



UvA-DARE (Digital Academic Repository)

Essays on Corporate Finance and Financial Intermediation

Schmeits, A.

Publication date
1999

[Link to publication](#)

Citation for published version (APA):

Schmeits, A. (1999). *Essays on Corporate Finance and Financial Intermediation*. [Thesis, externally prepared, Universiteit van Amsterdam]. Thela Thesis.

General rights

It is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), other than for strictly personal, individual use, unless the work is under an open content license (like Creative Commons).

Disclaimer/Complaints regulations

If you believe that digital publication of certain material infringes any of your rights or (privacy) interests, please let the Library know, stating your reasons. In case of a legitimate complaint, the Library will make the material inaccessible and/or remove it from the website. Please Ask the Library: <https://uba.uva.nl/en/contact>, or a letter to: Library of the University of Amsterdam, Secretariat, Singel 425, 1012 WP Amsterdam, The Netherlands. You will be contacted as soon as possible.

ESSAYS ON CORPORATE FINANCE AND FINANCIAL INTERMEDIATION

TABLE OF CONTENTS

Chapter 1: Introduction and Outline of Dissertation

1.1 Introduction and Motivation 2
1.2 Approach and Background 6
1.3 Outline of the Dissertation 9
1.4 Concluding Remarks 14

Chapter 2: Information Asymmetry in Financial Markets: Implications for Financial Contracting and the Firm's Funding Source Choice

2.1 Introduction 16
2.2 Asymmetric Information, Investment Incentives and Market Failure in Debt and Equity Markets 18
2.3 Solutions to Informational Problems: Financial Contracting 25
 2.3.1 Solutions to Adverse Selection 25
 2.3.2 Solutions to Moral Hazard 30
2.4 Solutions to Informational Problems: The Firm's Funding Source Choice 37
 2.4.1 Bank Financing 38
 2.4.2 Financial Market Financing 48
 2.4.3 Venture Capital Financing 54
2.5 Concluding Remarks 56

Chapter 3: Discretion in Bank Contracts and the Firm's Funding Source Choice between Bank and Financial Market Financing

3.1 Introduction 60
3.2 Related Literature 64
3.3 The Basic Model 67
 3.3.1 Production Possibilities for Firms 67
 3.3.2 Information Structure, Types of Contracts and Funding Sources 68
 3.3.3 Sequence of Events in Lender-Borrower Interaction 70
3.4 Model Analysis 71
 3.4.1 Determination of Interest Rates 71
 3.4.2 The Borrower's Choice of Contract Type and Funding Source 78

3.4.3	Discussion	88
3.4.4	A Numerical Example	89
3.5	Model Extensions and Further Analysis	91
3.5.1	Ex Ante Investment Incentives, Project Types and the Borrower's Contract Choice	92
3.5.2	Long-Term versus Short-Term Contracts	94
3.5.3	Information Production in Financial Markets and Reputation Formation	96
3.5.4	Implications for Comparative Financial Systems	98
3.5.5	Application to Bank Contracts: Loan Commitments	100
3.6	Conclusions	101
Appendix:		
A.1	Proofs of Propositions	102

Chapter 4: Market Discipline and Incentive Problems in Conglomerate Banks

4.1	Introduction	118
4.2	General Framework and Intuition	121
4.3	The Model: Setup and Analysis	123
4.3.1	Specification	123
4.3.2	Analysis	126
4.3.3	A Numerical Example	135
4.3.4	Discussion	135
4.4	Internal Allocation of Cost of Capital and Incentive Contracting Issues	137
4.4.1	Internal Allocation of Cost of Capital	137
4.4.2	Incentive Contracting Issues	140
4.5	Proprietary Trading versus Relationship Banking	143
4.5.1	Introduction	143
4.5.2	Specification and Analysis	144
4.6	Further Implications and Empirical Evidence	147
4.6.1	The Diversification Discount	147
4.6.2	Conglomeration in Developed and Developing Economies	149
4.6.3	Applications to Corporations: Spinoffs and Equity Carve-Outs	150
4.7	Conclusions	151
Appendix:		
A.1	Proofs of Propositions	152

Chapter 5: Issues in Venture Capital Financing

5.1	Introduction	166
5.2	Main Problems in the Financing of Entrepreneurial (Start-Up) Firms	168
5.2.1	Informational Problems between Entrepreneurial Firms and Financiers	169
5.2.2	The Supply Side of the Market for Risk Capital; Policy Issues	171
5.3	Solutions to Informational Problems in the Financing of Start-Up Firms	173
5.3.1	Information Production	173
5.3.2	Contractual Features	175
5.3.3	Other Features of Venture Capital Financing	189
5.4	Shortcoming in Financing Forms and Institutional Arrangements; Government Intervention	190
5.4.1	Rationales for Government Intervention in the Market for Venture Capital	191
5.4.2	A Simple Model of Government Intervention in the Market for Risk Capital	194
5.4.3	Measures of Government Intervention	198
5.4.4	Potential Caveats and Possibilities for Extensions	205
5.5	Overview and Evaluation of Dutch Measures of Government Intervention in the Market for Venture Capital	207
5.5.1	Key Arrangements; Government Guarantees	208
5.5.2	Recent Measures	211
5.5.3	Evaluation	212
5.6	Concluding Remarks and Avenues for Future Research	213
Appendix:		
A.1	Proofs of Propositions	217
Summary		223
References		227
Summary (in Dutch)		240

