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Aix en Provence 15H

Master 2 Research Business Law and Economics

Economics of Regulation **Seminar Overview**

Seminar goals

The seminar aims to introduce students to economics of regulation and to presents some applications to financial institutions. The seminar is divided in three parts.

Presentation of basic and fundamental concepts, with a perspective from history

Presentation of contemporary theories, and a focus on rent-seeking issues

Application to financial questions (financial institution, money, central bank, credit financing, sub-prime crises, deposit insurance, capital structure, Basle 1, 2, 3, last lender resort, bank runs, ...)

Students must read the papers given in electronic format (agentier.free.fr/documents for students) before coming in class. They will have to present a synthesis of their reading and discuss the different aspects of the theory.

Evaluation

A 10 pages essay (In French or English) on a relevant subject of the seminar.

Seminar Overview

Mandatory readings

Papers from web archives (agentier.free.fr/documents for students) regul1, regul2 and regul3

English readers

Congleton R. Rent seeking and political institutions

Kirzner The Perils of Regulation - A Market-Process Approach Copyright : Law and Economics Center, University of Miami P. O. Box 248000, Coral Gables, Florida 33124, (305) 284 61 74, 1978, 1983.

Liggio L., " Charles Dunoyer and French Classical Liberalism ", *Journal of Libertarian Studies*, vol. 1, N°3, 1977, p. 153-178.

Littlechild Stephen "Misleading Calculations of the Social Costs of Monopoly Power," *Economic Journal*, 91 (June 1981): 348-65

Mises Monopoly Prices 1944 1998

Mises The Clash of Group Interests and Other Essays 1978

Peltzman S., « Toward a More General Theory of Regulation », *Journal of Law and Economics*, n°19, 1976, p. 211-240.

Posner, R. (1975). The Social Costs of Monopoly and Regulation. *Journal of Political Economy* 83: 807-827.

Raico R., « Classical Liberal Exploitation Theory : a Comment on Professor Liggio's Paper », *Journal of Libertarian Studies*, vol. 1, N°3, 1977, p. 179-183

Stigler G. et Friedland C., « What Can Regulators Regulate ? The Case of Electricity », *Journal of Law and Economics*, n°4, 1966, p. 1-16.

Stigler G., « The Theory of Economic Regulation », *Bell Journal of Economic and Management Science*, n°2, 1971, p. 3-21

More for French readers

Gentier *Economie bancaire* Chap6

Kirzner Les dangers de la réglementation Une approche par les processus de marché <http://herve.dequengo.free.fr>

Lévêque *Economie de la réglementation* Repères la Découverte

1) Basic concepts and the emergence of regulation theory

1.1 Basic concepts

Monopoly Externalities Collective goods

Regulation

Taxation prohibition and regulation

Prices discrimination and Pareto optimality

Legitimacy and size of the state (History of political thoughts, Constitutions and the guarantee of individual rights, droits créances vs droits libertés)

1.2 History of economic analysis of regulation

Two main views on regulation

- Classical liberal exploitation theory

Liggio L., " Charles Dunoyer and French Classical Liberalism ", *Journal of Libertarian Studies*, vol. 1, N°3, 1977, p. 153-178.

Raico R., « Classical Liberal Exploitation Theory: a Comment on Professor Liggio's Paper », *Journal of Libertarian Studies*, vol. 1, N°3, 1977, p. 179-183

- Social engineering (see regul1)

- Railways network tariffs

- The collective goods' implementation (Bridge...)

2) Contemporary theories of regulation

Introduction

- LAFFONT, Jean-Jacques & Jean TIROLE, *A Theory of Incentives in Procurement and Regulation*, MIT Press, 1993.
- Olson M., *The Logic of Collective Action, Public Goods and the Theory of Groups*, Harvard University Press, Cambridge, (4^{ème} édition), 1965.
- Peltzman S., « Toward a More General Theory of Regulation », *Journal of Law and Economics*, n°19, 1976, p. 211-240.
- Posner, R. (1975). The Social Costs of Monopoly and Regulation. *Journal of Political Economy* 83: 807-827.
- Stigler G. et Friedland C., « What Can Regulators Regulate ? The Case of Electricity », *Journal of Law and Economics*, n°4, 1966, p. 1-16.
- Stigler G., « The Theory of Economic Regulation », *Bell Journal of Economic and Management Science*, n°2, 1971, p. 3-21.

