



Course in Corporate Governance

The course builds on the innovative concept of combining a regular seminar offered by Prof. Hartmut Egger with a short lecture held by Prof. Douglas Nelson from Tulane University. The aim of the course is discussing key aspects of corporate governance from an economist's point of view, including critical discussion on the respective topic. The course is suited for advanced Bachelor as well as Master students and, due to Prof. Nelson's education in political science, the course offers a good opportunity for acquiring credit points for a "Verzahnungsseminar" in the P&E Bachelor and Master program.

Course content

Much of modern political economy, and the political economy of globalization in particular, focus on labor markets. This literature recognizes the fundamental importance of financial markets and corporate governance systems, but does so in an essentially ad hoc way. In this course, we try to build toward an analysis of globalization focused on financial markets and corporate governance. The course tackles two important issues. The first one is the firm and its relationship to financial markets. The second one is a comparative perspective on corporate governance that draws on research in comparative law, economics and politics. Also, some discussion on the effects of globalization will be offered in the course.

The seminar-style part of the course aims at giving an introduction into the topic of corporate governance from the perspective of economic research. The lecture builds on insights from the seminar and primarily focuses on the macroeconomic analysis as well as the political economy of corporate governance.

Requirements

- Active participation in both the seminar and the lecture
- Seminar presentation and moderation of the discussion afterwards
- Written work of about 10 pages (main text)
- Attendance and critical discussion in the lecture series

- Economics and IWE/IWG students can acquire 5 CP in their Bachelor program and 6 CP in their Master program. (The course can be selected as part of the “Governance” specialization block in the Economics Master and as part of the “Governance & Public Management” in the IWG Master.) P&E students can acquire 8/10 CP. For the additional points, these students have to participate in a “final discussion” on the course.
- There is no necessity for preparing written work or participating in the “final discussion” if P&E students just want to acquire 2 CP (kleiner Schein).

Organization

The course “Corporate Governance” consists of two parts. The first part will be a block seminar (scheduled for June 17/18). The second part will be block lecture (scheduled for July 7/8). There will also be a meeting with interested students in the in the first week of the semester (scheduled for Tuesday, May 3rd 10-12).

Noteworthy: The language of both the seminar and the lecture course is English.

Application and deadlines

- Applications including an academic transcript should be sent until April 17th 2011 (by e-mail to heidi.frohnhofer@uni-bayreuth.de); late applications can be considered as long as there is free capacity.
- **Deadline for handing in written work:** July 31st 2011. (Slides should be handed in three days prior to the presentation.)

Basic material

Frank Easterbrook and Daniel Fischel (1991). *The Economic Structure of Corporate Law*. Boston: Harvard University Press.

Xavier Vives, ed. (2006). *Corporate Governance: Theoretical and Empirical Perspectives*. Cambridge: CUP.

Mark Roe (2003). *Political Determinants of Corporate Governance*. Oxford: OUP.

Peter Gourevitch and James Shinn (2005). *Political Power and Corporate Control: The New Global Politics of Corporate Governance*. Princeton: PUP.

Seminar topics

Block I: Theory of the Firm

Topic 1: Transaction costs and the firm

Ronald Coase (1937). "The Theory of the Firm". *Economica*; V.4-#16, pp. 386-405.

Benjamin Klein, Robert Crawford and Armen Alchian (1978). "Vertical Integration, Appropriable Rents and the Competitive Contracting Process". *Journal of Law and Economics*; V.21-#2, pp. 297-326.

Oliver Williamson (2002). "The Theory of the Firm as a Governance Structure: From Choice to Contract". *Journal of Economic Perspectives*; V.16-#3, pp. 171-195.

Topic 2: Agency, incomplete contracts, etc.

Frank Easterbrook and Daniel Fischel (1991). *The Economic Structure of Corporate Law*. Boston: Harvard University Press, Chapter 1.

Armen Alchian and Harold Demsetz (1972). "Production, Information Costs, and Economic Organization". *American Economic Review*; V.62-#5, pp. 777-795.

Michael Jensen and William Meckling (1976). "Theory of the Firm: Managerial Behavior, Agency Costs and Capital Structure". *Journal of Financial Economics*; V.3-#4, pp. 305-360.

Oliver Hart (1989). "An Economist's Perspective on the Theory of the Firm". *Columbia Law Review*; V.89-#7, pp. 1757-1774.

