Index

Titles of publications and legal cases are in *italics*.

Abbott, L.J. 214–15
accounting firms as intermediaries 41–2
acquisitions, effect of corporate and securities law 61
affective trust 38–9, 58
Akerlof, G. 33
America
  corporate law 2, 12–15
disclosure rules 134–7
fiduciary duty 124
fraud prevention 139–41
insider trading regulation 142–3
securities law 2, 15–19
  see also Sarbanes-Oxley Act; Securities Act; Securities Exchange Act
securities law controversies 190–217
takeover regulation 143–5
anchoring and adjustment
  and auditor failure 88
  and decisionmaking 76
appraisal rights, minority shareholders 126
Asch, S. 75
assumpsit 111–12
audit committee and Sarbanes-Oxley Act 214
auditing costs and Sarbanes-Oxley Act 210
auditing firms as intermediaries 41–2
auditor failure, behavioral reasons 87–8
availability heuristic, and decisionmaking 74
Azfar, O. 155

Bainbridge, S.M. 95–6
bank lending and company financing 5
Barberis, N. 81
Barnards Act 133
Barro, R. 152
basic law 10–12
  analysis of associations 166–70
  and behavioral decision theory 82–9
  development of 110–16
  economic effects 156, 186
  and trust 29–31
Bedard, J. 214
behavioral decision theory 70–79
  and competitive regulation 205
  and contracting around fraud 198
  and corporate disclosure 94–7
  and corporate law 89–93
  and efficient market hypothesis 79–82
  and insider trading 195
  and issuer deregulation 200–201
  and securities law 93–101
  and stockbrokers 93–4
Benartzi, S. 80
Benston, G. 60
Beny, L. 195
Berle, A.A. 123
Bernstein, L. 11
Bernstein, W. 129
Bhattacharya, U. 195–6
*Birth of Plenty: How the Prosperity of the Modern World was Created* 129
Black, B. 54, 201–2
Blair, M.M. 90–91, 118
Bogle, J. 87
bonding assets 127–8
bounded rationality 71–2
bounded willpower 79
*Bowling Alone* 29
Bubble Act 119, 130, 132–3
Index

bubbles 131–3
business judgment rule 48, 93
business xenophobia 36–7
Butler, N. 117

capital, costs of, effect of laws 156
capital market development 130–33
    and disclosure 133–8
    and insider trading 141–3
    and misrepresentation 138–41
    and takeovers 143–7
*Carr v. CIGNA Securities* 197
cash/price variable and securities law 180
centralized control by managers 122
certification requirement, Sarbanes-Oxley Act 213
China, takeover regulation 146
Choi, S. 100, 199–201
Chtourou, S.M. 214
civil law countries
    contract law development 112
    fraud law 114–15
    securities law development 137–8
    class action fraud litigation 55, 140
Coase, R. 113–14, 118
Coffee, J.C. 62
cognitive dissonance 72–3
    and auditor failure 87
    and stockbroker behavior 94
common law 9
    economic effects 153
    fraud rules 54–5
common law nations
    contract law development 111–12
    tort law development 114–15
*see also* America; England
communalities, factor analysis 175
community-based transactions 36–7
Companies Act 134
Companies Clauses Consolidation Act 134
company financing 4–5
compensation of executives
    and behavioral theory 91–2
    effect of insider trading 193
competitive regulation 202–8
    private securities exchanges 207–8
    state securities regulation 202–7
compliance costs

corporate and securities law 64–5
    Sarbanes-Oxley Act 210–11
confirmation bias 72
    and auditor failure 87
    conformity bias 75–6
Conslick, J. 104
contract-intensive money (CIM) 158, 160
contract law
    and behavioral decision theory 83–5
    clarification function 45
    development of 111–12
    and trust 37–46
contracting around fraud 196–9
contracts, relational 30
control
    illusion of 74
    managerial 122

corporate certification requirement, Sarbanes-Oxley Act 213

corporate disclosure, *see* disclosure
corporate governance
    effect of law 183–4
    quality and economic success 7
corporate law 8, 12–15
    and acquisitions 61
    and behavioral decision theory 89–93
    bonding assets 127–8
    and capital markets 153, 155
    costs 48, 64–5
    development 116–29
    economics of 46–51
    effect on markets 187
    and fiduciary duty 19–20, 123–5
    and fraud law 19–20
    inefficiency 49
    limited liability 120–21
    management control 122
    and management monitoring 123–4
    and market capitalization 155
    minority shareholders, protection of 125–7
    perpetuity of corporations 120
    separate legal identity of corporations 118–19