More for French readers

Gentier Chap6

Lévêque *Economie de la réglementation*

Rent-seeking issues

- Baye, M. R. Kovenock, D. and De Vries, C. G. (1999). The Incidence of Overdissipation in Rent-seeking Contests. *Public Choice* 99: 439-454.
- Baye, M. R. Kovenock, D. and De Vries, C. G. (1994). The Solution to the Tullock Rent-seeking Game when $R > 2$: Mixed-strategy Equilibria and Mean Dissipation Rates, *Public Choice* 81: 363-380.
- Hillman, A. and Samet, D. (1987). Dissipation of Contestable Rents by Small Numbers of Contenders. *Public Choice* 54: 63-82.
- Krueger, A. O. (1974). The Political Economy of the Rent-seeking Society. *American Economic Review* 64 (June): 291-303.
- Laband, D.N. and Sophocleus, J.P. (1988). The Social Cost of Rent-seeking: First Estimates. *Public Choice* 58: 269-275.
- Lockard, A. A. and Tullock G. (Editors) (2001). *Efficient Rent-seeking: Chronicle of an Intellectual Quagmire*, Kluwer Academic Publishers, Boston.
- Mixon, F.G. Jr., Laband, D.N. and Ekelund, R.B.Jr. (1994). Rent-seeking and Hidden In-kind Resource Distortion: Some Empirical Evidence. *Public Choice* 78: 171-185.
- Sobel, R.S. and Garrett, T.A. (2002). On the Measurement of Rent-seeking and its Social Opportunity Cost. *Public Choice* 112 : 115-136.
- Tollison, R. D. and Congleton, R. D. (Editors). (1995). *The Economic Analysis of Rent-seeking*, Aldershot, Hants, England Brookfield : E. Elgar.
- Tullock, G. (1967). The Welfare Costs of Tariffs, Monopolies, and Theft. *Western Economic Journal* 5: 224-252.
- Tullock, G. (1980). Efficient Rent Seeking. in J. M. Buchanan, R. Tollison and G. Tullock (Editors). *Toward a Theory of a Rent-seeking Society*, College Station, Texas A&M University Press. 97-112.
- Tullock, G. (1984). Long Run Equilibrium and Total Expenditures in Rent-seeking: A Comment. *Public Choice* 43: 95-97.
- Tullock, G. (1985). Back to the Bog. *Public Choice* 46: 259-263.
- Tullock, G. (1987). Another Part of the Swamp. *Public Choice* 54: 83-84.
- Tullock, G. (1989). Editorial Comment. *Public Choice* 62: 153-154.
- Tullock, G. (1989). *The Economics of Special Privilege and Rent-seeking*. Boston: Kluwer Academic Publishers.
- Tullock, G. (1995). The Reluctant Games Person- A Comment on Baye, Kovenock and De Vries. *Public Choice* 85: 189-192.
- Tullock, G. (1997). Where is the Triangle?. *Public Choice* 91: 149-159.
- Tullock, G. (1998). Which Triangle?. *Public Choice* 96: 405-410.

3) Applications to financial institutions

Consequences of bank's regulatory rules on financing credit Gentier 2003

Bank runs debates: theoretical and practical issues

- Diamond D.W. and Dybvig P.H., Banks Runs, Deposit Insurance, and Liquidity, *Journal of Political Economy*, vol. 91, 1983, p. 401-19.
- Diamond D.W., " Financial Integration and Delegated Monitoring ", *Review of Economic Studies*, vol.51, 1984, p. 393-414.

Dowd, K.(2002)., "Assessing the Pre-Commitment Approach to Bank Capital Regulation", *Journal of Risk Finance*, Vol.3 (4), pp.35-40.

Dowd, K.(2000)., "Bank Capital Adequacy Versus Deposit Insurance", *Journal of Financial Services Research*, Vol.17 (1), pp.7-15.

Liquidity crisis and lender in last resort question

Links between fiscal deficit, public debt and monetary and financial instability

Capital structure, some interesting remarks: leverage effect, debt and taxes.

Fama, E. and French, K., « Investment, Dividends, Debt and Earnings », University of Chicago, Graduate School of Business, May 1997a.

Fama, F. and French, K. « Taxes, Financing Decisions, and Firm Value ». *Journal of Finance*, Jun98, Vol. 53 Issue 3, p819, 25p, 3 charts;

Miller, Merton H. "Debt and Taxes." *Journal of Finance* 32, no. 2 (1977): 261.

Miller, Merton H. "Do the M & M Propositions Apply to Banks?." *Journal of Banking & Finance* 19, no. 3/4 (1995): 483-489.

Miller, Merton H. "The M&M Propositions 40 years later." *European Financial Management* 4, no. 2 (1998): 113.

