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Hubbard



National
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Asymmetric Information, Corporate Finance, and Investment

Asymmetric Information,
Corporate Finance, and Investment



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Research

Chicago

Edited by

R. Glenn Hubbard

Asymmetric Information, Corporate Finance, and Investment

Edited by R. GLENN HUBBARD

Economists interested in industrial organization have long investigated the growth and development of firms, but formal analysis of the role of finance in this area has come much more recently. Beginning in the late 1950s, research in finance has stressed that, in perfect capital markets, financial structure has little bearing on investment decisions of the firm, apart from tax considerations. However, recent theoretical studies, borne out by empirical work, have produced results inconsistent with the earlier model.

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.

The contributors examine whether direct government intervention in credit markets would increase the efficiency with which investment funds are allocated, a question arising from the hypothesis that information problems in lending markets can raise the cost of finance for some classes of borrowers. With respect to how firms arrange financing, most studies have looked only at the factors motivating the choice of security (debt vs.

(Continued on back flap)

**Asymmetric Information,
Corporate Finance, and
Investment**



**A National Bureau
of Economic Research
Project Report**

Asymmetric Information, Corporate Finance, and Investment

Edited by

R. Glenn Hubbard



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R. Glenn Hubbard

