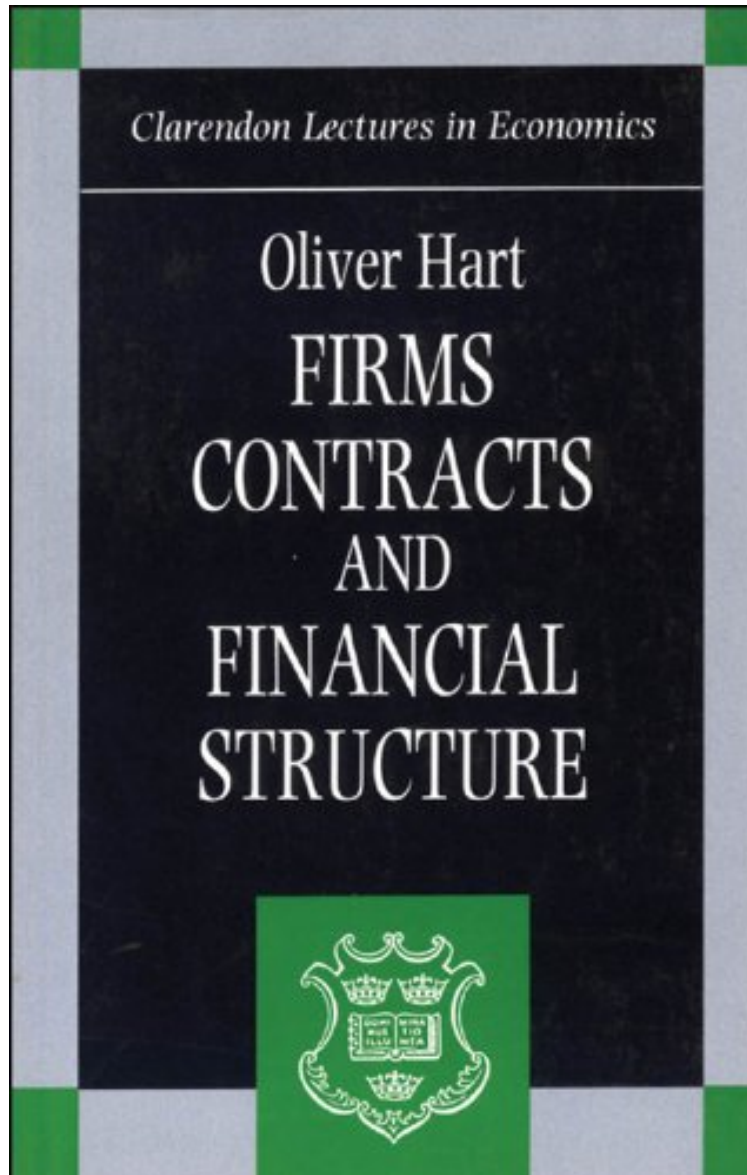


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Oliver Hart

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This book provides a framework for thinking about economic institutions such as firms. The basic idea is that institutions arise in situations where people write incomplete contracts and where the allocation of power or control is therefore important. Power and control are not standard concepts in economic theory. The book begins by pointing out that traditional approaches cannot explain on the one hand why all transactions do not take place in one huge firm and on the other hand why firms matter at all. An incomplete contracting or property rights approach is then developed. It is argued that this approach can throw light on the boundaries of firms and on the meaning of asset ownership. In the remainder of the book, incomplete contracting ideas are applied to understand firms' financial decisions, in particular, the nature of debt and equity (why equity has votes and creditors have foreclosure rights); the capital structure decisions of public companies; optimal bankruptcy procedure; and the allocation of voting rights across a company's shares. The book is written in a fairly non-technical style and includes many examples. It is aimed at advanced undergraduate and graduate students, academic and business economists, and lawyers as well as those with an interest in corporate finance, privatization and regulation, and transitional issues in Eastern Europe, the former Soviet Union, and China. Little background knowledge is required, since the concepts are developed as the book progresses and the existing literature is fully reviewed.

"This book, which synthesizes most of Oliver Hart's work since 1980, provides a clear introduction to the modern theory of the firm, and ultimately a very compelling answer to...fundamental questions in the form of the increasingly accepted Property Rights Theory of the Firm."--Jeffrey Zwiebel, *Economica*"I expect it to be essential reading for any economics or finance Ph. D. student interested in corporate finance. Thus, this volume should contribute to the development of the contracts approach to corporate finance....Firms, Contracts, and Financial Structure provides an excellent exposition of the incomplete contracts approach to the theory of the firm....[I]t is a fine survey of the author's contributions to the theory of firm boundaries and financial structure. As such, I commend it highly."--Milton Harris, *Financial Studies*"A very clear, unified treatment of the implications of incomplete contracting. A truly solid foundation for the theory of integration and financial structure."--Birger Wernerfelt, Sloan School, MIT"I recommend this book to all who are interested in the theory of the firm and in Hart's current and recent contributions to this theory. There is much to applaud in the book."--Harold Demsetz, University of California, Los Angeles "This book, which synthesizes most of Oliver Hart's work since 1980, provides a clear introduction to the modern theory of the firm, and ultimately a very compelling answer to...fundamental questions in the form of the increasingly accepted Property Rights Theory of the Firm."--Jeffrey Zwiebel, *Economica*"I expect it to be essential reading for any economics or finance Ph. D. student interested in corporate finance. Thus, this volume should contribute to the development of the contracts approach to corporate finance....Firms, Contracts, and Financial Structure provides an excellent exposition of the incomplete contracts approach to the theory of the firm....[I]t is a fine survey of the author's contributions to the theory of firm boundaries and financial structure. As such, I commend it highly."--Milton Harris, *Financial Studies*"A very clear, unified treatment of the implications of incomplete contracting. A truly solid foundation for the theory of integration and financial structure."--Birger Wernerfelt, Sloan School, MIT"I recommend this book to all who are interested in the theory of the firm and in Hart's current and recent contributions to this theory. There is much to applaud in the book."--Harold Demsetz, University of California, Los Angeles

From the Back Cover
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