ECON 4245 Corporate Governance – Fall 2012

Seminar I

Problem 1.

Discuss, without any formal models, why

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

Discuss also 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.

(i) Exercise 3.1 in Tirole, p. 144.

(ii) Discuss how such randomization can be done in practice.

(iii) Why is the contract in this case a triple, $\{R_b, x, \hat{A}\}$?