The Kyoto Economic Review
Graduate School of Economics, Kyoto University

ONLINE ISSN : 1349-6778
PRINT ISSN : 1349-6786

The Kyoto Economic Review
Vol. 73 (2004) , No. 2 pp.87-107

[PDF (1675K)] [References]

On the Pricing of Corporate Value under Information Asymmetry

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Abstract: This paper examines the corporate value of a decentralized firm in the presence of principal-agent conflicts due to information asymmetries. When owners delegate the management to managers, contracts must be designed to provide incentive for managers to truthfully reveal private information. Using a contingent claims approach, we demonstrate that an underlying option value of the firm can be decomposed into two components: a manager's option and an owner's option. The value of a decentralized firm is lower than that of an owner-managed firm. In particular, the implied manager's decisions in a decentralized firm differ significantly from those in an owner-managed firm.

Keywords: option pricing; principal-agent conflicts; information asymmetries

[PDF (1675K)] [References]

To cite this article:

Takashi Shibata; “On the Pricing of Corporate Value under Information Asymmetry”, *The Kyoto Economic Review*, Vol. **73**, pp.87-107 (2004) .

JOI JST.JSTAGE/ker/73.87