



CAPITAL MARKETS UNDER IMPERFECT INFORMATION: AN INFORMATION ECONOMICS PERSPECTIVE ON MARKET EFFICIENCY

Paul Wangila Sitati¹, Dr. Yasin Ghabon²

¹Student Department of Accounting and Finance, School of Business and Economics, Maseno University.

²Head of Department of Economics, School of Business and Economics, Maseno University.

ABSTRACT

DOI No: 10.36713/epra28727

Article DOI: <https://doi.org/10.36713/epra28727>

This paper examines the role of information economics in explaining the persistence of inefficiencies within capital markets arising from information asymmetry between corporate insiders and external investors. Traditional financial theory, particularly the Efficient Market Hypothesis (EMH), assumes that security prices fully reflect all available information. In reality capital markets are characterized by unequal access to economically valuable information, creating adverse selection, moral hazard, and agency conflicts that distort investment decisions and corporate financing behaviour. Drawing upon the contributions of Akerlof, Spence, and Stiglitz, the analysis demonstrates that informational imperfections are not peripheral market anomalies but defining characteristics of financial transactions that systematically distort resource allocation. Specifically, the paper argues that adverse selection and moral hazard create persistent market frictions that increase the cost of capital, discourage efficient investment, and weaken market liquidity. Through examination of the Myers-Majluf pecking order framework, the analysis reveals how informational frictions generate persistent underinvestment problems, as high-quality firms forgo positive-net-present-value projects to avoid the equity signalling discount imposed by uninformed investors. The paper further explores the principal-agent conflicts arising from the separation of ownership and control, demonstrating how moral hazard manifests through excessive risk-taking, earnings manipulation, and managerial empire-building. To address these structural pathologies, the paper concludes that a tripartite institutional architecture of mandatory disclosure regimes, independent information intermediaries, and credible private signalling is indispensable for containing systemic inefficiency. Therefore, the paper contributes to the growing literature on information economics by providing a comprehensive framework for understanding how informational imperfections influence corporate behaviour, investor decision-making, and regulatory design in contemporary capital markets

KEYWORDS: Information Economics, Capital Markets, Information Asymmetry, Adverse Selection, Moral Hazard, Pecking Order Theory, Signaling, Market Efficiency.

INTRODUCTION

Capital markets occupy a central position in modern economies. They facilitate the efficient allocation of financial resources between surplus and deficit units through the issuance and trading of equity and debt securities. Capital markets channel savings into productive investment, promote corporate growth, enhance economic development, and enable investors to diversify risk. The efficiency with which these markets perform their allocative function has long been explained through the neoclassical paradigm, which assumes that market participants possess complete and symmetric information and behave as fully rational utility maximizers. Under these conditions, competitive markets are expected to allocate resources optimally, with asset prices accurately reflecting all available information and converging towards their intrinsic values (Fama, 1970).

The intellectual foundation of this perspective is embodied in the Efficient Market Hypothesis (EMH). According to Fama (1970) financial markets rapidly and unbiasedly incorporate available information into security prices, thereby making it impossible for investors to consistently earn abnormal risk-adjusted returns through the exploitation of publicly available information. The weak, semi-strong, and strong forms of market efficiency collectively suggest that historical prices, publicly disclosed information, and even private information are progressively reflected in market prices (Fama, 1970). Within this framework, securities are assumed to be fairly valued, managerial financing decisions are neutral with respect to firm value, and capital is allocated to its most productive uses with minimal friction.

Despite its enduring influence, the EMH rests upon assumptions that have increasingly been challenged by both

theoretical developments and empirical observations. Financial markets are characterised by uncertainty, heterogeneous expectations, costly information acquisition, and unequal access to economically valuable information (Gatti et al., 2025; Jang & Kang, 2021; Gomez & Piccillo, 2026; Ni et al., 2026). Corporate managers routinely possess superior knowledge regarding the firm's future prospects, investment opportunities, and underlying financial condition compared with external investors, creditors, and minority shareholders (Ni et al., 2026). Consequently, market participants do not make decisions under conditions of perfect information but rather within environments characterised by informational imperfections that systematically influence market outcomes.

