

## **Resolution of Information Asymmetry in Management Accounting: A Game Theoretic Way**

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*This paper proposes a model based on dictator game to encounter prevailing problem regarding information asymmetry given the no-negotiating behaviour of transacting parties. This model takes into account the price elasticity of accounting information, quantum of available accounting information and expected utility level achieved by principal and agent. Suggested optimal negotiating behaviour can result in reduction of information asymmetry prevailing between transacting parties. Roles of management, accountants and competitors are suggested hereafter in accordance with the solution provided by the model.*

### **I Introduction**

The purpose of this paper is to discuss information asymmetry problems prevailing in the management accounting area and look for a solution to encounter them. Banking on the existing literature, an attempt has been made to identify abiding practices and necessity of information in management accounting domain and problems attached with information asymmetry. Identification of parametric issues has been followed by an optimization model targeted at social welfare maximization by minimizing information asymmetry between principal and agent.

According to Burns (1968), there are certain inherent and implied relationships between accounting information and decision-making process. He suggests that significance of any piece of accounting information solely depends on the notion of decision-maker as lack of insight about the information will, in turn, result in no change in decision with change in information. Moreover, supplementary information needs to be provided along with the accounting information. Information may be posed in the form of cause-and-effect relationship of the decision to be made, as well as the environmental information. Lastly, weightage assigned to accounting information depends on the availability of other information which can augment decision-making.

Driven by presented thoughts, non-co-linearity of interests among the transacting parties emerges due to asymmetry of information. This phenomenon gradually leads to the principal and agent conflict (Eisenhardt 1989). This