

Table of Contents

Prologue (G. Bamberg and K. Spremann)	1
Section 1 Agency Theory and Risk Sharing	
<hr/>	
Agent and Principal (K. Spremann)	3
1. A General View	4
1.1 Cooperation	4
1.2 External Effects	5
1.3 Asymmetric Information	6
1.4 Induced Decision Making	7
1.5 Hierarchy and Delegation	9
1.6 Hidden Effort, Hidden Characteristics	9
2. A Closer Look	11
2.1 Risk Sharing	11
2.2 Induced Effort	14
2.3 The LEN-Model	17
2.4 Agency Costs	22
2.5 Monitoring Signals	26
2.6 Screening	30
References	35
Managerial Contracting with Public and Private Information (H. Milde)	39
1. Introduction	40
2. Assumptions	41
2.1 Risk Preference Function	41
2.2 Sharing Rules	42
2.3 Density Function	43
2.4 Production Function	44

3.	A Model with Public Information	45
3.1	The Nature of Risk Sharing	45
3.2	Risk Sharing and Observable Effort	50
4.	A Model with Private Information	52
4.1	The Manager's Decision Problem	52
4.2	The Principal's Decision Problem	53
4.3	Comparing the Contracts	57
	References	59
	Risk Sharing and Subcontracting. (G. Bamberg)	61
1.	Introduction	61
2.	A Parsimoniously Parameterized Model	65
3.	Explicit Solutions	66
3.1	Optimal Effort of the Agent	67
3.2	Pareto Optimal Solutions	67
3.3	Solution of the Principal Agent Problem	69
4.	Discussion of the Optimal Sharing Rate	70
4.1	Effect of Covariances	70
4.2	Effect of Risk Attitudes	71
5.	Some Remarks on the Relaxation of Assumptions	72
5.1	Incorporation of Additional Accounting Costs	72
5.2	Arbitrary Effort Functions	73
5.3	Nonlinear Contracts	73
5.4	Heterogeneous Expectations	75
5.5	Effort Dependent Cost Variance	76
	References	77

Section 2 Information and Incentives

	Information Systems for Principal-Agent Problems. (V. Firchau)	81
1.	Introduction	81
2.	Decision Problems with Additional Information	83
3.	Principal-Agent Problems	84
4.	Parameter Information	86
5.	Agency Information	90
6.	Conclusion	91
	References	92

Information Systems and the Design of Optimal Contracts (M. Blickle)	93
1. Introduction	93
2. The Model	95
3. Results	98
3.1 Costless Signals	98
3.2 Costly Signals	99
4. Conclusion	101
References	102
Incentive Compatible Mechanisms for the Allocation of Public Goods. (H. Funke)	105
1. Introduction	105
2. Why Does a Competitive Profit System not Work?	106
3. Lindahl's Tax Scheme	107
4. How are Incentive Compatible Mechanisms Constructed?	108
5. Characterization of a Certain Class of Tax Schemes	111
References	115
Incentives to Forecast Honestly. (A. Pfingsten)	117
1. Introduction	117
2. Some Applications	118
3. The Model	119
4. Some Results	121
5. A Simple Case	127
6. Research Agenda	132
References	133

Section 3 Capital Markets and Moral Hazard

Moral Hazard and Equilibrium Credit Rationing: An Overview of the Issues. (H. Bester and M. Hellwig)	135
1. Introduction	136
2. Moral Hazard and Equilibrium Credit Rationing: The Leading Example	138
2.1 Loan Contracts and Risk Taking	138
2.2 Equilibrium Credit Rationing	140
3. Extensions and Modifications of the Analysis	143
3.1 Collateral as an Incentive Device	143
3.2 Credit Rationing and the Level of Investment	148
3.3 Share Finance	155
4. Rationing in the General Theory of Optimal Contracts under Moral Hazard	157
4.1 Optimal Finance Contracts and Rationing in a Model of Double Moral Hazard	157
4.2 Rationing and the Individual Rationality Constraint in a Parameterized Principal-Agent Problem	159
Appendix: Sufficiency of the First-Order-Condition Approach	164
References	166
The Liquidation Decision as a Principal-Agent Problem (P. Swoboda)	167
1. Introduction	167
2. The Liquidation Decision with Creditors as Principals	169
3. The Liquidation Decision with Creditors and Customers as Principals	172
3.1 The Problem and the Solution of Titman	172
3.2 Can the Problem be Solved by Changing the Price Policy of the Firm?	174
3.3 An Alternative Solution	176
4. Some Remarks with Respect to further Principals	176
References	177

