

BEM/Ec 185 Political Economy of Corporate Governance
Jean-Laurent Rosenthal
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Office : Baxter 203 Office hours Mon, Tu, Th, Fri 9-10.

Class times: Tues, and Thurs, 10:30 to 12pm
Class Location Baxter 218

The aim of this course is to introduce and analyze problems of corporate governance. The first two weeks will be devoted to acquiring the building blocks of our analysis. The next 8 weeks will be devoted to examining specific theoretical and empirical problems and solutions. We will draw up materials from Economics, Economic History, Law, and Political Science.

Expectations: There will be a specific reading for each session. Participants to the class will be expected to have a good command of the reading. To insure that we all come prepared students will turn in a no more than 150 word essay for each session at the beginning of class, essays must be typed. These essays will be graded and returned and count for 25% of your grade, class participation will count for another 25%. The balance of your grade 55% will come from the final paper which will be due the last day of class.

Final essay rules: You are expected to select a recent problem in corporate governance and study it. That implies improving our understanding about the nature of the problem, its cause and its consequences. It also includes providing some suggestion as to what might address this kind of a problem and what set of actors within the firm, the economy or the government will either favor or oppose such changes. Your report on this effort should consist of a paper of no more than 10 pages double spaced 12pt font. In order to insure the paper is completed on time, you will be expected to turn in a statement of your topic in class Nov 8. You will be expected to turn in a rough draft (with an outline and a one paragraph summary of argument attached) by 5pm November 20; the rough draft will be returned with comments but not graded. You will be expected to turn in the final version of your essay before 5pm December 13.

Grading

October 2: The Problem—Course overview.
No reading assignment

October 4: Corporate Governance problems
Marco Becht, Patrick Bolton, and Ailsa Röell, “Corporate Governance and Control.” 2002.

October 9 Theory 1: Incomplete contracts and control
Oliver Hart, Firms, Contracts and Financial Structure Chs 1 and 2

October 11 Theory 2: Debt and equity

Jean Tirole, “Corporate Governance,” *Econometrica* Vol. 69, No. 1 (Jan., 2001),

October 16 The comparative debate

Rafael La Porta; Florencio Lopez-De-Silanes; Andrei Shleifer; Robert W. Vishny
“Legal Determinants of External Finance” *The Journal of Finance* Vol. 52, No. 3, 1997

October 18: Law and History

Naomi Lamoreaux and Jean-Laurent Rosenthal, “Legal Regime and Contractual Flexibility: A Comparison of Business’s Organizational Choices in France and the United States during the Era of Industrialization,” *Am Law Econ Rev.*2005; 7: 28-61

or

October 23: Colin Mayer, Julian Franks and Stephano Rossi, “Spending Less Time with the Family: The Decline of Family Ownership in the UK” in R Morck (ed), *The History of Corporate Ownership: The Rise and Fall of Great Business Families*, National Bureau of Economic Research, 2004.

October 25: The Great Reversal of the Twentieth Century

Raghuram Rajan and Luigi Zingales, “The Great Reversals; the Politics of Financial Markets in the Twentieth Century” *Journal of Financial Economics*, 2003.

October 30: Political Economy of Great Reversals

Perotti, E.C. & Thadden, E.L. Von (2006). The Political Economy of Corporate Control. *Journal of Political Economy*.

November 1: Comparative Political Economy

Peter A. Gourevitch and, James Shinn, *Political Power and Corporate Control: The New Global Politics of Corporate Governance*. Princeton UP. 2005

November 6: Comparative Political Economy

Peter A. Gourevitch and, James Shinn, *Political Power and Corporate Control: The New Global Politics of Corporate Governance*. Princeton UP. 2005

November 8: Failed bargains

Marco Pagano and Paolo F. Volpin “The Political Economy of Corporate Governance” *Am Econ Rev* Sept 2005 1005-1053.

November 13: Successful Bargain?

Peter Högfeldt, “The History and Politics of Corporate Ownership in Sweden.” in R Morck (ed), *The History of Corporate Ownership: The Rise and Fall of Great Business Families*, National Bureau of Economic Research, 2004.

November 15: Reform from the left?

John W. Cioffi, Martin Höpner “The Political Paradox of Finance Capitalism: Interests, Preferences, and Center-Left Party Politics in Corporate Governance Reform” <http://pas.sagepub.com/cgi/content/refs/34/4/463>

November 20: In defense of the US model

Holmstrom and Kaplan, "The State of U.S. Corporate Governance: What's Right and What's Wrong?", NBER WP 2004.

November 22 Thanksgiving

November 27: The Law and By-Laws

Lucian Bebchuck, Alma Cohen, and Allen Ferrell, "What Matters in Corporate Governance?" Harvard Law School WP 2004.

Or

Romano, Roberta, 1987. "The Political Economy of Takeover Statutes." *Virginia Law Review*, 73: 111-99.

November 29: Entrenchment by birth

Benedsen et al. "Inside the family firm, the role of families in succession decisions and performance" mimeo 2005.

or

Francisco Perez-Gonzales, Inherited Control and Firm Performance, *Am Econ Rev* 2006 Vol 96 (5) 1559-88.

or

Bertrand et al, "Mixing Family with Business," Mimeo 2006

December 4: Corporate Governance without law

Musacchio, Aldo. "Can Civil Law Countries Get Good Institutions? Creditor Rights and Bond Markets in Brazil, 1850-2003." Harvard Business School WP 2006.

December 6: Wrap up (or Catch up)