

Mechanisms to Mitigate Information Asymmetry: Creditor Rights, Collateral, Information Sharing and Debt Maturity

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The presence of asymmetric information about the borrowers in a lending market can lead to adverse selection and moral hazard. The problem is exacerbated by the existence of ex-ante private information with the borrowers. Following two forms. First, the existence of ex-ante private information with the borrowers may lead to adverse selection in which the higher interest rates might attract bad quality borrowers increasing the expected interest rate of the lenders and pushing the good quality borrowers out of the market.

eight years, we find important differences in results between unlisted and listed firms indicating the role of creditor rights and collateral protection in mitigation of information asymmetry. We show that creditor rights and collateral primarily mitigate adverse selection problems for unlisted firms while they mitigate moral hazard problems for listed firms.