On Stakeholders' Unanimity. (J. E. M. Wilhelm)	179
1. Introduction	180
2. The Dependence of Stakeholders' Consumption Opportunities on Corporate Policy	182
2.1 Notations and Conventions for Model Representation	182
2.2 Simplifying Assumptions and Their Consequences	185
3. Two Typical Sources of Conflict and Their Interaction	190
3.1 The Conflict Between Owners and Creditors	190
3.2 The Conflict Between Owners and Managers	192
3.3 The Relations Between Managers, Owners, and Creditors	196
4. Concluding Remarks and Some Topics for Future Research	198
5. Appendices	199
5.1 Appendix I: On the Mathematical Structure of Consumption Opportunity Sets	199
5.2 Appendix II: Proof of Separation I	201
5.3 Appendix III: Proof of Separation II	202
References	203

Section 4 Financial Contracting and Dividends

Signalling and Market Behavior. (A. Gruber)	205
1. Introduction	206
2. A Review of the Harrison-Kreps-Model	207
2.1 Assumptions	207
2.2 The Price Process	209
3. Extensions and Signals	213
3.1 General Incentives for Signalling	213
3.2 Signals and Expected Returns	215
3.3 Further Results	217
3.4 Example	219
4. Switching Behavior	221
4.1 Example	221
4.2 Incentives for Recommendations	222
5. Conclusion	224
References	226

Dividend Policy under Asymmetric Information (T. Hartmann-Wendels)	229
1. Introduction	229
2. The Basic Concepts of Signalling Theory	232
3. Towards a Theory of Corporate Dividend Policy	237
3.1. Survey of Existing Dividend Signalling Models	237
3.2. Corporate Dividend Policy in a Moral Hazard Scenario	240
3.2.1. Investment Decisions and Debt Financing	240
3.2.2. Dividend Constraints and Stockholder – Bondholder Conflict	243
3.2.3. Optimal Investment Policy under a Dividend Constraint	244
4. Signalling under a Theory of Optimal Dividend Policy	247
5. Summary and Conclusions	250
References	251
 Why Leasing? An Introduction to Comparative Contractual Analysis. (J. P. Krahen and G. Meran)	 255
1. Introduction	255
2. Modelling the Leasing Contract: Analytical Framework	259
3. The Optimal Contract with Asymmetric Information	261
4. The Impact of Taxation	267
5. Discussion	271
6. Appendix	273
References	280

Section 5 External Accounting and Auditing

The Financial Theory of Agency as a Tool for an Analysis of Problems in External Accounting. (R. Ewert)	281
1. Introduction	282
2. The Financial Theory of Agency (FTA): A Basic Characterization	283

2.1 Agency Relationships in Finance and the Tasks of the FTA	283
2.2 A Description of Agency Problems	284
2.3 A Framework for an Investigation of Covenants	289
3. The General Relationship Between the FTA and External Accounting	292
3.1 Positive and Normative Questions in Accounting	292
3.2 The FTA and Normative Accounting Research	293
3.3 The FTA and Positive Accounting Research	295
4. Some Applications of the FTA in the Field of External Accounting	298
4.1 Preliminaries	298
4.2 The Relationship Between a Mitigation of Agency Problems and the Goal “Protection of Creditors’ Interests”	299
4.3 The Role of the “Principle of Caution” in Resolving Agency Problems in Simple Scenarios	300
4.4 Payout Restrictions in Complex Scenarios	302
5. Concluding Remarks	304
References	305
Asymmetric Information between Investors and Managers under the New German Accounting Legislation. (F. Fricke)	311
1. Subject Limitations	311
2. The Concept of “Information Structure”	312
3. The Possibilities of Analysing the Balance Sheet	313
3.0 General Remarks	313
3.1 Property Structure (Assets)	313
3.2 Capital Structure (Equity & Liabilities)	315
3.3 Financial Structure (Horizontal Key Figures)	316
3.4 Statement of Changes in Financial Position/Cash Flow Analysis	316
4. The Possibilities of Analysing the Profit and Loss Account	316
4.0 General Remarks	316
4.1 Analysing the Result	316
5. Statutory Audit Requirements	318
6. Disclosure Requirements	319

7.	Possible Effects	319
7.0	Recognizable Problem Areas	319
7.1	Experiences to Date	322
8.	Conclusion	322
	References	324
	Auditing in an Agency Setting. (W. Ballwieser)	327
1.	The Problem	328
2.	A Basic Model	330
3.	The Value of Auditing	333
4.	An Extended Model	337
5.	The Advantages and Problems of the Auditor	338
5.1	Gains from Auditing by an Auditor	338
5.2	Problems caused by the Auditor	339
6.	Conclusions	341
6.1	The Stability of Results	341
6.2	Practical Relevance	344
	References	344
	Investigation Strategies with Costly Perfect Information (A. Wagenhofer)	347
1.	Introduction	347
2.	The Model without Communications	350
3.	Occurrence of Random Investigation	355
4.	The Value of Communication	363
5.	Communication and Sufficient Penalty	366
6.	Communication and Insufficient Penalty	371
7.	Conclusions	376
	References	377

