Economics 4980/6980
Corporate Governance: Law, Economics & Politics

(For a .pdf copy of this syllabus, click here)

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Much of modern political economy, and the political economy of globalization in particular, focuses on labor markets. This literature recognizes the fundamental importance of financial markets, 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. Thus, we will begin with the firm and it’s relationship to financial markets. In the second part of the course we take a comparative perspective on corporate governance that draws on research in comparative law, economics and politics. We will conclude with analysis of the effects of globalization.

**Readings** for the course will be drawn from a large number of articles, available online, and:


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


Required readings are marked on the syllabus by a “<”.

**Surveys and Textbooks:** There have been a large number of survey articles and textbooks related to the material we will cover in this course. Among the best are:


Amsterdam: North Holland, pp. 61-133.


**Evaluation**: Your performance in this course will be evaluated on the basis of 10 analytical comments (worth 100 points total); and 1 analytical review essay (worth 100 points). To receive an A, you must earn at least 90 percent of the points available. To pass the course you must earn at least 60 percent of the points available. Grades between these limits will be determined on the basis of your performance relative to that of the class as a whole.

**Policy on analytical comments**. The analytical comments are written assignments consisting of two parts: a comment on the assigned reading for the week (7 of 10 points); and 5 questions raised by the assigned reading for the week (3 of 10 points). The comment should be about 3 double-spaced pages long. Do not waste time summarizing the reading. The goal is to identify some aspect of the reading that strikes you as particularly interesting and to explain why you find it interesting. The questions should identify things you would like to see discussed in class. The comments are due on, or before, the start of the class in which the material is discussed. Late comments will not be accepted.

**Review essays**. Every member of the class is required to produce a review essay on one of the major topics in law & economics or political economy (i.e. Topics III-V, not theory of the firm). Broadly speaking, I expect papers in the 20-25 page range [if you have picked a topic that can be effectively exhausted in 10-15 pages, you have picked too narrow a topic]. These papers will involve extensive review of the literature on one of the major topics (involving, but not limited to, the non-required readings on the topic). A grade in the A-B range [i.e. 80-100] can only be earned by a paper that provides a synthesis of the literature under review. That is, if you only summarize the literature the best grade you can earn will be a C [note well: this is a maximum, you can earn a lower grade by doing a bad job of summarizing].

To ensure that topics are well-established and suitable for the course, I require a proposal due no later than 4 October. Late proposals will result in a 10 point penalty to be assessed on the paper’s final score. If you change your paper topic without my approval, 20 points will be deducted from your final mark. Review essays are due at the last regular meeting of the course (6 December). **Late papers will not be accepted, and will earn a score of 0 points**.

These papers must be original work, plagiarism will not be tolerated. This includes: unattributed appropriation of someone else’s work; and excessive use (whether or not attributed)
of a secondary source [including, in particular, any of the above survey articles.] If you are unclear as to what constitutes plagiarism, consult the Tulane University Honor Code on plagiarism.
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Topic I. Course Introduction

- Gourevitch & Shinn, Chapter 1

Topic II. Basic Economics of the Firm and Corporate Governance

- **Transaction Costs and the Firm**


**The Firm as a Nexus of Contracts: The Agency Approach to the Firm**

- Easterbrook and Fischel, Chapter 1.


**Incomplete Contracts, Property Rights, and the Firm**


**Summarizing and Extending the Contracts Model**


**Transaction Costs in Action: GM-Fisher Body (Optional topic)**


**Why Capital Hires Labor (optional topic)**


**Topic III. Topics in Law and Economics of Corporate Governance**

- **Limited Liability and Capital Structure (optional topic)**
  - Easterbrook and Fischel, Chapter 2.
387. [Comment by Stephen Ross]


**The Berle-Means Firm: Separation of Ownership and Control**

- Easterbrook and Fischel, Chapter 4


### The non-Berle-Means Firm


### Capital Structure and Control


- Dewatripont, Mathias and Jean Tirole. 1994. “A Theory of Debt and Equity:


Corporate Control Transactions: Tenders, Takeovers, etc.

- Easterbrook and Fischel, Chapters 5-7


**Compensation as Control**


**Boards of Directors: Managers, Stockholders, and Bondholders**

- Easterbrook and Fischel, Chapter 3.


**Gatekeepers and Corporate Governance**


**Germany: Banks, Co-Determination, and All That**


Bermig, Andreas and Bernd Frick. 2010. “Board Size, Board Composition and Firm Performance.” *University of Paderborn - Faculty of Business Administration, Economics and Business Computing,*


### Topic IV. Comparative Law and Corporate Governance

- **Overview of the Theoretical Issues** (Readings not required)
Overview of Comparative Corporate Governance (Optional topic)


pp. 144-165.


- Markets v. Law: Legal Foundations of Corporate Governance?


Two Basic Problems of Corporate Governance.” *Business History Review,* 83(1), 9-34.


**Quality of Law: History, Culture, and Corporate Governance**


- Mark Roe (2003). *Political Determinants of Corporate Governance.* Oxford: OUP. [Section VI, pp. 159-196 for this topic.]


- Consequences of Legal and Financial Structure (Optional topic)


**Topic V. The Political Economy of Corporate Governance**

- **Comparative Political Economy of Corporate Governance: Intro**


  - Gouvevitch & Shinn, Chapter 2-4


- Paul Milgrom and John Roberts (1994). “Complementarities and Systems:
Understanding Japanese Economic Organization”. Estudios Economicos; V.9-#1, pp. 3-42.


**Comparative PE of Corporate Governance: Class Struggle**

- Gourevitch & Shinn, Chapter 5


**Comparative PE of Corporate Governance: Inter-Sectoral Struggle**

- Gourevitch & Shinn, Chapters 6 & 7


**Comparative PE of Corporate Governance: Insiders v. Outsiders**


and Corporate Control”. Chapter 3 in Vives.


**Topic VI. Dynamics of Corporate Governance: Convergence or Persistence?**

- **Delaware: Convergence v. Persistence in US Corporate Governance**
  - Easterbrook and Fischel, Chapter 8.


### Globalization and Convergence: Theory

- Gourevitch & Shinn, Chapter 8.


of Form or Function”. *American Journal of Comparative Law*; V.49-#2, pp. 329-357.


### Globalization and Convergence: Evidence


**Crisis and Reform: Enron and Sarbanes-Oxley**


Lobbying Approach to Sarbanes-Oxley”. *Journal of Accounting Research*; V.47-#2, pp. 519-583.