Emergence of information economics fundamentally transformed the understanding of financial markets. According to Stiglitz (2017) information itself constitutes an economic good that is costly to acquire, unevenly distributed, and capable of generating significant market distortions. The pioneering contributions of Akerlof (1978), Spence (1978), and Stiglitz (1981; 2000) established that information asymmetry is not merely a peripheral market imperfection but a defining characteristic of many economic transactions. These contributions exposed an inherent contradiction within the traditional neoclassical conception of capital markets. Whereas the EMH assumes that information is instantaneously and costlessly available to all market participants information economics recognises that information is imperfect, costly, and asymmetrically distributed.

From a welfare economics perspective, information asymmetry represents a significant departure from Pareto efficiency. Under Pareto-optimal conditions, resources are allocated such that no individual can be made better off without making another worse off. However, when information is unevenly distributed, prices fail to fully reflect underlying economic fundamentals. The anomaly results in mispriced securities and suboptimal investment decisions that constrain financing opportunities for fundamentally sound firms, and excessive financing for lower-quality enterprises. Consequently, capital markets may experience persistent inefficiencies that reduce aggregate welfare and impede economic growth (Stiglitz, 2000). These distortions become particularly evident during episodes of financial instability, where information uncertainty amplifies market volatility, adverse selection intensifies liquidity shortages, and investor confidence rapidly deteriorates.

Against this backdrop, the paper critically evaluates the microeconomic mechanics of information failures within capital markets. Specifically, it argues that while the structural tensions of adverse selection and moral hazard fundamentally distort corporate financing choices and depress asset valuations, a cohesive synthesis of private signalling, rigorous independent auditing, and statutory disclosure mandates is indispensable to contain systemic inefficiency and preserve market liquidity. To establish this argument, the paper first examines the foundational theories of asymmetric information before analysing the Myers–Majluf pecking order framework and corporate governance failures arising from informational conflicts. It subsequently evaluates the institutional and regulatory mechanisms that seek to reduce informational asymmetry and enhance market efficiency. In doing so, the paper demonstrates that information economics provides a

more realistic and analytically robust framework for understanding the functioning of contemporary capital markets than models predicated upon assumptions of perfect information.

The Theoretical Foundation of Information Asymmetry

The basis of capital markets deviation from idealized conditions of EMH can be understood through several theories. Traditional microeconomic models posit that buyers and sellers possess complete and symmetric information regarding the characteristics of goods, services, and financial assets. Ideally, markets are expected to achieve Pareto-efficient outcomes through competitive price mechanisms. However, the economics of information fundamentally challenges this assumption. Realistically, information is costly to acquire and unevenly distributed among market participants (Stiglitz, 2017; Jang & Kang, 2021). Consequently, economic agents make decisions under conditions of uncertainty, creating incentives for strategic behavior that may distort market outcomes, increase transaction costs, and reduce welfare (Stiglitz, 2000). Within capital markets, these informational imperfections create and sustain agency conflicts.

Information asymmetry exists whenever one party to a transaction possesses material information that is unavailable to the other party. In financial markets, corporate managers typically possess superior knowledge regarding the firm's investment opportunities, financial condition, operational risks, and future earnings prospects compared with external investors and creditors (Fried & Wang, 2019). This informational imbalance gives rise to two distinct forms of opportunistic behavior; adverse selection and moral hazard.

Pre-Contractual Asymmetry

Adverse selection occurs prior to the execution of a financial contract when uninformed investors cannot accurately distinguish between high-quality and low-quality firms, leading to suboptimal investment decisions. Adverse selection, as proposed by Akerlof (1978) is a problem that arises because one party possesses private information that is unavailable to the other party. He demonstrated that when buyers cannot distinguish between high-quality and defective goods, they are willing to pay only an average price that reflects expected market quality. Consequently, owners of high-quality goods withdraw from the market because the offered price undervalues their assets. This leaves a disproportionate number of low-quality goods available for sale. As market quality deteriorates further, buyers reduce their willingness to pay even more, generating a self-reinforcing process that may culminate in complete market failure.

In capital markets, this phenomenon is evident in equity issuance and debt financing. According to Fried and Wang (2019), corporate managers often possess superior information regarding the firm's future profitability, investment opportunities, and risk profile compared with external investors. Investors, recognising this informational disadvantage, discount the prices of newly issued securities according to average expected quality rather than firm-specific fundamentals. High-quality firms consequently perceive their shares as undervalued and may postpone or avoid issuing equity altogether, preferring internally generated funds or less

information-sensitive financing instruments (Guo et al., 2025). Lower-quality firms, by contrast, are more willing to issue overvalued securities because market prices exceed their intrinsic value. As a result, lower-quality firms become disproportionately represented among equity issuers, thereby validating investor skepticism which further depress market valuations.

