

**Economics Seminar, Indian Statistical Institute, New Delhi.**

**SPEAKER: Amitrajeet A. Batabyal**, Department of Economics, Rochester Institute of Technology

**TITLE:** *Asymmetric Information, Entrepreneurial Activity, and the Scope of Fiscal Policy in an Open Regional Economy*

**TIME: 11:30 AM - 1:00 PM**

**DAY & DATE: Friday, July 3rd, 2009**

**PLACE:** Seminar Room 2, New Building

**Abstract:**

We analyze two hitherto little studied but salient questions concerning the trinity of asymmetric information, entrepreneurial activity, and the scope of fiscal policy in an open regional economy. First, we use a two period model to analyze the contractual relationship between entrepreneurs and venture capitalists when the latter are located outside the region under study. Because there is moral hazard, venture capitalists do not offer entrepreneurs the first best investment contract and entrepreneurial activity is suboptimal. Second, we analyze a two period model with venture capitalists who are now located inside our regional economy. We show that despite the existence of a credit market imperfection, because the regional authority (RA) does not have an informational advantage over the private sector, it is not possible for this RA to use fiscal policy to make a Pareto improving intervention in which some agents are better off and others are no worse off.

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