

Seminar I

*Problem 1.*

Explain verbally, without any formal models, why

- bonuses and share-based incentives are complements
- explicit and implicit incentives are substitutes

Discuss some implications of this for firms' management compensation.

*Problem 2.*

A firm's payout policy is its policy on dividends and share issuance and repurchases. Consider a firm that is financed through equity only by risk neutral investors. Discuss whether the total value of this firm depends on its payout policy.

*Problem 3.*

Review Problem 2, parts (i) and (ii), in Tirole, p. 626.

*Problem 4.*

Exercise 3.1 in Tirole, p. 144.