Consequently, rational investors respond by discounting all securities within the market segment to protect themselves against the possibility of purchasing overvalued assets. This discount increases the firm's cost of external financing and may discourage profitable investments. The resulting equilibrium is characterized by inefficient capital allocation, lower market liquidity, and diminished economic welfare (Guo et al., 2025). The pecking order theory by Myers and Majluf (1984) is a reflection of this dynamic. The theory justifies the firms' preference for internal financing over external equity based on information asymmetries.

Post-Contractual Asymmetry

Post contractual asymmetry is based on the moral hazard problem which occurs affect borrowers have received funding. When informed parties alter their behavior in ways that maximize their own utility because their actions cannot be perfectly monitored by principals, it becomes a moral hazard. This is linked to the principal-agent problems postulated in agency theory. According to Jensen and Meckling (2019) whenever the goals of the principal are no longer in tandem with the agent and when the agent operates not in the best interests of the principal, problems are inherent. The agency problems manifest as a fundamental conflict of interest: the principal (shareholder) delegates decision-making authority to the agent (manager), yet the agent's private actions cannot be perfectly observed or costlessly monitored. The resulting misalignment of incentives generates suboptimal outcomes, as agents pursue objectives that diverge from shareholder value maximisation.

The principal-agent dilemma is acute because principals bear a substantial proportion of the downside consequences of managerial decisions while managers may enjoy private benefits regardless of organizational performance. The Free Cash Flow Hypothesis best encapsulates this agency conflict. Free cash flow represents cash remaining after financing all positive net present value investment opportunities. According to Jensen (1986) managers handling excess cashflows exhibit opportunistic behaviour. They invest in value-destroying projects, shirking effort, and undertaking excessive perquisite consumption. Thus, the retention of free cash flow, rather than its distribution to shareholders, enables managerial empire-building and earnings manipulation at the expense of allocative efficiency.

Additionally, executive compensation structures may also amplify risk-taking incentives when remuneration is heavily linked to short-term financial performance. Compensation packages dominated by stock options, performance bonuses, and equity-based incentives encourage managers to prioritize immediate share price appreciation over long-term value creation. For instance, many corporate executive compensation contracts are directly tied to EPS thresholds or short-term stock price milestones (Cheng et al, 2015). Consequently, since these

options provide managers with unlimited upside potential but limited downside exposure, executives may pursue aggressive acquisition strategies, excessive leverage, earnings management, or speculative investment projects to maximize personal wealth.

Furthermore, the limited liability status exacerbates moral hazard in financial markets. When shareholders are shielded from the full downside consequences of corporate failure, equity holders possess an incentive to pursue riskier investment strategies. This institutional arrangement creates asymmetric payoff structures whereby potential gains from risky projects accrue largely to equity holders, while substantial losses are partially transferred to creditors (Bosch-Rosa et al., 2025). Recent dynamic contracting models demonstrate that when agents control project risk rather than principals, contract efficiency is markedly reduced, with the non-contractibility of risk inducing excessive risk-taking behaviour (Zhang & Yang, 2025). As a result, firms experiencing financial distress may rationally undertake excessively risky investment strategies because the potential upside benefits shareholders while much of the downside risk is borne by lenders. This phenomenon is particularly evident among highly leveraged firms, where incentives to substitute low-risk projects with high-risk alternatives increase as insolvency becomes more likely. Thus, moral hazard is a post-contractual outcome of information asymmetry.

Capital Markets and Financing Decisions

The macroeconomic allocation of capital depends fundamentally on how corporations choose to finance their investment portfolios. In a theoretical frictionless environment, as demonstrated by the Modigliani-Miller theorem (1958), a firm's capital structure is entirely irrelevant to its market valuation. Under those idealized assumptions, the cost of capital is determined solely by the riskiness of the underlying physical assets, completely independent of the securities issued to fund them.

