Summaries

Private benefits and product market competition

Jacques Thépot

The impact of private benefits extraction on the values of oligopolistic firms is analyzed. Private benefits are assumed to generate costs which are passed through the organizational structure and create price distortion in the downstream product market. We prove that this may affect the profit (i.e. the market value) of the firms in a positive sense since the intensity of rivalry is curbed by the cost increase.

In oligopoly, private benefits extraction may enhance the profits while still generating a welfare loss: this suggests that corporate governance cannot be divorced from competition policy in industries where managerial opportunism generates expropriation costs.

Keywords: Private Benefits, Oligopoly, Agency Cost.

JEL Classification: G38, D43.

Revisiting the Balassa-Samuelson model with markup variations

Romain Restout

This paper addresses the role of markup variations in the transmission process of cross-sectoral productivity differential shocks and government spending shocks to the relative price of nontradables. The Balassa-Samuelson model based on frictionless goods markets predicts that a rise in the sectoral productivity ratio by 1% raises the relative price by 1% while government spending changes leave the relative price unaffected. Using panel cointegration and unit root tests applied to a panel of fifteen OECD economies, our empirical evidence does not support these implications. We find that a rise in relative productivity by 1% raises the relative price of nontradables by only 0.70% and that an increase in government spending by 1% of GDP drives up the relative price by around 1%. This paper shows that these items of evidence can be successfully explained by a two-sector open economy model in which variations in the composition of demand for nontradables give rise to endogenous changes in the markups.

Keywords: Balassa-Samuelson model, Markups, Productivity, Government expenditure.

JEL Classification: E20, E62, F31, F41.

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Why did French Savers buy Foreign Assets before 1914?
A Decomposition of the Benefits from Diversification

David Le Bris

This paper examines the question as to whether, before 1914, French savers bought foreign assets to gain higher foreign returns or because of low correlation. Using tools of the Modern Portfolio Theory, the benefit from international diversification is decomposed into these two components, using a counterfactual hypothesis of perfect correlation between two assets. This approach allows an original measure of the respective share of the higher foreign returns and the low correlation in the benefit of diversification. The argument is put forward that French investors were mainly attracted by weak foreign correlation with domestic assets, rather than higher foreign returns.

Keywords: Portfolio diversification, home bias, 19th century.

JEL Classification: G11, G15, N23.

Affiliated value, toeholds and overbidding in takeover contests

Didier Hounwanou

This paper examines the optimal bidding strategy in takeover contests for a target firm, and the positive correlation between the bidders' valuation. We consider risk neutral bidders who compete for the control of a target firm in which they get initial shareholdings. The bidder's valuation for target firm is correlated with his motivations which determine bidder's strategy.

We study bidder's optimal strategy in mixed motivations setting. Since motivations are numerous, hypothesis of affiliated value in auctions allows to study bidder's strategy. The paper shows that the impact of affiliation degree on bidder's optimal strategy depends on their private signal and on the ratio between their initial shareholdings. Particularly, we found that if a potential bidder overbids when he gets toeholds in the target firm, the extent of overbidding is not monotonically increasing with the size of toeholds and the level of private signal. There is a threshold of private signal under which the bidder is more aggressive given the size of his toeholds and above which the bidder is less aggressive. Target firm's expected revenue increases with the degree of affiliation of bidder's valuation.

When potential bidders get identical size of toeholds, their bid doesn't depend on valuation's affiliation degree and their optimal offer increases both in their private signal and in toeholds. In this case, the bidder with highest signal wins and competition yields to an efficient allocation.

Keywords: Motivations, Valuations, Affiliation, Toeholds, Overbidding, Takeovers, Allocation.

JEL Classification: D44, D82.

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