

Corporate Governance – Law 7930 § 3
Jon Klick

Class Details
MT: 9:30-10:25
Room 308

Office Hours
MT: 10:30-11:30
Room 315 (644-5714)

Description: The purpose of a corporation is to maximize shareholder wealth which requires controlling both transactions costs and agency costs. In this seminar, we will read and discuss theoretical and empirical research examining the efficacy of various internal and external mechanisms that are meant to improve shareholder wealth.

Attendance: Most of the articles covered in this seminar will be more technical than the median law student is used to. Thus, for most of you, regular attendance will be necessary to get any value out of the seminar, and it will give you an idea of what kind of analysis I will be expecting in your seminar paper. Further, I expect significant participation from everyone in the course of class discussions.

Course Grade: Your grade for the course will be determined entirely by the quality of your seminar paper. Paper grades will be determined according to the class profile curve provided to me by the Law School. Papers should be more analytical than descriptive. Keep in mind, an ambitious topic tackled well will generally score better than a humdrum topic executed perfectly. Please arrange a meeting to discuss your topic with me by October 4, 2005 and provide me with a draft before October 31, 2005. Arrange a second meeting with me to discuss your draft. Final drafts are due on the last class day, November 22, 2005.

Course Schedule:

Theory of the Firm

- August 22:** Coase (1937). "The Nature of the Firm." *Economica*, 4(16): 386-405.
August 23: Jensen and Meckling (1976). "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure." *Journal of Financial Economics*, 3(4).
August 29: No Class
August 30: No Class

Executive Compensation

- September 6:** Bebchuk and Fried (2003). "Executive Compensation as an Agency Problem." *Journal of Economic Perspectives*, 17(3): 71-92.
September 12: Murphy and Zabojnik (2004). "CEO Pay and Appointments: A Market Based Explanation for Recent Trends." *American Economic Review*, 94(2): 192-196.
September 13: Hall and Murphy (2003). "The Trouble with Stock Options." *Journal of Economic Perspectives*, 17(3): 49-70.
September 19: Bertrand and Mullainathan (2001). "Are CEOs Rewarded for Luck? The Ones Without Principals Are." *Quarterly Journal of Economics*, 116(3): 901-932.
September 20: Aggarwal and Samwick (1999). "The Other Side of the Tradeoff: The Impact of Risk on Executive Compensation." *Journal of Political Economy*, 107: 65-105.

Market for Corporate Control

- September 26:** Manne (1965). "Mergers and the Market for Corporate Control." *Journal of Political Economy*, 73(2): 110-120.
September 27: Romano (1987). "The Political Economy of Takeover Statutes." *Virginia Law Review*, 73(1): 111-199.
October 3: Stein (1988). "Takeover Threats and Managerial Myopia." *Journal of Political Economy*, 96(1): 61-80.

- October 4:** Matsusaka (1993). "Takeover Motives During the Conglomerate Merger Wave." *RAND Journal of Economics*, 24(3): 357-379.
- October 10:** Holmstrom and Kaplan (2001). "Corporate Governance and Merger Activity in the United States: Making Sense of the 1980s and 1990s." *Journal of Economic Perspectives*, 15(2): 121-144.

Corporate Boards

- October 11:** Bebchuk, Coates, and Subramanian (2002). "The Powerful Antitakeover Force of Staggered Boards: Theory, Evidence, and Policy." *Stanford Law Review*, 54: 887-951.
- October 17:** Romano (2003). "Does Confidential Proxy Voting Matter?" *Journal of Legal Studies*, 32(2): 465-509.
- October 18:** Klein (1998). "Firm Performance and Board Committee Structure." *Journal of Law and Economics*, 41(1): 275-303.

Litigation & Regulation

- October 24:** Romano (2005). "The Sarbanes-Oxley Act and the Making of Quack Corporate Governance." *Yale Law Journal*, 114(7): 1521-1612.
- October 25:** Helland (2003). "A Secondary Market Test of the Merits of Class Action Securities Litigation: Evidence from the Reputation of Corporate Directors." Working Paper.
- October 31:** Talley and Johnsen (2004). "Corporate Governance, Executive Compensation, and Securities Litigation." Working Paper.
- November 1:** Holmstrom and Kaplan (2003). "The State of U.S. Corporate Governance: What's Right and What's Wrong?" *NBER Working Paper*: 9613.

Case Study: Enron

For this section you need to read McLean and Elkind (2004). *The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron*.

- November 7:** McLean and Elkind
- November 8:** McLean and Elkind
- November 14:** McLean and Elkind
- November 15:** McLean and Elkind
- November 21:** McAfee (2004). "The Real Lesson of Enron's Implosion: Market Makers Are in the Trust Business." *Economists' Voice*, 1(2): Article 4.
- November 22:** Papers Due; Wrap Up.