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