

Seminar VII

*Problem 1 (Exam 2012)*

- (i) Explain, within a fixed-investment model with moral hazard, how an entrepreneur's chances of getting his project funded depend on how much own assets he has available.
- (ii) Extend the model from (i), if needed, to discuss how the entrepreneur can facilitate funding by hiring a monitor.
- (iii) Explain how the results from (ii) are affected in cases where available monitors suffer from scarcity of capital.
- (iv) Discuss how results are further affected by liquidity needs among potential monitors.
- (v) How can the insights from (iv) help in comparing various systems of corporate governance, in particular in a comparison between market-based and bank-based systems?

*Problem 2*

Exercise 9.4 in Tirole, p. 380.