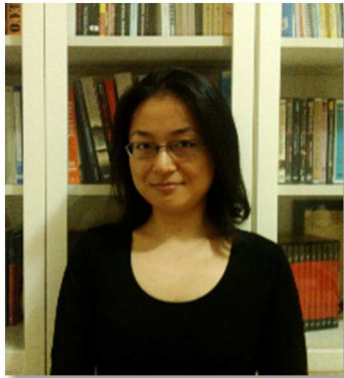


“Information Production in the Process of Securitization”

(in English)



Dr. Zheng, Yu

Assistant Professor

Department of Economics and Finance

City University of Hong Kong

Date: 21 November 2012 (Wednesday)
Time: 1:00pm- 2:30pm
Venue: WYL314, Dorothy Y. L. Wong Building

Abstract:

This paper studies banks' incentive to produce information about its loans and how it affects its origination decision in the process of securitization. In choosing how much information to produce, banks face a trade-off: a more precise signal reduces the risks investors face, increasing their willingness to pay; but it also increases the volatility of asset prices as a result of investors' Bayesian updating. The incentive is exacerbated when banks securitize instead of issuing single loans, because the securitization reduces the sensitivity of banks' payoff to the information. When faced with heterogeneous lending opportunities, banks originate more and riskier loans with less information production under securitization. The findings have bearing on policy issues hotly debated in the aftermath of the crisis. The rating agencies' role of information provision is limited by the process of securitization. Prior to the market crash, the rating agencies failed to recognize the changes in the conditions under which this limited information provision implied by the securitization is justified.

Biography:

Doctor Zheng, Yu is the assistant professor of department of economics and finance at the City University of Hong Kong. She obtained her Ph.D. from Washington University in St. Louis. Her research and teaching fields are Macroeconomics and Labor Economics.

All Are Welcome

For enquiry: 26167190 (Yuki)