Topic 3: Why does capital hire labor?

Gregory Dow and Louis Putterman (1999). "Why Capital (Usually) Hires Labor: An Assessment of Proposed Explanations". in M. Blair and M. Roe, eds. *Employees and Corporate Governance*. Washington, DC: Brookings, pp. 17-57.

Freeman, Richard B. and Edward P. Lazear (1995). "An Economic Analysis of Works Councils," in J. Rogers and W. Streeck eds, *Works Councils: Consultation, Representation, and Cooperation in Industrial Relations*. Chicago: University of Chicago Press/NBER, 27-50.

Faleye, Olubunmi; Vikas Mehrotra and Randall Morck. 2006. "When Labor Has a Voice in Corporate Governance." *Journal of Financial and Quantitative Analysis*, 41(3), 489-510.

Block II: Law and Economics of Corporate Governance

Topic 4: Separation of ownership and control

Frank Easterbrook and Daniel Fischel (1991). *The Economic Structure of Corporate Law*. Boston: Harvard University Press, Chapter 4.

Eugene Fama (1980). "Agency Problems and the Theory of the Firm". *Journal of Political Economy*; V.88-#2, pp. 288-307.

Eugene Fama and Michael Jensen (1983). "Separation of Ownership and Control". *Journal of Law and Economics*; V.26-#2, pp. 301-325.

Oliver Williamson (1983). "Organization Form, Residual Claimants and Corporate Control". *Journal of Law and Economics*; V.26-#2, pp. 351-366.

Benjamin Klein (1983). "Contracting Costs and Residual Claims: The Separation of Ownership and Control". *Journal of Law and Economics*; V.26-#2, pp. 367-374.

Topic 5: Capital markets and managerial control

Hart, Oliver. 1993. "Theories of Optimal Capital Structure: A Managerial Discretion Perspective," in M. M. Blair ed *The Deal Decade: What Takeovers and Leveraged Buyouts Mean for Corporate Governance*. Washington, D.C.: Brookings Institution, 19-43.

Frank Easterbrook and Daniel Fischel (1991). *The Economic Structure of Corporate Law*. Boston: Harvard University Press, Chapters 5-7.

Michael Jensen (1986). "Agency Costs of Free Cash Flow: Corporate Finance and Takeovers". *American Economic Review*; V.76-#2, pp. 323-329.

Frederick Scherer (1988). "Corporate Takeovers: The Efficiency Arguments". *Journal of Economic Perspectives*; V.15-#2, pp. 69-82.

Shleifer, Andrei and Robert Vishny (1990). "The Takeover Wave of the 1980s". *Science*; V.249-#4970 (August 17), pp 745-749.

Bengt Holmström and Steven Kaplan (2001). "Corporate Governance and Merger Activity in the US: Making Sense of the 1980s and 1990s". *Journal of Economic Perspectives*; V.15-#2, pp. 121-144.

Topic 6: Boards, compensation and control

Frank Easterbrook and Daniel Fischel (1991). *The Economic Structure of Corporate Law*. Boston: Harvard University Press, Chapter 3.

Adams, Renee B.; Benjamin E. Hermalin and Michael S. Weisbach. 2010. "The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey." *Journal of Economic Literature*, 48(1), 58-107.

Bebchuk, Lucian A. and Jesse M. Fried. 2003. "Executive Compensation as an Agency Problem." *Journal of Economic Perspectives*, 17(3), 71-92.

Frydman, Carola and Dirk Jenter. 2010. "CEO Compensation." *Annual Review of Financial Economics*, 2(1), 75-102.

Topic 7: Worker councils, co-determination, etc.

Pistor, Katharina. 1999. "Codetermination: A Sociopolitical Model with Governance Externalities," in M. M. Blair and M. J. Roe eds, *Employees and Corporate Governance*. Washington, DC: Brookings Institution Press, 163-93.

Addison, John T.; Claus Schnabel and Joachim Wagner. 2004. "The Course of Research into the Economic Consequences of German Works Councils." *British Journal of Industrial Relations*, 42(2), 255-81.

Franks, Julian and Colin Mayer. 2001. "Ownership and Control of German Corporations." *Review of Financial Studies*, 14(4), 943-77.

Goergen, Marc; M. C. Manjon and Luc Renneboog. 2008. "Recent Developments in German Corporate Governance." *International Review of Law and Economics*, 28(3), 175-93.