state governance 205–6

corporate law variables 160, 161
analysis 170–72
factor analysis 176
and World Bank financial variables 170–71
corporate scandals 2–3, 86–7
corporations 116–27
  bonding assets 127–8
  development 116–18
  fiduciary duty of managers 123–5
  limited liability 120–21
  management control 122
  minority shareholders 125–7
  perpetuity of existence 120
  separate legal identity 118–19
costs
  of capital, effect of laws 156
  of compliance, Sarbanes-Oxley Act 210–11
  compulsory corporate rules 48
  corporate and securities law
  compliance 64–5
  credit-rating agencies 41
  crime and contract enforcement 44
  cross-country scaling of national legal
  content 158–9
cross-listing 61–3
  effect of Sarbanes-Oxley Act 212

Daouk, H. 195–6
Dartmouth College (case) 119
Davis, J. 110
deceit, see fraud
Dechow, P.M. 86
decisionmaking, see behavioral
decision theory
Delaware law 15, 51
and takeovers 145
Derry v. Peek 139
director independence and Sarbanes-
Oxley Act 214
disclosure 52–4
  and behavioral decision theory 94–7
  effect of regulation 60
  regulation development 133–8
  variables, effect of law 184–5
  voluntary 53–4
disposition effect 81
Donaldson, T. 90
Drucker, P. 118
Dunfee, T.W. 90

East Asian economies, relationship
  investing 35
Easterbrook, F.H. 39, 47, 49, 50, 54,
  86, 87, 92–3
EC Public Offer Prospectus Directive
  141
Economic Analysis of Law 46
  economic growth
    and financial development 5–7
    and law 3–7, 154
    and property rights 113–14
  economic value of law 28–66
  corporate law 46–51
  securities law 51–9
  and trust 31–46
efficient market hypothesis and
  behavioral decision theory 80–82
Ellickson, R. 11
emotions, effect on decisionmaking 73
empowering legal rules 8–9
endowment effect
  and contract law 83
  and decisionmaking 77
enforcement of securities law, effect on
  market 181–2
England
  contract law development 111–12
  disclosure development 134
  fraud prevention 139
  securities regulation development
    131–3
  see also United Kingdom
Enron 86–7
equity market financing 5
equity premiums 80
ethnicity and trust 36–7
ethnolinguistic fractionalization 178–9
European Union
  competitive regulation 206
  corporate law convergence 128
  fraud provisions 141
  takeover regulations 146
ex ante monitoring 39–40
Exchange Act, see Securities Exchange
  Act
executive compensation, see
  compensation of executives
fairness and contract law 84–5
false consensus effect 74–5
and auditor failure 88
and fraud 99, 198
Farnsworth, E.A. 85
Felo, A.J. 214
Festinger, L. 72
fiduciary duty
and corporate law 49–50
and fraud law 19–20
of managers 90–91, 123–5
see also fraud
financial development, effect on economic growth 5–7
financial markets
effect of laws 154, 187
effects of legal variables 176–82
effect of Sarbanes-Oxley Act 211
and social welfare 6
financial scandals 2–3, 86–7
financial variables 162–3
financing company growth 4–5
Fischel, D.R. 39, 47, 49, 50, 54, 93
Fletcher v. Peck 119
Foley & Lardner 64
Foreign Corrupt Practices Act (FCPA) 213
foundational law, economic effects 156, 186; see also basic law
foundational legal variables, correlation 167–70
framing bias, decisionmaking 76
France
corporate governance regulation 148
disclosure requirements 137
management supervision 124
shareholder voting rights 126
takeover regulation 146
fraud and contracting 196–9
fraud provisions
and behavioral decision theory 97–101
development 114–15
and fiduciary law 19–20
and mandatory disclosure 54
and securities law 54, 138–41
Germany
disclosure requirements 137–8
management monitoring 123–4
takeover regulation 146
Goodwin, J. 214
government
as monitoring intermediary 43–4
role in decisionmaking 101–3
groupthink and decisionmaking 75–6
growth, see economic growth
Grubman, J. 40
Gulati, M. 100
habit heuristic and decisionmaking 78
Hadfield, G. 202
Havemeyer, H.O. 135
herding, and decisionmaking 76
history of law
basic law 110–16
contract law 111–12
corporate law 116–29
property law 112–14
securities regulation 23–4, 129–47
tort law 114–16
honesty of management, measurement 164
Hu, Chung 41
human capital variable 179
illusion of control
and decisionmaking 74
and fraud protection 99
inefficiency of corporate laws 49
information provision, private intermediaries 42
insensitivity to information source
and auditor failure 88
and decisionmaking 75
and fraud protection 100
insider trading 191–6
and Exchange Act 17–18, 142
effect on markets 195–6
legalization 191–2
regulation development 141–3
inspection rights, minority shareholders 126
Institutional Shareholder Services (ISS) 42
intellectual property rights 114
intermediaries, see private intermediaries
intermediate agency problem, effect of laws 183–5
intermediate variables 163–4, 182–5
Index