In reality, asymmetric information generates persistent frictions that distort corporate financing decisions. A profound and irreducible information gap exists between corporate managers and public investors. Managers, by virtue of their operational involvement and privileged access to proprietary information, possess vastly superior knowledge regarding the firm's true asset value, current operational health, and future growth prospects compared to external shareholders (Stiglitz, 2017). As such, the separation of ownership from control creates a persistent informational advantage for the agent over the principal. Thus, investors rely largely on audited financial statements, regulatory disclosures, analyst reports, and other publicly available information, all of which provide only an incomplete representation of the firm's underlying economic condition (Myers & Majluf, 1984). As a result of this insider-outsider problem, investors incorporate an informational risk premium into their valuation decisions, manifesting as asset mispricing. Information asymmetry therefore widens the gap between market value and fundamental value, increasing the firm's cost of equity and reducing allocative efficiency within capital markets.

The Myers and Majluf Framework

Myers and Majluf (1984) formalized the implications of asymmetric information in corporate financing decisions through the Pecking Order Theory. According to the framework, managers maximise the long-run wealth of existing shareholders (Myers & Majluf, 1984). If managers possess private information suggesting that the firm's current stock is undervalued, they will refuse to issue new shares, because doing so would unfairly dilute the wealth of existing shareholders to benefit new investors who acquire shares at an artificially low price (Fulghieri et al., 2020). Conversely, if managers know the stock is overvalued, they will eagerly issue new shares, bringing in cheap public capital before the market corrects its mispricing.

Investors understand that managers possess superior information and infer that firms choosing to issue equity are more likely to be overvalued than undervalued. Consequently, the announcement of a seasoned equity offering (SEO) is interpreted as a negative signal regarding firm quality (Heiß et al., 2026). Anticipating adverse selection, investors revise their expectations downward, causing the firm's share price to decline immediately following the announcement. Numerous empirical studies have documented negative abnormal stock returns surrounding SEO announcements (Heiß et al., 2026; Krishnan & He, 2022). This adverse reaction is most pronounced when the rationale for the equity issue is unclear. However, firms with good corporate governance and demonstrably positive investment opportunities experience less severe negative reactions, as the market perceives a lower probability of overvaluation or managerial opportunism. This phenomenon represents the financial analogy of Akerlof's (1978) "Market for Lemons."

The theory argues that signaling penalties dissuade firms from maintaining an optimal debt-to-equity ratio. They follow a financing hierarchy designed to minimize the costs associated with asymmetric information (Myers & Majluf, 1984). At the apex of this hierarchy, internal financing through retained earnings avoids any information asymmetry cost because no external transaction occurs. Second, firms prefer low-risk debt issuance: debt contracts are fixed claims that are less sensitive to the firm's precise valuation, and senior debt investors care primarily about solvency rather than the firm's growth prospects, minimising the asymmetric information premium. At the base of the hierarchy, equity issuance is employed only as a last resort when internal funds are exhausted and debt capacity is fully depleted.

Nonetheless, the hierarchy has consequential macroeconomic outcomes. Highly innovative firms with positive-net-present-value projects but insufficient internal cash or debt capacity may be forced to forgo profitable investments. Ideally, the market-imposed "equity signalling discount" renders external financing prohibitively expensive (Fulghieri et al., 2020). This underinvestment problem represents a genuine allocative inefficiency: value-creating projects are abandoned not because they lack economic merit but because the informational friction between insiders and outsiders makes financing them prohibitively costly (Stiglitz, 2017). Consequently, information asymmetry creates an economy-wide underinvestment problem in which socially valuable projects remain unfunded (Stiglitz,

2000). Thus, informational frictions affect not only individual firms but also the broader efficiency of capital markets and national economic performance.

Consequently, the defensive mechanisms of the pecking order cannot be reliably used to circumvent these market inefficiencies. Fulghieri et al., (2020) note that the pecking disorder frequently result in macroeconomic underinvestment. Thus, capital markets cannot rely solely on decentralized, market-driven signaling to correct informational distortions. To prevent systemic market thinness and restore investor confidence, modern economies require a robust, centralized infrastructure of statutory disclosure mandates and independent gatekeepers to artificially narrow the insider-outsider divide

Mitigating Information Asymmetry in Capital Markets

The structural pathologies of adverse selection and moral hazard, while endemic to capital markets, have elicited tripartite institutional responses. Modern financial systems have developed a comprehensive framework of institutional, regulatory, and market-based mechanisms designed to reduce informational disparities and improve market efficiency. The mechanisms constitute the complementary architecture through which information asymmetries are contained and allocative efficiency is partially restored.

