Volume Title: Asymmetric Information, Corporate Finance, and Investment

Volume Author/Editor: R. Glenn Hubbard, editor

Volume Publisher: University of Chicago Press, 1990

Volume ISBN: 0-226-35585-3

Volume URL: http://www.nber.org/books/glen90-1

Conference Date: May 5, 1989

Publication Date: January 1990

Chapter Title: Front matter, table of contents, acknowledgments

Chapter Author: R. Glenn Hubbard

Chapter URL: http://www.nber.org/chapters/c11464

Chapter pages in book: (p. -11 - 0)

Hubbard

National Bureau of Economic Research

Asymmetric Information, Corporate Finance, and Investment

National Bureau of Economic Research

Chicago

National Bureau of Economic Research

Asymmetric Information, Corporate Finance, and Investment

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

The University of Chicago Press

Chicago and London

R. GLENN HUBBARD is professor of economics and finance at the Graduate School of Business, Columbia University.

The University of Chicago Press, Chicago 60637
The University of Chicago Press, Ltd., London

Printed in the United States of America
99 98 97 96 95 94 93 92 91 90 5 4 3 2 1

Library of Congress Cataloging-in-Publication Data

Asymmetric information, corporate finance, and investment / edited by R. Glenn Hubbard.
p. cm. —(A National Bureau of Economic Research project report)
Papers presented at an NBER conference held in Cambridge, May 5–6, 1989.
Includes bibliographical references and index.
ISBN 0-226-35585-3
1. Corporations—Finance—Congresses. 2. Investments—Mathematical models—Congresses. 3. Securities—Congresses. I. Hubbard, R. Glenn. II. Series.
HG4006.A89 1990
658.15—dc20 90-11043
CIP

Relation of the Directors to the Work and Publications of the National Bureau of Economic Research

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the National Bureau is carried on in strict conformity with this object.

2. The President of the National Bureau shall submit to the Board of Directors, or to its Executive Committee, for their formal adoption all specific proposals for research to be instituted.

3. No research report shall be published by the National Bureau until the President has sent each member of the Board a notice that a manuscript is recommended for publication and that in the President's opinion it is suitable for publication in accordance with the principles of the National Bureau. Such notification will include an abstract or summary of the manuscript's content and a response form for use by those Directors who desire a copy of the manuscript for review. Each manuscript shall contain a summary drawing attention to the nature and treatment of the problem studied, the character of the data and their utilization in the report, and the main conclusions reached.

4. For each manuscript so submitted, a special committee of the Directors (including Directors Emeriti) shall be appointed by majority agreement of the President and Vice Presidents (or by the Executive Committee in case of inability to decide on the part of the President and Vice Presidents), consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when notice of the proposed publication is submitted to him. It shall be the duty of each member of the special manuscript committee to read the manuscript. If each member of the manuscript committee signifies his approval within thirty days of the transmittal of the manuscript, the report may be published. If at the end of that period any member of the manuscript committee withholds his approval, the President shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty days additional shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board who shall have voted on the proposal within the time fixed for the receipt of votes shall have approved.

5. No manuscript may be published, though approved by each member of the special manuscript committee, until forty-five days have elapsed from the transmittal of the report in manuscript form. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general or the special committee have passed on its validity in every detail.

6. Publications of the National Bureau issued for informational purposes concerning the work of the Bureau and its staff, or issued to inform the public of activities of Bureau staff, and volumes issued as a result of various conferences involving the National Bureau shall contain a specific disclaimer noting that such publication has not passed through the normal review procedures required in this resolution. The Executive Committee of the Board is charged with review of all such publications from time to time to ensure that they do not take on the character of formal research reports of the National Bureau, requiring formal Board approval.

7. Unless otherwise determined by the Board or exempted by the terms of paragraph 6, a copy of this resolution shall be printed in each National Bureau publication.

(Resolution adopted October 25, 1926, as revised through September 30, 1974)

Contents

Acknowledgments

These papers were presented at the NBER conference, "Asymmetric Information, Corporate Finance, and Investment" held in Cambridge, May 5–6, 1989. The research represents the culmination of efforts in a three-year project at the NBER under the program on financial markets and monetary economics. I am grateful to Martin Feldstein and especially to Benjamin Friedman for advice and support in the design of the program. Financial support was generously provided by the Ford Foundation, the Lilly Endowment, and the Seaver Institute. Kirsten Foss Davis and Ilana Hardesty spent much time in assuring the quality and efficiency of each meeting.

Finally, I would like to thank my coauthors of papers in this research agenda, from whom I have learned much—Charles Calomiris, Steven Fazzari, Mark Gertler, Kenneth Judd, Anil Kashyap, Bruce Petersen, Peter Reiss, and James Stock.

R. Glenn Hubbard