

Theory and Experiments Seminar

## Optimal Delegation and Limited Awareness, with an Application to Financial Intermediation

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12:45pm Room 3-E4-SR03 Via Röntgen 1 Milano

### Abstract

We study the delegation problem between an investor and a financial intermediary, who not only has better information about the return of the different investments but also has superior awareness of the available investment opportunities. The intermediary decides which of the feasible investments to reveal and which ones to hide. We demonstrate that the intermediary finds it optimal to make the investor aware of investment opportunities at the extremes, e.g. very risky and very safe projects, but leaves the investor unaware of intermediate options. We further show how the extent to which the intermediary hides certain opportunities from the investor depends on the investor's initial awareness and the degree of competition between intermediaries in the market. Self-reported data from retail investors indicates that the phenomenon we describe might have been at work during the last decade within the Italian banking sector.