

M.Sc. Economics

Code:		Type:	MSc 2008 3 rd semester elective course
Title:	Economics of Governance		
Lecturer:	Christian Keuschnigg		
ECTS:	3	Contact hours (per semester):	24 hours
Semester:	Winter 2009/2010	Frequency of the lecture:	12 class room lectures
Dates:	October 27 th until November 6 th , 2009		
Prerequisites:	good knowledge of intermediate/advanced microeconomics		

Learning objectives (What are the intended learning outcomes? Which skills will be acquired?):

Applications of microeconomic principal agent theory

The course discusses applications of principal agent models in various fields of economics, ranging from external financing of firms, contracts in international economics, labour market institutions and political economy. The course focuses not only on the microeconomics of principal agent relationships, emphasizing the role of incentive compatible contracts for individual behaviour in situations of asymmetric information. It also discusses applications of principal agent models in (partial or general) equilibrium settings to explore the implications for public policy and the real effects of other economic changes.

The lecture makes students familiar with key theoretical contributions and summarizes important results from the empirical literature. It aims at developing analytical skills that enable participants to gain access to specialized literature and to prepare for original thesis work in this area. The course will be based on original journal contributions that are presented in a simplified way.

Content (Which professional competence and which contents will be imparted?):

Contents, see course outline for details:

1. Start-up Finance and Adverse Selection
2. Corporate Governance
3. Active Investors
4. Firm Creation and Business Failure
5. Job Protection and Insurance
6. Workfare and Adverse Selection in the Labour Market
7. Training and Imperfect Information in the Labour Market
8. Macroeconomics and International Finance
9. Contracts in International Economics
10. Finance and Trade
11. Agency Problems in Political Economy

Students present original empirical research related to theory presented in class.

Teaching approach (Description of the learning and teaching methods):

Presentation and discussion of original journal articles in simplified form with graphical illustrations.

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Workload (Definition of workload (ECTS), divided in pre-modules (e.g. pre-readings), core-modules (contact hours), post-modules (e.g. case studies)):

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Language of instruction (Information on the language of teaching):

English

Obligatory literature (E.g. scripts, books, articles, cases, papers):

Published articles and books are generally accessible from the library. Students can obtain course material and (unpublished) papers in PDF format from the course website www.iff.unisg.ch>Lehre>Keuschnigg
For a list of recommended literature please see attachment to this syllabus.

Additional literature (E.g. books, articles, cases, papers):

See course website www.iff.unisg.ch>Lehre>Keuschnigg

Mode of examination (Mode of the examinations and tests (e.g. oral or written examination, lecture, homework, papers, class participation):

- Written Exam
- Student presentation of an empirical article

Grading:

70% written exam, 30% student presentation.

Special features (E.g. excursion, guest speaker):

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Contact information:

Christian.Keuschnigg@unisg.ch

Office hours:

Individually arranged during 2 week block course at IHS, Oct. 27 - Nov. 6, 2009

Course website:

www.iff.unisg.ch>Lehre>Keuschnigg and <https://cecnet.tuwien.ac.at/>

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Background Reading on Microeconomic Methods

- TIROLE, Jean (2006), *The Theory of Corporate Finance*, Princeton University Press.
- SALANIE, Bernard (1997), *The Economics of Contracts. A Primer*, MIT Press.
- BOLTON, Patrick and Mathias DEWATRIPONT (2005), *Contract Theory*, MIT Press.
- LAFFONT, Jean-Jaques and David MARTIMORT (2001), *The Theory of Incentives: The Principal-Agent Model*, Princeton University Press.

Part I: Class Room Lectures

1 Start-up Finance and Adverse Selection

- DE MEZA, David and David WEBB (1999), Wealth, Enterprise and Credit Policy, *Economic Journal* 109, 153-163.

2 Corporate Governance

- TIROLE, Jean (2001), Corporate Governance, *Econometrica* 69, 1-35.

3 Active Investors

- TIROLE, Jean (2006), *The Theory of Corporate Finance*, Chapter 9: Lending Relationships and Investor Activism, Princeton University Press, 355-384.

4 Firm Creation and Business Failure

- LANDIER, Augustin (2006), *Entrepreneurship and the Stigma of Failure*, Working Paper, New York University.
- GROMB, Denis and David SCHARFSTEIN (2002), *Entrepreneurship in Equilibrium*, NBER Working Paper 9001.

5 Job Protection and Insurance

- BLANCHARD, Olivier J. and Jean TIROLE (2008), The Joint Design of Unemployment Insurance and Employment Protection: A First Pass, *Journal of the European Economic Association* 6, 45-77.

6 Workfare and Adverse Selection in the Labour Market

- KREINER, Claus Thustrup and Torben TRÆNES (2005), Optimal Workfare with Voluntary and Involuntary Unemployment, *Scandinavian Journal Economics* 107, 459-474.

