

GIAN Course
Asymmetric Information and Financial Contracts
(22-27 October 2018, Jamia Millia Islamia, New Delhi)

Overview

The access to funds is often unduly difficult or expensive for governments and firms. This is due to the difficulty of contracting under uncertainty about future events but also uncertainty about the abilities and the behavior of the borrower. The asymmetry of information between the lender and the borrower about such risks is a major source of financial exclusion or of high borrowing costs. Financial practice and contract theory have developed tools to deal, at least partly, with uncertainties. The direct or indirect production of information before or during the implementation of a contract can take various forms of signals, incentives and commitments. For instance, collateral and covenants are common in the case of bank loans; power-sharing in decision-making is common in partnerships and equity finance.

Practically, different financial contracts lead to different distributions of risks and of information costs among lenders and borrowers. This depends upon their characteristics and upon their alternative uses and sources of funds. Time also plays an important role in the revelation of information and in risk-management. The short-term contracts can be compared to long-term contracts. Debt restructuring can benefit from the insights of incentive-compatibility and of information theory. In the special case of government debt, the relation of governments with banks and the operation of monetary unions without fiscal union, like the European Monetary Union, raise new issues.

The course offers insights into the application to corporate, bank and government finance of key reference contracts and of economic models of asymmetric information.

Objectives

The primary objectives of the course are as follows:

1. *Economic Analysis and Modeling*: Understanding how the problem of asymmetric information affects the existence and the design of financial contracts.
2. *Critical Thinking and Challenges*: Discussing short challenges, case studies, and participants experience around financial contracts.
3. *Applications*: Assessing the costs and benefits of contracts designed to deal with information and incentive issues and with default risk or occurrence.

Course Details

This course is organized in two modules that should be taken together. The Module 1 covers the topics of corporate finance like Leverage and External Finance: The Modigliani-Miller Benchmark, Conjectures about Balance Sheets, Understanding Risk in Financial Contracts, Bankruptcy Costs and Benefits, Hidden Ability and Actions of the Borrowers, Agency Theory and Practical Views of Corporate Finance. The Module 2 covers the topics on Definition and

Roles of Banks, Self-fulfilling Crises, The Euro and European Debt Crisis, Soft Budget Constraints, Debt Renegotiations, and Alternative Models and Experiences of Crises and Recoveries under the broad theme of Banking, Governments and Financial Crises.

Course participants will learn these topics through lectures, discussions, case studies and short assignments. A brief course outline is presented at the end.

Who Can Attend*

- Students, Researchers and Young Faculty Members across disciplines from Universities/ Colleges/ Institutes from India and Abroad
- Industries/Banks/Financial Institutions/ Research Organisations/Government Bodies from India and Abroad

*The number of participants for the course will be limited to 50 (fifty).

Registration Fees**

From	Participants	Registration Fee
Outside India	All	US \$500
India	Industry/ Corporate	Rs. 10000/-
	Faculty Members/ Teachers from Academic Institutions/ Research Organisation	Rs. 5000/-
	Students/ Research Scholars	Rs. 1000/-

**The above fee includes all instructional materials, computer use for tutorials, 24 hr free internet facility. The participants may be provided with accommodation at in the university campus on payment basis at official rates subject to the availability.

Date & Venue

22-27 October 2018, Jamia Millia Islamia, New Delhi

The Faculty



Alain de Crombrugghe

PhD in Economics, Harvard University, USA

Professor of Economics, University of Namur, Belgium.

Alain de Crombrugghe is a professor of international monetary economics at the University of Namur, with research activities around European macroeconomic policy, monetary policy coordination, debt crises, and interactions between the financial market and the labor market in recessions.



Shahid Ashraf

Professor, Department of Economics &
Pro-Vice Chancellor, JMI (Central University), New Delhi.

Prof. Shahid Ashraf is a Professor in the Department of Economics at Jamia Millia Islamia with teaching and research interest in financial economics and Indian economic policy.



Mirza Allim Baig

Associate Professor, Department of Economics,
JMI (Central University), New Delhi.

Dr. Mirza Allim Baig is currently Associate Professor in the Department of Economics at Jamia Millia Islamia with research interest in the area of open macroeconomics and finance.

Coordinator for Correspondence

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A Brief Course Outline

Module 1: Corporate Finance

22 Oct 2018 (Monday)

Lecture 1 (Including Questions & Answers): Leverage and External Finance: The Modigliani-Miller Benchmark

Discussion/ Open Forum 1: Conjectures about Balance Sheets

Lecture 2 (Including Questions & Answers): Understanding Risk in Financial Contracts

23 Oct 2018 (Tuesday)

Lecture 3 (Including Questions & Answers): Bankruptcy - Costs and Benefits

Discussion/ Open Forum 2: Discussion of Observed Balance Sheets

Homework Assignment 1: Observations on Balance Sheets: Comparison of Salient Features, Conclusion on the Role of Different Liability Structures

Lecture 4 (Including Questions & Answers): Hidden Ability of the Borrower- Costs of Asymmetric Ability Information, Credit Rationing, and Remedies

24 Oct 2018 (Wednesday)

Lecture 5 (Including Questions & Answers): Hidden Actions of the Borrower: Limited Liability, Incentives, and Monitoring

Homework Assignment 2: Problem Set on Agency Theory

Discussion/ Open Forum 3: Agency Theory and Practical Views of Corporate Finance
Discussion of Homework Assignment 2

Lecture 6 (Including Questions & Answers): Practical Theories of Corporate Finance

Module 2: Banking, Governments and Financial Crises

25 Oct 2018 (Thursday)

Lecture 7 (Including Questions & Answers): Definition and Roles of Banks: Intermediation, Liquidity Creation, Information, Enforcement

Discussion/ Open Forum 3: Self-fulfilling Crises; The Euro and European Debt Crisis

Lecture 8 (Including Questions & Answers): Liquidity Provision, Asymmetric Information and Bank Runs

Homework Assignment 3: Self-fulfilling Crises: Case Studies / Theory

26 Oct 2018 (Friday)

Lecture 9 (Including Questions & Answers): Soft Budget Constraints

Lecture 10 (Including Questions & Answers): Debt Renegotiations: Incentive Issues, Surplus-Sharing

Final Discussion (Including Questions & Answers): Alternative Models and Experiences of Crises and Recoveries
Question and Answer Session on the Models of Financial Crises

27 Oct 2018 (Saturday)

Examination and Evaluation