

Econ 119
Economic Analysis of Law:
Contract Law, Corporations, Debtor-Creditor Law, and Bankruptcy.

Prof. Michelle White
Economics 320
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Ofc hrs: 1 – 2p Tues and 4 – 5p Thursday

TA's: Chris Wonnell, cwonnell@sandiego.edu (Econ 126, T 1:15 – 2:15p)
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This course uses economic theory to evaluate the economics effects of US law in several legal fields, including contract law, corporation law and corporate governance (how large corporations are organized and governed), debtor-creditor law, and bankruptcy law.

Prerequisites: Econ 100A-100B or Econ 170A-170B. Econ 118 is recommended, but not required.

The course will have a midterm on May 3 and a final exam on June 12 (11:30a – 2:30p). Please make sure that you will be able to take both exams at the scheduled times. There will also be several sets of study questions (not to be turned in). Most Tuesday evenings, there will be a question/answer session at 7p in room 300 in the Economics Building.

Lecture notes and study questions will be posted on the course website at WebCT.

The midterm and final will each count for 50% of the grade.

Syllabus and Readings

Notes on finding the readings: books should be on reserve at SSH. Some of the readings are posted on WebCT, the link for others is given on the reading list. Some newspaper articles will be added during the quarter. * indicates background reading, not required.

I. Contract Law (2 wks)

Cooter and Ulen, *Law and Economics*, chapters 6 and 7 (on reserve).

Polinsky, *An Introduction to Law and Economics*, chapters 5 and 8 (on reserve).

*Ben-Shahar and J.J.White, “Boilerplate and Economic Power in Auto Manufacturing Contracts,” *Michigan Law Review*, 2006. (on WebCT)

II. Constitutional Law—Economics of Takings (1/2 wk)

(no readings—see lecture notes)

III. Consumer bankruptcy (1/2 wk)

White, Michelle, “Credit Cards and Personal Bankruptcy,” 2007 (on WebCT)

IV. Organization of Production (1 wk)

Hansmann, Henry, “Ownership of the Firm,” *J. of Law, Econ. and Organization*, vol. 4:2, (Fall 1988), pp. 267-. (on WebCT)

V. Corporate Law and Corporate Governance (3 wks)

A. General issues

Hansmann, Henry, “Ownership of the Firm,” *Am. Law and Economics Review*, 2006 (on WebCT).

Schliefer, A., and Vishny, R., A Survey of Corporate Governance, *J of Finance*, vol. LII:2 (1997), pp. 737-. (on WebCT)

*Kraakmann, Rainier, et al, *The Anatomy of Corporate Law*, 2004. Ch. 1, pp. 1-21. (on reserve in SSH, I hope)

B. Empirical evidence--Event Studies

W. Bruce Johnson et al, "An analysis of the stock price reaction to sudden executive deaths : Implications for the managerial labor market," *Journal of Accounting and Economics*, vol. 7, April 1985, pages 151-174 (on WebCT).

Yermack, David, "Flights of Fancy: Corporate Jets, CEO Perquisites, and Inferior Shareholder Returns."

www.stern.nyu.edu/Sternbusiness/fall_winter_2004/flights.html

C. The Incorporation Race and Takeover Defenses

Romano, Roberta, *The Genius of American Corporate Law*, AEI. (on reserve)

Bebchuk, L.A. and A. Cohen, "Firms' Decisions Where to Incorporate," 2002, (on WebCT)

D. Staggered Boards, Independent Directors, and Other Provisions, etc.

Bebchuk, Lucian Arye, Cohen, Alma and Ferrell, Allen, "What Matters in Corporate Governance?" (September 2004). (on WebCT)

Wallison, Peter, "Will Independent Directors Produce Good Corp Governance?" AEI, Jan 2006 (on WebCT). Note: this article gives a quite biased viewpoint!

E. Executive Compensation

Lucian Arye Bebchuk; Jesse M. Fried, "Executive Compensation as an Agency Problem," *The Journal of Economic Perspectives*, vol. 17, pages 71 – 92 (on WebCT).

*Bebchuk and Fried, *Pay Without Performance*, Harvard Press, 2005 (on reserve).

Brian J. Hall; Kevin J. Murphy, "The Trouble with Stock Options" *The Journal of Economic Perspectives*, volume 17, number 3, page: 49 – 70. (on WebCT)

VI. Debtor-Creditor Law (1 wk)

Clifford W. Smith, Jr. and Jerold B. Warner, On financial contracting : An analysis of bond covenants *Journal of Financial Economics*, Volume 7, Issue 2, June 1979, Pages 117-161 (on WebCT)

*Mann, Ronald, The Role of Secured Credit in Small-Business Lending, *Georgetown Law Journal*, vol. 86, 1997, p. 1. (on WebCT)

VII. Corporate Bankruptcy Law (1 wk)

White, Michelle, "Bankruptcy Law," in *Handbook of Law and Economics*. pp. 1-38. (www.econ.ucsd.edu/~miwhite/handbook-white-revised.pdf)