Mandatory Disclosure

The most fundamental institutional response to information asymmetry is mandatory corporate disclosure. Financial reporting regulations require publicly listed firms to disclose timely, comprehensive, and standardized financial information that enables investors to evaluate corporate performance and assess investment risk. The International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (GAAP) establish comprehensive requirements for the presentation of financial information, including fair value disclosures, risk exposures, and credit risk management practices (KPMG, 2024). Thus, disclosure regulations reduce the informational advantage enjoyed by corporate insiders by making material information publicly available to all market participants simultaneously, thereby narrowing the information gap between managers and investors (Stiglitz, 2017).

In a complementary role, statutory disclosure requirements are imposed by securities regulators. The regulators require publicly listed firms to publish annual audited financial statements, interim financial reports, management discussion and analysis, corporate governance reports, and disclosures relating to material events (Breuer, 2021). Continuous disclosure obligations ensure that economically significant information reaches the market promptly, thereby limiting opportunities for insider exploitation of information-based trading advantages.

Mandatory disclosure contributes to capital market efficiency in several ways. First, it improves price discovery by increasing the quantity and quality of publicly available information incorporated into security prices (Breuer, 2021). Second, it lowers the information acquisition costs faced by investors, particularly retail investors who may lack the analytical resources available to institutional investors. Third, greater transparency reduces estimation risk, enabling investors to

demand lower risk premiums and consequently lowering firms' cost of capital. Accordingly, information disclosures enable firms to grow as they have access to funding at a lower cost of capital as investor confidence reduces the risk premium (Goldstein & Yang, 2017). Thus, disclosure requirements have a bidirectional benefit on the financial markets.

Independent Gatekeepers

Capital markets also rely extensively on independent information intermediaries that perform certification and monitoring functions. Particularly, auditors and credit rating agencies strive to enhance investor confidence by verifying, interpreting, and evaluating corporate information. According to Roychowdhury and Srinivasan (2019), external auditors reduce information asymmetry by independently examining corporate financial statements to determine whether they fairly present the firm's financial position in accordance with applicable accounting standards. Audit opinions increase the credibility of reported financial information because investors recognize that audited financial statements have undergone rigorous professional examination. Independent auditing therefore functions as an external monitoring mechanism that constrains managerial opportunism, discourages fraudulent reporting, and strengthens corporate governance.

Similarly, credit rating agencies such as Moody's, Standard & Poor's, and Fitch Ratings evaluate the probability of default associated with corporate and sovereign debt instruments. These agencies reduce information acquisition costs for investors and facilitate efficient pricing of fixed-income securities. According to Roychowdhury and Srinivasan (2019), credit ratings influence borrowing costs, institutional investment decisions, regulatory capital requirements, and overall market confidence. While the issuer-pays model has its agency problems, these agencies ensure checks and balances exist in directing capital toward borrowers with acceptable risk profiles.

Market-Driven Mechanisms

Alongside institutional and regulatory mechanisms, firms and investors actively employ complementary measures to reduce information asymmetry. The principal mechanisms are signaling which occurs when informed parties credibly transmit private information; and screening where the uninformed parties design mechanisms to extract information (Spence 1978; Rothschild & Stiglitz, 1978).

Signaling occurs when the informed party voluntarily undertakes observable actions that credibly communicate private information to uninformed participants. For a signal to be credible, it must impose a cost that is prohibitively expensive for lower-quality firms to imitate, thereby separating high-quality firms from inferior competitors (Spence, 1978). Dividend policy is a credible signaling principle in financial markets. Based on signaling theory, dividend payouts are signals of managerial confidence in future cash flows (Taleb, 2019). The managerial commitment to maintain dividend payments, at the expense of corporate liquidity, serves as a costly signal that distinguishes high-quality firms from their lower-quality counterparts.

Firms with strong and sustainable future cash flows are more capable of maintaining stable dividend policies, whereas financially weaker firms cannot easily replicate such commitments without jeopardizing liquidity (Zheng et al., 2025). Similarly, debt issuance may itself constitute a positive signal because managers confident in future earnings are more willing to commit to fixed repayment obligations. Other signals include share repurchases, environmental, social, and governance (ESG) disclosures, engagement of reputable external auditors, and conservative accounting practices show managerial confidence regarding the firm's underlying financial strength. Though costly, these signals reduce informational uncertainty, improve investor confidence, and lower the cost of external financing.

