Law and Economics of the Firm
Summer 2021
Law 628-001-21B

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Office Hours:
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: Silverman 240B

Time: 2 pm – 5 pm

Schedule:

May 12: 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-Economics-Armen-Alchian/dp/0865979065).

May 13: 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 14: **Note: Class will only meet 2-3:45 on this day.**
Basics of finance (Alchian and Allen's book covers this material in part 3 if you want a textbook treatment).

May 17: 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 19: 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.

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 21: Opportunism

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.

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

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

May 24: 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 25: More Contractual Solutions

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

Paul Rubin and Peter Shedd (1981), "Human Capital and Covenants Not To Compete," Journal of Legal Studies, 10: 93-110.

Mark Garmaise (2011), "Ties that Truly Bind: Noncompetition Agreements, Executive Compensation, and Firm Investment," Journal of Law, Economics, and Organization, 27: 376-425.

Even Starr (2019), "Consider This: Training, Wages, and the Enforceability of Covenants Not To Compete," ILR Review.

May 26: 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 Zabojnik (2007), "Managerial Capital and the Market for CEOs," working paper.

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

May 28: The Market for Corporate Control and Mergers

Henry Manne (1965), "Mergers and the Market for Corporate Control," Journal of Political Economy, 73: 110-120.

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

June 1: 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).

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

June 2: Monopolization

Elizabeth Granitz and Benjamin Klein (1996), “Monopolization by "Raising Rivals' Costs": The Standard Oil Case,” 39-147.

Michael Reksulak and William Shughart (2011), “Of Rebates and Drawbacks: The Standard Oil (N.J.) Company and the Railroads,” Review of Industrial Organization, 38:267-283.

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.