internal financial controls and Sarbanes-Oxley Act 212–13
investment
company financing 4–5
effect of Securities Act 59–60
and trust 31
see also Prisoner's Dilemma of investment
investor irrationality 80–82
issuer deregulation 199–202
Japan
corporate law development 129
takeover regulations 146
Jensen, M.C. 80
Joint-Stock Companies Registration, Incorporation and Regulation Act 134
judicial systems 10–11
Kahneman, D. 71, 77
Kaplow, L. 4
King, R. 5
Klausner, M. 56
Korea, takeover regulations 146
Korobkin, R. 84
Kraakman, R.H. 79
Kreuger, I. 135–6
Krishnan, J. 215
La Porta, R. 153–4, 160
La Porta financial variables 162
La Porta scale of national legal content 158–9
Langevoort, D.C. 92
law
economic effects measurement 152–88
and economic growth 3–7
effect on financial markets 154
history of, see history of law
and transactions 37–9
and trust 29–46, 85
see also basic law; common law; contract law; corporate law; property law; securities law
Law, J. 131
legal identity, corporations 118–19
legal origin 9
as basic law variable 157–8

effect on financial development 154
legal rules 8–9
legal variables 157–61
economic effects 174–82
Levine, R. 5–6, 154
Levitt, A. 87
limited liability 12–13, 47–8, 120–21
limited liability companies (LLC) 48–9
Loewenstein, G. 88
loss aversion
and contract law 83
and decisionmaking 77
low probability events, effect on decisionmaking 76
Macey, J. 41
Mahoney, P. 133
management
control, corporations 122
effects of insider trading 194
monitoring 123–4
opportunism 47
managers, fiduciary duty 90–91, 123–5
mandatory disclosure, see disclosure
Manne, H. 191
Marini Report 148
Market for Lemons, The 33
market-mobilized capital 155
markets, see financial markets
McMullen, D.A. 214
Means, G.C. 123
memory limitations and auditor failure 87
mental accounting 77–8
Milgrom, P. 36
minority shareholder protection 125–7
misrepresentation prevention 138–41; see also fraud
monitoring
of management 123–4
of transactions, private intermediaries 39–44
myopic loss aversion 80
nationalization of securities fraud law 55–6
Nature of the Firm, The 118
network effects, enforcement system coordination 56
Neuer Markt 137–8
New Institutional Economics 4
New York Stock Exchange (NYSE),
  disclosure requirements 135–6
nonreliance clauses 197
North, D. 4, 110

Olson, M. 113
opportunism 36
  and corporate law 47–9
  of private intermediaries 40–42
optimism, undue
  and auditor failure 87–8
  and decisionmaking 73–4
oral communication salience, and
  fraud 100
organized crime and contract
  enforcement 44
Over the Counter Bulletin Board
  (OTCBB) 58
overconfidence
  and auditor failure 87–8
  and decisionmaking 73–4
  and fraud protection 99
Overend Gurney bank collapse 134