Screening is initiated by the uninformed party. According to Rothschild and Stiglitz (1978), the uninformed party offers a menu of contracts designed to induce self-selection among heterogeneous firms. Importantly, screening emanates from signals depicted by firms (Ye & Hu, 2025). Since financial markets are fraught with uncertainty, investors rely on observable signals from firms which form the basis for investor reactions. Screening mechanisms encourage informed participants to reveal their private information voluntarily and mitigate negative signals which could cause adverse selection (Ye & Hu, 2025). For instance, rather than offering a single financing arrangement, lenders present borrowers with alternative combinations of interest rates, collateral requirements, repayment schedules, and restrictive covenants (Zhang & Yang, 2025). High-quality borrowers select contracts involving lower interest rates but stricter collateral obligations because they anticipate successful repayment, whereas riskier borrowers self-select into higher-cost contracts with fewer restrictions. This self-selection process signals to investors on the best company to invest their resources.

CONCLUSION

The microeconomic mechanics of information failures within capital markets demonstrate that the neoclassical assumption of perfect information fundamentally misrepresents the operational reality of financial systems. The analysis has established that information asymmetry is a defining characteristic of capital market transactions. Through examination of adverse selection and moral hazard, the paper has revealed how informational disparities between corporate insiders and external investors create self-reinforcing dynamics that culminate in market thinning, underpriced securities, and forgone productive investment. The Myers-Majluf pecking order framework provides compelling evidence that firms rationally prioritise internal financing over external equity to avoid the signalling penalties imposed by uninformed investors. This, generates economy-wide underinvestment in socially valuable projects due to persistent allocative inefficiencies.

Furthermore, the principal-agent conflicts arising from the separation of ownership and control manifest through managerial opportunism, excessive risk-taking, and value-destroying corporate behaviour. Consequently, although information asymmetry cannot be entirely eliminated, its most damaging effects can be contained through a comprehensive institutional architecture combining mandatory disclosure regimes, independent gatekeepers, and market-driven

signalling mechanisms. Statutory disclosure requirements, embodied in IFRS and GAAP frameworks, are the foundational response to information asymmetry by mandating timely, standardised, and credible financial reporting that narrows the insider-outsider information gap. Independent auditors and credit rating agencies perform essential certification and monitoring functions, enhancing the credibility of corporate disclosures and facilitating efficient price discovery. Market-driven mechanisms, including dividend signalling, debt issuance, and voluntary disclosure, enable high-quality firms to credibly communicate private information to uninformed investors, partially restoring allocative efficiency. Nevertheless, these mechanisms are themselves susceptible to conflicts of interest and therefore require continuous regulatory oversight and institutional reform.

Accordingly, the paper recommends strengthening financial disclosure standards through greater emphasis on forward-looking and non-financial reporting, enhancing the independence and accountability of external auditors and credit rating agencies to minimize issuer-related conflicts of interest, promoting stronger corporate governance structures that better align managerial incentives with long-term shareholder value, and encouraging firms to adopt credible voluntary signaling practices supported by transparent investor communication.

