

**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

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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.

The course will have a discussion section on most weeks, which will meet on Tues at 6p in room 300 of the Econ building. The midterm will be on February 10<sup>th</sup>. The final exam is scheduled for March 15<sup>th</sup> from 7-10p (but we may try to find an alternate time). 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 and study questions are posted on the course website at WebCT.

## Syllabus and Readings

*Notes on finding the readings:* books should be on reserve at SSH. Most of the readings are posted on WebCT, the link for others is 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 WebCT)

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

(no readings—see lecture notes)

### III. Consumer bankruptcy (1 wk)

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

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

\*Hansmann, Henry, and R. Kraakman, “The Essential Role of Organizational Law,” *Yale Law Journal* (2000), pp. 390-405.

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

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

#### A. General issues

Hansmann, Henry, “Corporation and Contract,” *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)

#### 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." (on WebCT).

#### 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 WebCT)

Wallison, Peter, "Will Independent Directors Produce Good Corp Governance?" AEI, Jan 2006 (on WebCT). 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 WebCT).

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

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

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)

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

### 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 (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))