

Indian Institute of Technology Kanpur

Proposal for a New Course

1. **Course No:** ECO721A
2. **Course Title:** Information Frictions in Financial Economics
3. **Per Week Lectures:** 3 (L), Tutorial: 0 (T), Laboratory: 0 (P), Additional Hours [0-2]: 0 (A), Credits $(3*L+0*T+0*P+0*A) = 9$ Credits
4. **Duration of Course:** Full Semester
5. **Proposing Department/IDP:** Economic Sciences

Other Departments/IDPs which may be interested in the proposed course: No

Other faculty members interested in teaching the proposed course: No

6. **Proposing Instructor(s):** Professor Hargungeet Singh

7. **Course Description:**

A) **Objectives:** This course is intended for **PG and advanced UG students**. The objectives of this course are to provide students with an introduction into theories in corporate finance, financial intermediation and information economics. We study the implications of information asymmetry in financial markets and possible remedies. We study both static and dynamic models, as well as models with finite and infinite number of agents.

B) **Contents** (*preferably in the form of 5 to 10 broad titles*):

S. No.	Broad Title	Topics	No. of Lectures #
1.	Revision of Basic Concepts	Moral Hazard, Adverse Selection, Signaling, Screening, Optimal Contracts, First Price Auctions	5
2	Corporate Financing, Agency Costs and Capital Structure	Moral Hazard and Observability, Delegating management, Outside Financing, Signaling through Collateral, Credit Rationing, Debt Overhang	3
3	Security Design	Information sensitivity, Security ratings, Allocating control rights, Diversity of securities (Optional: Continuous -time extensions)	3
4	Information Flows and Learning in Financial Markets	Information Acquisition, Herding Behaviour, Market Microstructure, Insider Trading Models, Bid-Ask Spreads, Information Cascades, social learning	8

5	Financial Intermediation	Bank Runs, Financial Contagion, Demand Deposit Insurance, Credit market Freezes	4
6	Other topics:	Information Design and Stress tests, Coordination Games, Beauty -Contest games, Global Games, Rational Inattention and information acquisition, Complexity of Financial Markets	3

Each class is of 90 minutes.

C) Pre-requisites, if any (examples: a- PSO201A, or b- PSO201A or equivalent): For UG students - ECO201A, ECO261A; For PG students – familiarity with introductory Microeconomics and Mathematical Economics is necessary.

A) Short summary for including in the Courses of Study Booklet: This course provides students with an introduction to theories in corporate finance, financial intermediation and information economics. We study the implications of information asymmetry in financial markets and possible remedies. We study both static and dynamic models, as well as models with finite and infinite number of agents.

B)

8. Recommended books:

- 1) Advanced Microeconomic Theory by Jehle and Reny, Prentice Hall
- 2) The Theory of Corporate Finance by J. Tirole
- 3) Microeconomic Theory, Mas-Collel, Whinston, and Green (1995)

9. Any other remarks:

Dated: 20/9/2021 Proposer: _____

Dated: _____ DUGC/DPGC Convener: _____

The course is approved / not approved

Chairman, SUGC/SPGC

Dated: _____