REFERENCES

1. Akerlof, G. A. (1978). *The market for "lemons": Quality uncertainty and the market mechanism*. In *Uncertainty in economics* (pp. 235-251). Academic Press.
2. Bierdel, A., Drenik, A., Herreño, J., & Ottonello, P. (2023). *Illiquid Lemon Markets and the Macroeconomy* (No. w31711). National Bureau of Economic Research.
3. Bosch-Rosa, C., Gietl, D., & Heinemann, F. (2025). *Risk taking under limited liability and moral hazard: Quantifying the role of motivated beliefs*. *Management Science*, 71(2), 976-991.
4. Breuer, M. (2021). *How does financial-reporting regulation affect industry-wide resource allocation?*. *Journal of Accounting Research*, 59(1), 59-110.
5. Cheng, L., Harford, J., & Zhang, T. (2015). *Bonus-driven repurchases*. *Journal of Financial and Quantitative Analysis*, 50(3), 447-475. <https://doi.org/10.1017/S002210901500017X>
6. DeAngelo, H., Kahle, K., & Skinner, D. J. (2025). *Agency cost of free cash flow, capital allocation, and payouts*. *Journal of Financial Economics*, 104117.
7. Fama, E. F. (1970). *Efficient capital markets: A review of theory and empirical work*. *The Journal of Finance*, 25(2), 383-417.
8. Fried, J. M., & Wang, C. C. (2019). *Short-termism and capital flows*. *Review of Corporate Finance Studies*, 8(1), 207-233.
9. Fulghieri, P., García, D., & Hackbarth, D. (2020). *Asymmetric Information and the Pecking (Dis)Order*. *Review of Finance*, 24(5), 961-996. <https://doi.org/10.1093/rof/rfaa005>
10. Gatti, D. D., Gusella, F., & Ricchiuti, G. (2025). *Endogenous vs exogenous fluctuations: unveiling the impact of heterogeneous expectations*. *Macroeconomic Dynamics*, 29, e125. [doi:10.1017/S1365100525100345](https://doi.org/10.1017/S1365100525100345)
11. Goldstein, I., & Yang, L. (2017). *Information disclosure in financial markets*. *Annual Review of Financial Economics*, 9, 101-125.
12. Gomez, T., & Piccillo, G. (2026). *Diverse risk preferences and heterogeneous expectations in an asset pricing model: T. Gomez, G. Piccillo*. *Journal of Economic Interaction and Coordination*, 21(2), 345-400.
13. Guo, X., Ottonello, P., Winberry, T., & Whited, T. (2025). *Firm heterogeneity and adverse selection in external finance: Micro evidence and macro implications* (No. w34019). National Bureau of Economic Research.
14. Heiß, M., Müller, L., & Ringel, M. (2026). *Evidence on the non-linear relation between ESG and SEO announcement returns*. *Journal of Economics and Finance*, 50(1), 22.
15. Jang, I., & Kang, K. (2021). *Adverse selection and costly information acquisition in asset markets*. *Journal of Mathematical Economics*, 97, 102533. <https://doi.org/10.1016/j.jmateco.2021.102533>
16. Jensen, M. C., & Meckling, W. H. (2019). *Theory of the firm: Managerial behavior, agency costs and ownership structure*. In *Corporate governance* (pp. 77-132). Gower.
17. Jensen, M. C. (1986). *Agency costs of free cash flow, corporate finance, and takeovers*. *The American economic review*, 76(2), 323-329.
18. Krishnan, C., & He, Y. (2022). *Investor Perception, Market Reaction, and Post-Issue Performance in Bank Seasoned Equity Offerings*. *Journal of Risk and Financial Management*, 15(7), 275. <https://doi.org/10.3390/jrfm15070275>
19. Myers, S. C., & Majluf, N. S. (1984). *Corporate financing and investment decisions when firms have information that investors do not have*. *Journal of financial economics*, 13(2), 187-221.
20. Ni, Y., Gao, X., Li, D., & Xing, L. (2026). *Internal information asymmetry and cost of equity capital: Evidence from insider trading profitability disparities*. *International Review of Economics & Finance*, 105263.
21. Roychowdhury, S., & Srinivasan, S. (2019). *The role of gatekeepers in capital markets*. *Journal of Accounting Research*, 57(2), 295-322.
22. Spence, M. (1978). *Job market signaling*. In *Uncertainty in economics* (pp. 281-306). Academic Press.
23. Stiglitz, J. E. (2017). *The revolution of information economics: The past and the future* (No. w23780). National Bureau of Economic Research.
24. Stiglitz, J. E. (1981). *Information and capital markets* (No. w0678). National Bureau of Economic Research.
25. Stiglitz, J. E., & Weiss, A. (1981). *Credit rationing in markets with imperfect information*. *The American economic review*, 71(3), 393-410.
26. Stiglitz, J. E. (2000). *The contributions of the economics of information to twentieth century economics*. *The quarterly journal of economics*, 115(4), 1441-1478.
27. Taleb, L. (2019). *Dividend policy, signaling theory: A literature review*. *Signaling Theory: A Literature Review* (March 24, 2019).
28. Ye, L., & Hu, H. W. (2025). *Mitigating investor reactions to financial misconduct: The moderating roles of firm commitment cues*. *Journal of Business Ethics*, 198(3), 559-578.
29. Zhang, Y., & Yang, Z. (2025). *Dynamic incentive contracts with controllable risk*. *Journal of Economic Dynamics and Control*, 178, 105160. <https://doi.org/10.1016/j.jedc.2025.105160>
30. Zheng, Y., Drew Peabody, S., & Jiang, J. (2025). *Do dividends and share repurchases convey information about financial strength? An exploration of the disparities between banks and industrial firms*. *Journal of Financial Research*, 48, 1218-1248. <https://doi.org/10.1111/jfir.12439>