partnership law 14–15
Partnoy, F. 41
Pasley v. Freeman 115
patent law development 114
perpetuity of existence, corporations
  120
personal positivity bias and fraud 99
Pitt, H. 207
Posner, R. 46–7, 51, 89, 99, 197
post facto contract enforcement 44
post facto fraud enforcement 39–40, 54
power allocation and corporate law 13
Prisoner's Dilemma of investment 31–4
  and corporate law 47
  effect of law 37–9
private intermediaries
  opportunism 40–42
  transaction monitoring 39–44
private securities exchanges,
  competitive regulation 207–8
Private Securities Litigation Reform
  Act (PSLRA) 15, 16–17, 140
private transactions, effect of
  Sarbanes-Oxley Act 211
probability assessment
  and decisionmaking 76
  and fraud 99
property law development 112–14
property rights
  and economic success 113–14
  as measure of foundational law 158
prospect theory and decisionmaking 77
PSLRA (Private Securities Litigation
  Reform Act) 15, 16–17, 140
psychology and decisionmaking, see
  behavioral decision theory
public companies, costs 64–5
Public Company Accounting Oversight
  Board (PCAOB) 209
public enforcement of securities laws
  181–2
Putnam, R. 29, 36
quality of management, measurement
  164

racism in transactions 36–7
Raghundun, K. 214
Rao, P.K. 57
rational choice 22–3
rational ignorance 71–2
and fraud 98–9
reference dependent utility 77
regret aversion 73
  and insider trading 195
regulation, competitive, see
  competitive regulation
relational contracts 30
relational xenophobia of trust 36–7
relationship investing, East Asian
  economies 35
religious culture, influence on law 156
representativeness heuristic, and
  decisionmaking 74
reputational capital loss, Enron 86–7
reputational constraint, stockbrokers
  93–4
restrictive legal rules 8–9
Ribstein, L.É. 52, 81, 99
Ridley, M. 30
right to sue, minority shareholders
  126–7
risky shift 76
Roberts, J. 36
Index

Roe, M. 187–8
Romano, R. 202, 207, 213–14
rule of law, factor analysis 175
Sale, H.A. 100
salience of oral communication, and fraud 100
Sarbanes-Oxley Act (SOX) 18–19, 59, 92, 128, 136–7, 208–16
SEC, see Securities Exchange Commission
SEC v. Texas Gulf Sulphur Co. 192
Securities Act 15–16, 136
and return on investment 59–60
fraud provisions 140, 197
and insider trading 142
and mandatory disclosure 60
Securities Exchange Commission (SEC) 2, 16, 102–3, 182
securities law 8, 15–19
America, see America, securities law
analysis of variables 172–4
and acquisitions 61
and behavioral decision theory 93–101
benefits 59–63
costs 64–5
development 129–47
economics of 51–63
effect of public enforcement 181–2
factor analysis 176, 180
and financial development 153–4,
176, 180–82, 186
fraud provisions 20, 54–6
government role 101–3
and network externalities 57
studies 59–63, 153–4
valuation 187
variables 160–61
Securities Litigation Uniform Standards Act (SLUSA) 15,
16–17
self-serving bias 72
and auditor failure 88
separate legal identity, corporations 118–19
shareholder protection 125–7
effect on company value 153
Shavell, S. 4
Shleifer, A. 81
Simon, H. 72
Sloan, L. 136
Smith, A. 123
social norms and corporate disclosure 96
social welfare, effect of financial markets 6
South Sea Bubble 132
SOX, see Sarbanes-Oxley Act
state law 9–10
securities regulation 60–61, 202–7
status quo bias
and contract law 83–4
and corporate disclosure 95–6
and decisionmaking 78
and fraud protection 100
stock issuers, opportunism 40
stockbrokers and behavioral decision theory 93–4
Stout, L.A. 90, 90–91, 118
sunk cost effects and decisionmaking 78
sunk costs, private intermediaries 42–3
takeovers, regulation 143–7
Talley, E. 202
Taylor, M. 29–30
tender offer regulation, Williams Act 17
Thaler, R.H. 80
time delay traps and decisionmaking 78–9
tort law development 114–16
transaction costs
and exchange competition 208
and insider trading 194
and law 22
transactions
effect of law 37–9
monitoring, private intermediaries 39–44
and trust 28–9
trust
and basic law 29–31
and commercial transactions 28–9, 84–5
and corporate governance 90
effect of law 31–46, 85
and investment contracts 31
Tversky, A. 71, 77, 81
United Kingdom
takeover regulation 146
see also England
underground economy 11
undue optimism
and auditor failure 87–8
and decisionmaking 73–4
and fraud protection 99
USA, see America
Vienot Report 148

Vishny, R. 81
voluntary disclosure 53–4
voting rights, minority shareholders 125–6
Welle, E. 103
Williams Act 17, 59, 144
Williamson, O. 38
World Bank studies 154–5
World Competitiveness Report (WCR) 159
Yeo, T.Y. 214
Zervos, S. 5–6