1. Describe the impact that higher information costs have on the market for bonds. What is the impact on the price of bonds, interest rate, quantity of borrowing, and capital investment by businesses? ''
2. Compare the situation in bond markets in which the probability of defaults are known by lenders versus when the probability of default are not known by lenders. How do the demand for each type of bond compare to each other? What is the impact of the asymmetric information on the interest rate on bonds? What is the impact on the quantity of borrowing? What would be the impact on capital investment by businesses? What type of asymmetric information is this?

3. Answer the following questions regarding moral hazard:
    1. What is moral hazard?
    2. Does the knowledge that asymmetric information exists before or after a financial transaction takes place? Does the information concern state of the borrower before the transaction starts or the behavior of the borrower after the transaction takes place?
    3. Describe the asymmetric payouts to the borrower. Does this situation lead to a higher or lower probability of default? Why?
4. Describe how venture capital firms and private equity firms reduce the problems of moral hazard. How are these actions related to information costs?
5. List and describe two additional ways lenders try to reduce the problem of moral hazard (i.e. different than what is described in your previous answer).