

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

Class schedule: TTh at 12:30 – 1:50p in Warren Lecture Hall 2113.

Prof. Michelle White  
Economics 320  
miwhite@ucsd.edu  
Ofc hrs: Wednesday 3-5p.

TA: Kilian Heilman, [kheilman@ucsd.edu](mailto:kheilman@ucsd.edu). See TED for office and office hours.

This course uses economic theory to evaluate the economics effects of law, concentrating on areas of law that directly affect businesses and consumers. These include contract law, corporation law and corporate governance (how large corporations are organized and governed), debtor-creditor law (the law governing borrowing and lending), and bankruptcy law.

Exams: The midterm will be Tuesday, May 5<sup>th</sup> in class. The final exam will be Monday, June 8<sup>th</sup>, from 11:30a - 2:30p. Please make sure that you can take both exams at the scheduled times. The midterm and final will each count for 50% of the grade.

Course website on TED: All of the course materials are posted under “content.” Please check the “Announcements” section frequently for information related to the course. Lecture notes, study questions and practice exams are/will be posted on TED. Note that some of the materials currently posted will be updated as the course proceeds. There is also a “Readings” section with many of the assigned readings, plus newspaper articles on current events related to the course.

Review sessions: There will be review sessions before the midterm and final exams. Time/place to be announced.

Current events: The topics of this course are frequently in the news. If you see news reports that are relevant, please mention them to Prof. White or bring them up in class. We will discuss them.

## Syllabus and Readings

*Notes on finding the readings:* books are on reserve at Geisel Library. Most of the readings are articles that are either posted on the course website or are available online (link are given on the reading list). Some additional readings and 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).

### II. 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 TED)

Hansmann, Henry, and R. Kraakman, "The Essential Role of Organizational Law," *Yale Law Journal* (2000), pp. 390-405. (on TED)

### III. Corporate Law and Corporate Governance (3 wks)

#### A. General issues

Hansmann, Henry, "Corporation and Contract," *Am. Law and Economics Review*, 2006 (on TED).

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

#### 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 TED).

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

[www.stern.nyu.edu/Sternbusiness/fall\\_winter\\_2004/flights.html](http://www.stern.nyu.edu/Sternbusiness/fall_winter_2004/flights.html)

### C. Staggered Boards, Independent Directors, and Other Provisions, etc.

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

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

### D. Executive Compensation—Problems and Proposed Reforms

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

Lucian Bebchuk et al, "Bankers Had Cashed in Before the Music Stopped," *Financial Times*, December 14, 2009 (op-ed article). (on TED)

Lucian Bebchuk, "Fixing Bankers' Pay," December 2009 (on TED).

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

## IV. Law of Credit Markets ("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 TED)

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

## V. Consumer Bankruptcy (1 wk)

White, Michelle, "Credit Cards and Personal Bankruptcy," 2007 (on TED)

White, Michelle, "Bankruptcy and Small Business—Lessons from the U.S. and Recent Reforms" 2006 ([www.econ.ucsd.edu/~miwhite/dice-white-final.pdf](http://www.econ.ucsd.edu/~miwhite/dice-white-final.pdf))

White, Michelle and Wenli Li, "How Bankruptcy Contributed to the Mortgage Crisis and How It Could Help the Economy Recover," *The Occupy Handbook*, 2012 ([www.econ.ucsd.edu/~miwhite/occupy\\_article.pdf](http://www.econ.ucsd.edu/~miwhite/occupy_article.pdf))

VI. Corporate Bankruptcy (1 wk)

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