Topics addressed in the lecture

Block III: Macro Analysis of Corporate Governance

■ Legal foundations of corporate governance

Franklin Allen and Douglas Gale (2000). "Corporate Governance and Competition". Chapter 2 in Xavier Vives, ed. (2006). *Corporate Governance: Theoretical and Empirical Perspectives*. Cambridge: CUP..

Frank Easterbrook (1997). "International Corporate Differences: Markets or Law?". *Journal of Applied Corporate Finance*; V.9-#4, pp. 23-30.

Julian Franks, Colin Mayer, and Hannes F. Wagner (2006). "The Origins of the German Corporation – Finance, Ownership and Control". *Review of Finance*; V.10-#4, pp. 537-

585.

Franks, Julian, Colin Mayer and Stefano Rossi (2009). "Ownership: Evolution and Regulation." *Review of Financial Studies*, 22(10), 4009-56.

- Quality of law and corporate governance
Rafael LaPorta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny (2000). "Investor Protection and Corporate Governance". *Journal of Financial Economics*; V.58-#1/2, pp. 3-27.
Mark Roe (2003). *Political Determinants of Corporate Governance*. Oxford: OUP. [Section VI, pp. 159-196 for this topic.]
- Legal structure, financial systems and growth
Wendy Carlin and Colin Mayer (2000). "How Do Financial Systems Affect Economic Performance?". in: Xavier Vives, ed. (2006). *Corporate Governance: Theoretical and Empirical Perspectives*. Cambridge: CUP, Chapter 4.
Raghuram Rajan and Luigi Zingales (2001). "Financial Systems, Industrial Structure and Growth". *Oxford Review of Economic Policy*; V.17-#4, pp. 467-482.
Thorsten Beck, Asli Demirgüç-Kunt, and Ross Levine (2001). "Legal Theories of Financial Development". *Oxford Review of Economic Policy*; V.17-#4, pp. 483-501.
Randall Morck, Daniel Wolfenzon and Bernard Yeung (2005). "Corporate Governance, Economic Entrenchment and Growth". *Journal of Economic Literature*; V.43-#3, pp. 655-720.
La Porta, Rafael; Florencio Lopez-de-Silanes and Andrei Shleifer (2008). "The Economic Consequences of Legal Origins." *Journal of Economic Literature*, 46(2), 285-332.
Ross Levine (1997). "Financial Development and Economic Growth: Views and Agenda". *Journal of Economic Literature*; V.35-#2, pp. 688-726.

Block IV: Political Economy of Corporate Governance

- PE of Corporate Governance, I
Mark Roe (2003). *Political Determinants of Corporate Governance*. Oxford: OUP. [Pages 1-107 for this topic.]
Peter Gourevitch and James Shinn (2005). *Political Power and Corporate Control: The New Global Politics of Corporate Governance*. Princeton: PUP, Chapter 2-4
Raghuram Rajan and Luigi Zingales (2003). "The Great Reversals: The Politics of

Financial Development in the Twentieth Century”. *Journal of Financial Economics*; V.69-#1, pp. 5-50. [Pages 1-17 for this topic.]

■ PE of Corporate Governance, II

Peter Gourevitch and James Shinn (2005). *Political Power and Corporate Control: The New Global Politics of Corporate Governance*. Princeton: PUP, Chapter 5

Mark Roe (2003). *Political Determinants of Corporate Governance*. Oxford: OUP. [Pages 109-158 & 197-204 for this topic.]

■ PE of Corporate Governance, III

Peter Gourevitch and James Shinn (2005). *Political Power and Corporate Control: The New Global Politics of Corporate Governance*. Princeton: PUP, Chapters 6 & 7

■ PE of Corporate Governance, IV

Raghuram Rajan and Luigi Zingales (2003). “The Great Reversals: The Politics of Financial Development in the Twentieth Century”. *Journal of Financial Economics*; V.69-#1, pp. 5-50. [Pages 17-50.]

Martin Hellwig (2006). “On the Economics and Politics of Corporate Finance and Corporate Control”. Chapter 3 in Xavier Vives, ed. (2006). *Corporate Governance: Theoretical and Empirical Perspectives*. Cambridge: CUP.

Marco Pagano and Paolo Volpin (2001). “The Political Economy of Finance”. *Oxford Review of Economic Policy*; V.17-#4, pp. 502-519.