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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, a long, low-profile modern building with a dark roof and large windows stretches across the frame. Behind these buildings, a dense cluster of modern skyscrapers rises against a clear, light blue sky. The skyscrapers vary in height and design, including cylindrical towers and rectangular structures with glass facades. A construction crane is visible on the far right side of the skyline.

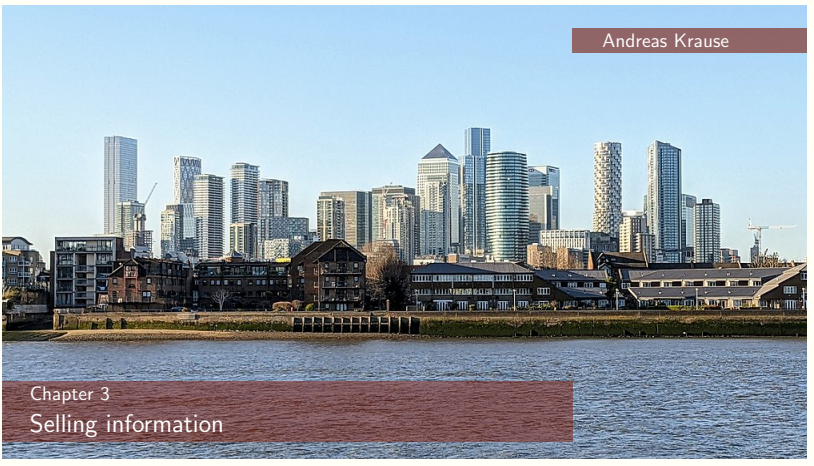
Investment banks as information providers

Investment banks as intermediaries

- ▶ 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
- ⇒ Investment banks do more than bring buyers and sellers of securities together

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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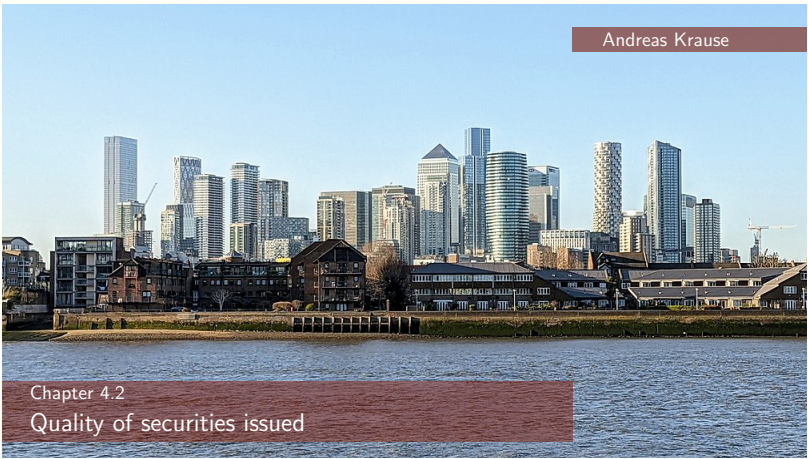
Chapter 3
Selling information

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?
- ! Concerns about their reputation would limit their ability to sell non-existent information

Investment banks affecting security properties

- ▶ 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 reduce risks they take
- ⇒ Using investment banks can affect the quality of securities offered



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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

Summary of key results

- ▶ Investment banks find it profitable to sell information, while also acting themselves on this information, but this is only verifiable 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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