

Credit Rationing, Earnings Manipulation, and Renegotiation-Proof Contract

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Abstract

This paper considers the situation that the entrepreneur borrows the funds from the investor and carries out the project. If the entrepreneur has myopic preference, credit rationing problem will be compounded by the investor's temptation of renegotiation. Moreover, we compare the transparent accounting system and the opaque one. If the parties have the incentive to renegotiate the initial contract, credit rationing problem will be more relaxed with the opaque system than the transparent one.

Keywords: Credit rationing; Earnings manipulation; Renegotiation; manager's impatience

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