EE 431/ EE438 Economics of Financial Markets and Institution
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Assignment 3

Due Date:

1. ME Chapter 7 Quantitative Problems: 1 , 2, 3
2. Use asymmetric information problem presented in the slides. Find the *minimum* collateral necessary to align the incentives of the borrower with that of the lender. **Hint:** For the case of *ex ante* moral hazard, compare the payoffs from choosing each project with and without collateral and see the minimum collateral that requires for tilting the borrower's decision to the favorable way. Repeat for the case of cheating/honest under the assumption that collaterals are expropriated under cheating strategy