Miller, Merton H., and Franco Modigliani. "Some Estimates of the Cost of Capital to the Electric Utility Industry: 1954-57: Reply." *American Economic Review* 57, no. 5 (1967): 1288.

Miller, Merton H., and Franco Modigliani. "Some Estimates of the Cost Of Capital to the Electric Utility Industry, 1954-57." *American Economic Review* 56, no. 3 (1966): 333.

Modigliani, Franco, and Merton H. Miller. " The Cost of Capital, Corporation Finance, and the Theory of Investment." *American Economic Review* 48, no. 3 (1958): 261.

Modigliani, Franco, and Merton H. Miller. "Corporate Income Taxes and the Cost of Capital: A Correction." *American Economic Review* 53, no. 3 (1963): 433.

Modigliani, Franco, and Merton H. Miller. "The Cost of Capital, Corporation Finance, and the Theory of Investment: Reply." *American Economic Review* 55, no. 3 (1965): 524.

Modigliani, Franco, and Merton H. Miller. "The Cost of Capital, Corporation Finance, and the Theory of Investment: Reply." *American Economic Review* 49, no. 4 (1959): 655.

Ragan, R. and Zingales, L., « What Do We Know About Capital Structure? Some Evidence from International Data », *Journal of Finance*, Vol. 50, 1995, 1421-60.

More for French readers

Cobbaut R, *Théorie financière*, Economica, Paris, 1997.

Basle 2 and 3

Dowd, K.(2000)., "Accounting for Value at Risk", *Journal of Risk Finance*, Vol.2 (1), pp.51-58.

Dowd, K.(2000)., "Estimating Value-at-Risk: A Subjective Approach", *Journal of Risk Finance*, Vol.1 (4), pp.43-46.

Dowd, K.(2000)., "Adjusting for Risk: An Improved Sharpe Ratio", *International Review of Economics and Finance*, Vol.9,3, pp.209-222.

Bessis J *Risk Management in Banking*, traduction de Gestion des risques et gestion actif-passif des banques, John Wiley & Sons, 1998, 2e éd. 2002.

Sub-primes crisis

Other interesting readings

Dewatripont Tirole *The Prudential Regulation of Banks*

Dowd K., *Competition and Finance*, St. Martin Press, New York, 1996.

Dowd K., *Laissez-faire Banking*, Routledge, Londres, 1993.

Dowd K., *The Experience of Free Banking*, Kevin Dowd éditeur, Routledge, Londres, 1992.

Goodhart C., *The Evolution of Central Banks*, MIT Press, Cambridge (Massachusetts) et Londres, 1988.

LAFFONT, Jean-Jacques et Jean TIROLE, *A Theory of Incentives in Procurement and Regulation*, MIT Press, 1993.

The Foundations of Regulatory Economics, Robert B. Ekelund éditeur, Edward Elgar Publishing, Northampton, 1998

Tullock G., *Le Marché Politique : Analyse économique des processus politiques*, Economica, Paris, 1978. Olson M., *The Logic of Collective Action, Public Goods and the Theory of Groups*, Harvard University Press, Cambridge, (4^{ème} édition), 1965.

Subjects for evaluation

The essay will be between 6 and 10 pages, police Times New Roman 12, with a space line of 1.5. The students can choose a subject beside or propose another one. The essay will have an introduction (presentation, questioning, overview), a development (2 to 6 main points) and a conclusion. Sources and quotations must obey to academic criteria, and the essay must have a final bibliography.

Essays are due to second week of January. A hard copy will be given to Mme Marrazzo and an electronic copy will be sent to antoine.gentier@univ-amu.fr.

Subjects

1. Assets inflation (since 1980)
2. Arguments in favor of central banking
3. Credit rationing theory
4. Evaluation models of financial assets
5. Monetary theory of the business cycle
6. Origins of the business cycle
7. The Mal-Investment
8. Links between credit and housing market
9. Basle 2 and 3 agreements
10. Banks regulation: principles and limits
11. Banks' mergers
12. Free banking
13. Monetary freedom
14. Euro's perspectives
15. Exchange rates theories
16. Theories of firm
17. Banks intermediation
18. False money debate among French Economists (19th century)
19. Financing emerging economies
20. Pension funds
21. Modigliani Miller theorem and its perspectives
22. Development and financial institutions
23. Financing innovation
24. Information and market efficiency
25. Inflation
26. Leverage effect
27. Electronic moneys
28. Emerging stock exchange markets
29. Rational bubbles
30. Debt and Taxes (from the firm point of view)
31. Friedman 1968 and Friedman 1986
32. Deposit insurance principles and limits
33. IFRS rules
34. Historical value versus market value