

Economics Seminar, Indian Statistical Institute, New Delhi.

SPEAKER: Yong Wang, City University of Hong Kong

TITLE: Asymmetric Information, Auditing Commitment, and Economic Growth

TIME: 11:30-1:00 P.M.

DAY & DATE: Wednesday, 26th November 2008

PLACE: Seminar Room 2, New Building

Abstract:

We analyze in this paper the growth and welfare consequences arising from the lack of auditing commitment in a credit market with costly state verification. Specifically, two endogenous growth models, of which one allows lenders to commit to costly auditing strategies to identify borrowers' investment returns and the other does not, are compared. We show that the inability to commit acts as an additional source of informational friction that leads to more stringent contractual terms, which in turn result in lower capital accumulation, growth, and welfare. In addition, when a tax on capital is considered, the tax-induced investment distortions are amplified by the absence of auditing commitment. From the policy perspective, our analysis can be interpreted as suggesting a new micro-economic channel through which institutional failings hinder economic growth and social welfare.

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