


Andreas Krause

A wide-angle photograph of a city skyline viewed from across a body of water. In the foreground, the water is dark blue with gentle ripples. A low concrete wall separates the water from a row of buildings. On the left, there are several multi-story brick buildings with traditional architectural features. To the right, there are more modern, multi-story brick buildings with large windows. In the background, a dense cluster of modern skyscrapers rises against a clear blue sky. The buildings vary in height and design, including several cylindrical towers and rectangular high-rises. A construction crane is visible on the far right side of the skyline.

Investment banks as information providers

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- ▶ Investment banks facilitate the issuing and trading of securities
- ▶ They act as an intermediary between the seller or issuer and a buyer
- ▶ It is commonly assumed that intermediaries are uninformed
- ▶ Investment banks are often better informed than their clients
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## Investment banks providing information

- ▶ If investment banks are informed, their information cannot be verified
- ▶ Their own actions will reveal whether they hold this information
- ▶ The information must be sufficiently valuable to justify its price
- ▶ Clients will only purchase information if it is valuable and they can verify it is truthful

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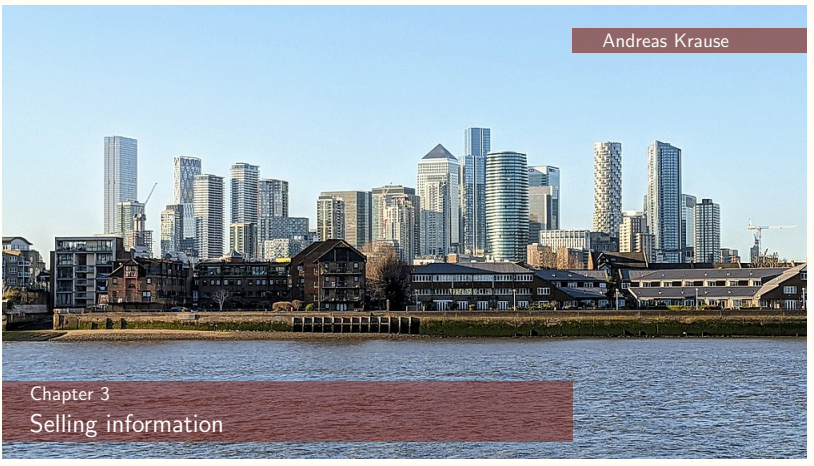
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Chapter 3  
Selling information

## Discussion of the model results

- Investment banks can provide information to market participants, but only negative news can be verified easily from the actions of the investment bank
- Negative news are seen as more reliable as they are only sold by informed investment banks, hence market prices should adjust more to negative news
- Will investment banks sell information they do not hold?
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- ▶ If investment banks are affecting the information investors have, this will affect the behaviour of issuers
- ▶ Issuers of securities might change the characteristics of their securities
- ▶ They might increase their efforts to generate profits or returns to the state
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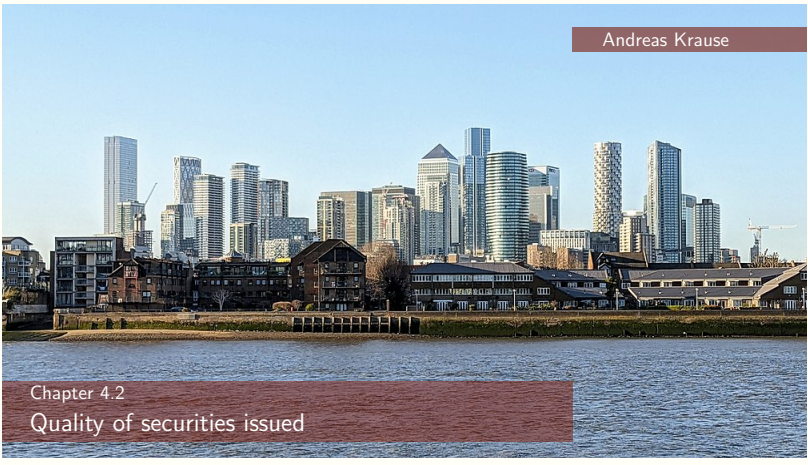
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Chapter 4.2  
Quality of securities issued

## Discussion of the model results

- Security qualities might increase or decrease in the presence of investment banks
- The effect will depend on the difficulty of the investment bank to assess the company and the costs of the company to increase their quality
- Will investment banks accept clients whose securities will reduce in quality?
- Reduced security quality occurs if the company is difficult to value, posing substantial risks to the investment bank, which they might seek to avoid as they lack expertise



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## Summary of key results

- Investment banks find it profitable to sell information, while also acting themselves on this information – but this is only profitable for negative information and investors find it only profitable to purchase information that is sufficiently negative
- The presence and use of investment banks affect the incentives of companies, who adjust the characteristics of their securities to maximize their own profits
- Investment banks are more than a traditional intermediary, they do provide information and affect the characteristics of securities



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