**Review Questions, Lecture 7: Corporate Finance under Asymmetric Information**

**Question 1:** What is the winner’s curse? How does it affect the offer price in share offerings?

**Question 2:** Under which condition is “not lending” an outcome in the credit market with asymmetric information?

**Question 3:** Under which condition is lending to both borrowers an outcome in the credit market? When is such an outcome associated with overinvestment?

**Question 4:** A borrower wants to undertake an efficient “deepening investment” to increase her probability of success which needs to be fully externally financed under asymmetric information. Under which conditions do good and bad borrower raise external funds (pooling equilibrium) and under which conditions will only the bad borrower raise external funds (separating equilibrium)?

**Question 5:** How can a negative stock-price reaction to an equity offering be explained in the scenario of question 5?

**Question 6:** How can the observation that an equity offering occurs more often during booms be explained in the scenario of question 5?

**Question 7:** What does the pecking order hypothesis state and how can it be explained in an asymmetric information framework? Which is the motivation of a good borrower for preferring at least a partial debt contract?

**Question 8:** Consider the pecking order hypothesis. Under which conditions does a good borrower want to signal her quality by other means than a debt contract?