

Adverse Selection and Convertible Bonds

[Get access >](#)

Archishman Chakraborty , Bilge Yilmaz

The Review of Economic Studies, Volume 78, Issue 1, January 2011, Pages 148–175, <https://doi.org/10.1093/restud/rdq002>

Published: 01 January 2011 **Article history** ▼

Abstract

Informational asymmetries between a firm and investors may lead to adverse selection in capital markets. This paper demonstrates that when the market obtains noisy information about a firm over time, this adverse selection problem can be costlessly solved by issuing callable convertible bonds with restrictive call provisions. Such securities can be designed to make the payoff to new claimholders independent of the private information of the manager. This eliminates the possibility of any dilution of equity or underinvestment and implements the symmetric information outcome in either a pooling or a separating equilibrium. The same first-best efficient outcome can also be implemented by issuing floating-price and mandatory convertibles.

© The Author 2011. Published by Oxford University Press on behalf of The Review of Economic Studies Limited.

Issue Section: [Articles](#)

You do not currently have access to this article.

Sign in

 [Get help with access](#)

Personal account

- Sign in with email/username & password
- Get email alerts

Institutional access



Sign in through your institution

[Sign in through your institution](#)

- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD

Sign in >

[Register](#)

[Sign in with a library card](#)

[Sign in with username/password](#)

[Recommend to your librarian](#)

Institutional account management

[Sign in as administrator](#)

Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? [Register](#)

Adverse Selection and Convertible Bonds - 24 Hours access

EUR €53.00

GBP £44.00

USD \$58.00

Rental



This article is also available for rental through DeepDyve.