

Law and Economics of the Firm
LAW628-001-2023B
Summer 2023

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Office Hours: Phone:
On request

Readings: All readings will be posted on Canvas site. Feel free to skip any math you don't find illuminating (same goes for anything else) but trying to get the punchlines will help you follow (and contribute to) the class discussions.

Participation: You should probably participate.

Grading: Your grade will be completely determined by your performance on an open-book, open notes take-home exam.

Location: Gittis 214

Time: 2 pm – 5 pm (except May 12th: 10 am – 1 pm)

Schedule

May 10: Basics of microeconomics (if you want a breezy law-situated discussion, see David Friedman's Law's Order available free at http://www.daviddfriedman.com/Laws_Order_draft/laws_order_ToC.htm).

If you want something more comprehensive but still cheap, see Alchian and Allen's Universal Economics <https://www.amazon.com/Universal-EconomicsArmenAlchian/dp/0865979065>.

May 11: Basics of statistics/econometrics (if you want a basic introduction geared to lawyers, see the Federal Judicial Center's Reference Manual on Scientific Evidence chapters on statistics and multiple regression available free at <https://www.fjc.gov/sites/default/files/2015/SciMan3D01.pdf>).

May 12: Finishing up stats/Basics of finance (Alchian and Allen's book covers this material in part 3 if you want a textbook treatment).

Villamil (2008), "The Modigliani-Miller Theorem," The New Palgrave Dictionary of Economics

May 15: Coase, Transactions Costs, and Comparative Institutional Analysis
R.H. Coase (1960), "The Problem of Social Cost," Journal of Law & Economics, 3: 1-44.

Harold Demsetz (2011), "The Problem of Social Cost: What Problem? A Critique of the Reasoning of A.C. Pigou and R.H. Coase," *Review of Law and Economics*, 7: Article 1.

Jonathan Klick (2006), "Salvation as a Selective Incentive," *International Review of Law and Economics*, 26(1): 15-32.

R.H. Coase (1937), "The Nature of the Firm," *Economica*, 4: 386-405.

May 16: Measurement and Information Problems

Yoram Barzel (1982), "Measurement Cost and the Organization of Markets," *Journal of Law & Economics*, 25: 27-48.

Armen Alchian and Harold Demsetz (1972), "Production, Information Costs, and Economic Organization," *American Economic Review*, 62: 777-795.

Benjamin Klein and Keith Leffler (1981), "The Role of Market Forces in Assuring Contractual Performance," *Journal of Political Economy*, 89: 615-641.

Michel Habib and D. Bruce Johnsen (2000), "The Private Placement of Debt and Outside Equity as an Information Revelation Mechanism," *The Review of Financial Studies*, 13(4): 1017-1055.

Michael Greenstone, Paul Oyer, and Annette Vissing-Jorgensen (2006), "Mandated Disclosure, Stock Returns, And The 1964 Securities Acts Amendments," *Quarterly Journal of Economics*, 121: 399-460.

May 18: **Note: Class will not meet live this day; lecture will be pre-recorded**

Opportunism

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

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

Richard Ippolito (1985), "The Economic Function of Underfunded Pension Plans," *Journal of Law and Economics*, 28: 611-651.

May 19: Contractual Solutions

Steven Cheung (1983), "The Contractual Nature of the Firm," *Journal of Law and Economics*, 26: 1-21.

Benjamin Klein (1985), "Self-Enforcing Contracts," *Journal of Institutional and Theoretical Economics*, 141: 594-600.

Roy Kenney and Benjamin Klein (2000), "How Block Booking Facilitated Self-Enforcing Film Contracts," *Journal of Law & Economics*, 43: 427-436.

Paul Rubin (1978), "The Theory of the Firm and the Structure of the Franchise Contract," *Journal of Law and Economics*, 21: 223-233.

Jonathan Klick, Bruce Kobayashi, and Larry Ribstein (2007), "The Effect of Contract Regulation: The Case of Franchising," working paper.

May 22: More Contractual Solutions

Town & Country House & Home Serv. v Newbery, 3 N.Y.2d 554 (1958).

