

Seminar IV

*Problem 1*

(a) (Exam 2005)

Discuss whether asymmetric information in the capital market may induce a firm *not* to make investments that would have been made if information were symmetrically distributed.

(b)

An often used argument for government support to business start-ups – in Norway mainly through *Innovation Norway* (“Innovasjon Norge” in Norwegian) – is that private information about entrepreneurs’ business ideas makes a private capital market perform poorly. Set up a simple model of corporate finance under asymmetric information to discuss the merit of this claim.

*Problem 2*

Review Problem 9 in Tirole, p. 632.

*Problem 3*

Exercise 6.1 in Tirole, pp. 273-274.