7 Training and Imperfect Information in the Labour Market

- ACEMOGLU, Daron and Steven PISCHKE (1998), Why Do Firms Train? Theory and Evidence, *Quarterly Journal of Economics* 113, 79-119.

8 Macroeconomics and International Finance

- MATSUYAMA, Kiminori (2004), Financial Market Globalization, Symmetry Breaking and Endogenous Inequality of Nations, *Econometrica* 72, 853-884.

9 Contracts in International Economics

- ANTRAS, Pol (2005), Incomplete Contracts and the Product Cycle, *American Economic Review* 95, 1054-1073.

10 Finance and Trade

- ANTRAS, Pol and Ricardo J. CABALLERO (2009), Trade and Capital Flows: A Financial Frictions Approach, *Journal of Political Economy* 117, 701-744.

11 Agency Problems in Political Economy (tentative)

- BESLEY, Timothy and Andrea PRATT (2006), Handcuffs for the Grabbing Hand? Media Capture and Government Accountability, *American Economic Review* 96, 720-736.

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Part II: Empirical Literature for Student Presentations

Project Selection and Contracts

- KAPLAN, Steven N. and Per STRÖMBERG (2003), Financial Contracting Theory Meets the Real World: An Empirical Analysis of Venture Capital Contracts, *Review of Economic Studies* 70, 281-315.
- KAPLAN, Steven N. and Per STRÖMBERG (2004), Characteristics, Contracts and Actions: Evidence from Venture Capitalist Analyses, *Journal of Finance* 59, 2177-2210.

Advice and Control

- HELLMANN, Thomas and Manju PURI (2002), Venture Capital and the Professionalization of Start-ups: Empirical Evidence, *Journal of Finance* 57, 169-167.
- HELLMANN, Thomas and Manju PURI (2000), The Interaction Between Product Market and Financing Strategy: The Role of Venture Capital, *Review of Financial Studies* 13, 959-984.
- BOTTAZZI, Laura, Marco DA RIN and Thomas HELLMANN (2007), Who are the Active Investors? Evidence from Venture Capital, *Journal of Financial Economics*, forthcoming.

Selection versus Advice in Venture Capital Financing

- SORENSEN, MORTEN (2005), How Smart is Smart Money? A Two-Sided Matching Model of Venture Capital, *Journal of Finance* 62, 2725-2762.

Law, Finance and Institutions

- LA PORTA, Rafael, Florencio LOPEZ-DE-SILANES and Andrei SHLEIFER (2006), What Works in Securities Law, *Journal of Finance* 61, 1-32.
- LA PORTA, Rafael, Florencio LOPEZ-DE-SILANES, Andrei SHLEIFER and Robert W. VISHNY (1998), Law and Finance, *Journal of Political Economy* 106, 1113-1155.
- LA PORTA, Rafael, Florencio LOPEZ-DE-SILANES, Andrei SHLEIFER and Robert W. VISHNY (1997), Legal Determinants of External Finance, *Journal of Finance* 52, 1131-1150.
- LA PORTA, Rafael, Florencio LOPEZ-DE-SILANES, Andrei SHLEIFER and Robert W. VISHNY (1999), The Quality of Government, *Journal of Law, Economics and Organization* 15, 222-279.

Training and Imperfect Information in the Labour Market

- ACEMOGLU, Daron and Steven PISCHKE (1998), Why Do Firms Train? Theory and Evidence, *Quarterly Journal of Economics* 113, 79-119. (empirical part only)

Job Protection and Insurance

- BELOT, Michele, Jan BOONE and Jan van OURS (2007), Welfare-Improving Employment Protection, *Economica* 74, 381-396.
- CHETTY, Raj (2008), *Moral Hazard versus Liquidity and Optimal Unemployment Insurance*, NBER Working Paper 13967.
- ALGAN, Yann and Pierre CAHUC (2006), *Civic Attitudes and the Design of Labour Market Institutions: Which Countries Can Implement the Danish Flexicurity Model?*, IZA DP 1928. (check publication)

Macroeconomics, Trade and International Finance

- RAJAN, Raghuram and Luigi ZINGALES (1998), Financial Dependence and Growth, *American Economic Review* 88, 559-586
- MANOVA, Kalina (2008), Credit Constraints, Equity Market Liberalizations and International Trade, *Journal of International Economics* 76, 33-47.
- MANOVA, Kalina (2008), *Credit Constraints, Heterogeneous Firms, and International Trade*, NBER WP 14531.

Agency Problems in Political Economy

- BESLEY, Timothy and Anne CASE (1995), Does Electoral Accountability Affect Economic Policy Choices? Evidence from Gubernatorial Term Limits, *Quarterly Journal of Economics* 110, 769-798.