

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

Class schedule: TTh at 12:30 – 1:50p in CSB 005.

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

TA: Briana Sullivan, bdsullivan516@gmail.com (Econ building 123, office hours Wed, 1-2p)

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, and bankruptcy law.

The course will have an optional discussion section on most weeks, which will meet on Thursday at 6:30p in the Econ building. Check the course website for the room (probably 300 or 304).

The midterm will be on February 6th in class. The final exam will be Tues, March 18th 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.

Lecture notes, study questions and practice exams are/will be posted on the course website (CW).

Current events related to the class: If you see news reports that are relevant to the course, 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).

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

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 CW)

Bolton and Scharfstein, "Corporate Finance, the Theory of the Firm, and Organizations," *J. of Economic Perspectives*, pp. 95-114, (1989).

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

*Hansmann, *The Ownership of Production*, Harvard Press, 1996.

III. Corporate Law and Corporate Governance (3 wks)

A. General issues

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

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

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 CW).

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

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 CW)

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

D. Executive Compensation

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

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

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

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

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

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 CW)

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

V. Consumer Bankruptcy (1 wk)

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

White, Michelle, “Bankruptcy and Small Business—Lessons from the U.S. and Recent Reforms” 2006 (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)

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)