Evan Starr, James Prescott, and Norman Bishara (2021), "Noncompete agreements in the US labor force," *Journal of Law and Economics* 64(1): 53-84.

Evan Starr (2019), "Consider this: Training, wages, and the enforceability of covenants not to compete," *ILR Review*, 72(4): 783-817.

Hyo Kang and Wyatt Lee (2022), "How innovating firms manage knowledge leakage: A natural experiment on the threat of worker departure," *Strategic Management Journal*, 43(10): 1961– 1982.

May 24: Compensation

In re THE WALT DISNEY COMPANY DERIVATIVE LITIGATION, 907 A.2d 693 (2005).

Marianne Bertrand and Sendhil Mullainathan (2001), "Are CEOs Rewarded for Luck? The Ones Without Principals Are," *Quarterly Journal of Economics*, 116: 901-932.

Kevin Murphy and Jan Zabojsnik (2007), "Managerial Capital and the Market for CEOs," working paper.

Xavier Gabaix and Augustin Landier (2008), "Why has CEO Pay Increased So Much?" *Quarterly Journal of Economics*, 123(1): 49–100.

Frederica De Stefano, Matthew Bidwell, and Arnaldo Camuffo (2022), "Do managers capture the value they create? Drivers of managers' value capture in a large retail chain," *Strategic Management Journal*, 43(10): 1983– 2011.

Bang Dang Nguyen and Kasper Meisner Nielsen (2014), "What Death Can Tell: Are Executives Paid for Their Contributions to Firm Value?" *Management Science* 60(12): 2994–3010.

Gary Becker and George Stigler (1974), "Law Enforcement, Malfeasance, and Compensation of Enforcers," *Journal of Legal Studies*, 3: 1-18.

May 26: The Market for Corporate Control and Mergers

Jonathan Klick and Robert Sitkoff (2008), "Agency Costs, Charitable Trusts, and Corporate Control: Evidence from Hershey's Kiss-Off," *Columbia Law Review*, 108: 749-838.

John Matsusaka (1993), "Takeover Motives during the Conglomerate Merger Wave," *RAND Journal of Economics*, 24: 357-379.

Julian Atanassov (2013), "Do Hostile Takeovers Stifle Innovation? Evidence from Antitakeover Legislation and Corporate Patenting," *Journal of Finance*, 68: 1097-1131.

Horizontal Merger Guidelines

Orley Ashenfelter, David Ashmore, Jonathan Baker, Suzanne Gleason, and Daniel Hosken (2006), "Empirical Methods in Merger Analysis: Econometric Analysis of Pricing in FTC v. Staples," *International Journal of the Economics of Business*, 13: 265-279

May 30: Collusion

Margaret Levenstein and Valerie Suslow (2006), "What Determines Cartel Success?" *Journal of Economic Literature*, 44 (1): 43-95.

United States v. Topco Assocs., Inc., 405 U.S. 596 (1972).

Broadcast Music, Inc. v. Columbia Broadcasting System, Inc., 441 U.S. 1 (1979).

Polygram Holding, Inc. v. Federal Trade Commission, 416 F.3d 29 (2005).

Nathan Miller and Matthew Weinberg (2017), "Understanding the Price Effects of the MillerCoors Joint Venture," *Econometrica*, 85(6): 1763-1791.

José Azar, Martin Schmalz, and Isabel Tecu (2018), "Anticompetitive Effects of Common Ownership," *Journal of Finance*, 73: 1513-1565.

May 31: Monopolization

Austan Goolsbee and Chad Syverson (2008), "How do Incumbents Respond to the Threat of Entry? Evidence from the Major Airlines," *Quarterly Journal of Economics*, 123(4): 1611-1633

Jefferson Parish Hospital District No 2 v. Hyde 466 U.S. 2 (1984).

Ohio v. American Express Co., 585 U.S. ____ (2018).

Benjamin Klein and Joshua Wright (2007), "The Economics of Slotting Contracts," *Journal of Law and Economics*, 50: 421-454.