Section 6 Coordination in Groups

Managers as Principals and Agents. (M. J. Beckmann)	379
1. Introduction	379
2. Managers as Principals; Span of Control	380
3. The Production Function	381
3.1 Linear Homogeneous Production Function	381
3.2 Cobb Douglas Production Function	382
4. Managers as Agents	383
4.1 Manager's Effort	383
4.2 Optimal Share; Comparison with v. Thünen's Wage Formula	384
4.3 Cost of Agency	385
4.4 Multi-Level Organization	385
5. Increasing Returns to Scale	386
5.1 Manager's Effort	386
5.2 Feasibility Conditions and Optimal Share	387
References	388
Misperceptions, Equilibrium, and Incentives in Groups and Organizations. (M. Gaynor and P. R. Kleindorfer)	389
1. Introduction	390
2. Organizational Design and Incentives	396
2.1 Elements of Organizational Design	396
2.2 The Principal's Design Problem	398
3. Design Problems Under Perfect Information	399
3.1 Noncooperative Sharing Systems; Holmstrom's Theorem	399
3.2 Nash Bargaining-Cooperative Results	401
3.3 Remarks on Principal-Managed vs. Labor-Managed Enterprises	403
4. Misperceptions and Group Incentives	404
4.1 Consistent Non-cooperative Equilibrium	404
4.2 Sufficient Conditions for the Existence of Consistent Equilibria	406
4.3 Illustrative Example on the Effects of Misperceptions on Efficiency	407
5. Concluding Remarks and Review of Relevant Empirical Studies	410
References	412

Intertemporal Sharecropping: A Differential Game Approach (G. Feichtinger and G. Sorger)	415
1. Differential Games	415
1.1 Problem Formulation and Open Loop Information Structure	415
1.2 Solution Concepts	416
2. The Model	418
3. Nash Equilibrium	418
3.1 Problem of Player 1	419
3.2 Problem of Player 2	419
4. Stackelberg Equilibrium	420
4.1 Necessary Optimality Conditions	420
4.2 Characterization of Possible Regimes	421
4.3 Explicit Solution	424
5. Comparison of the Nash and Stackelberg Equilibria	427
6. Pareto Solutions, Optimal Threats, and Cooperative Nash Equilibria	428
6.1 Pareto Solutions	428
6.2 Optimal Threats and Bargaining Solution	430
7. Concluding Remarks	433
Appendix	433
References	438

Section 7 Property Rights and Fairness

Managerialism versus the Property Rights Theory of the Firm (T. Kaulmann)	439
1. Definition of the Problem	440
2. Theoretical Assertions Regarding the Separation of Owner- ship and Control in the Modern Publicly-Held Corporation	440
2.1 Managerialists	441
2.2 Property Rights Theory of the Firm	443

3. The Controversy in Light of the Results of Empirical Research	447
3.1 The Basic Structure of Empirical Studies	447
3.2 An Overview of Study Results	452
4. Conclusions	455
References	456
Contract, Agency, and the Delegation of Decision Making (E. Schanze)	461
1. Introduction: Equivocations in the History of Agency Theory	461
2. Agency – A Special Case of Contract?	463
3. Delegation and Discretion as Central Elements of Agency	465
4. The Concept of Contract	465
5. The Concept of Agency	466
6. Contractual and Non-contractual Agency Relations	468
7. Conclusion: A Tentative Matrix of Contract and Agency Features	469
References	471
A Note on Fair Equality of Rules. (J. Voeller)	473
1. Introduction	473
2. The Problem	474
3. Fair Equality of Rules as a Constitutional Dilemma	477
4. The Position of the Supreme Court	478
References	479

Section 8 Agency Costs

Agency Costs and Transaction Costs: Flops in the Principal-Agent-Theory of Financial Markets (D. Schneider)	481
1. The Agency-Problem and the Ways of its Solution	481
2. The Flop Named “Agency Costs”	483
3. The Flop Named “Transaction Costs”	487

4. Alternatives to Incentives as Solutions of Principal-Agent-Problems	490
5. Conclusion	492
References	493
Agency Costs are not a “Flop”! (R. H. Schmidt)	495
1. Introduction	496
2. Cost as a Quantitative Term	497
3. Do Agency Costs Fail to Explain Something?	499
4. Do Agency Costs Fail to Solve a Practical Problem?	503
5. Implications	508
References	508
About Contributors	511
Author Index	519
Subject Index	529