

Takeaway

- Learn what are the consequences of Asymmetric information on capital structure and capital budgeting
- Because the market assumes that the CFO will decide to issue equity only when stocks are overpriced, if your stock is not overpriced, equity is too expensive.
- So, when there is asymmetric information about the firm (quality of the investments and assets in place), equity may become too expensive. Either you find an alternative source of finance or you may be forced to forego positive NPV projects.