

[Working Papers](#)

# Outside Equity Financing

Stewart C. Myers

SHARE



WORKING PAPER 6561

DOI 10.3386/w6561

ISSUE DATE May 1998

This paper explores the necessary conditions for outside equity financing when insiders, that is managers or entrepreneurs, are self-interested and cash flows are not verifiable. Two control mechanisms are contrasted: a partnership, in which outside investors can commit assets for a specified period, and a corporation, in which assets are committed for an indefinite period but insiders can be ejected at any time. The paper also shows how going public to reduce outsiders' power can be efficient if it preserves appropriate incentives for insiders. The concluding section explains how the difficulty of verifying the act of investment leads to monitoring costs and insiders' pursuit of private benefits of control.

Download a PDF

[Information on access](#)

## Published Versions

The Journal of Finance, Vol.55, No.3, June 2000.

## Related

### TOPICS

Financial Economics  
Corporate Finance

### PROGRAMS

Corporate Finance

## More from the NBER

In addition to [working papers](#), the NBER disseminates affiliates' latest findings through a range of free periodicals — the [NBER Reporter](#), the [NBER Digest](#), the [Bulletin on Health](#), and the [Bulletin on Entrepreneurship](#) — as well as online [conference reports](#), [video lectures](#), and [interviews](#).



Martin Feldstein Lecture, Summer Institute 2025  
**The Fiscal Future**

N. Gregory Mankiw, Harvard University and NBER  
July 10, 2025

**2025, 17th Annual Feldstein Lecture, N. Gregory Mankiw, "The Fiscal Future"**

FELDSTEIN LECTURE

PRESENTER: N. GREGORY MANKIW

N. Gregory Mankiw, Robert M. Beren Professor of Economics at Harvard University, presented the 2025 Martin Feldstein...



Methods Lecture, Summer Institute 2025  
**Uncovering Causal Mechanisms:  
Mediation Analysis and  
Surrogate Indices**

Raj Chetty, Harvard University and NBER  
Kosuke Imai, Harvard University  
July 24, 2025



**2025, Methods Lecture, Raj Chetty and Kosuke Imai, "Uncovering Causal Mechanisms: Mediation Analysis and Surrogate Indices"**

PRESENTERS: [RAJ CHETTY](#) & [KOSUKE IMAI](#)

SlidesBackground materials on mediationImai, Kosuke, Dustin Tingley, and Teppei Yamamoto. (2013). "Experimental Designs...



**2025, International Trade and Macroeconomics, "Panel on The Future of the Global Economy"**

PANEL DISCUSSION

PRESENTERS: [OLEG ITSKHOKI](#), [PAUL R. KRUGMAN](#) & [LINDA TESAR](#)

Supported by the Alfred P. Sloan Foundation grant #G-2023-19633, the Lynde and Harry Bradley Foundation grant #20251294...

**National Bureau of Economic Research**

[Contact Us](#)

1050 Massachusetts Avenue

Cambridge, MA 02138

[617-868-3900](tel:617-868-3900)

[info@nber.org](mailto:info@nber.org)

[webaccessibility@nber.org](mailto:webaccessibility@nber.org)

[HOMEPAGE](#)

[Accessibility Policy](#)

[Diversity Policy](#)

[Privacy Policy](#)

FOLLOW



© 2026 NATIONAL BUREAU OF ECONOMIC RESEARCH. ALL RIGHTS RESERVED.