in Tirole, p. 626.

Problem 2.

(i) Exercise 3.1 in Tirole, p. 144.

(ii) Discuss how such randomization can be done in practice.

(iii) Why is the contract in this case a triple, $\{R_b, x, \hat{A}\}$?

To the extent there is time:

Problem 3. (first part of exam fall 2016)

a. Set up a fixed-investment model of a risk-neutral firm with limited liability, a moral- hazard problem, and a competitive capital market to discuss how weak firms (that is, firms with little own funds) may have to forsake profitable projects because they cannot get funding from outside investors.
b. Discuss how the conclusion in part (a) is changed if we allow for variable investments with constant returns to scale.
c. What is, in the context of the variable-investment model in part (b), the equity multiplier? How does this multiplier vary with the extent of the moral-hazard problem?