

Accepted Manuscript

Efficient ex-ante stabilization of firms

David M. Frankel

PII: S0022-0531(17)30040-6
DOI: <http://dx.doi.org/10.1016/j.jet.2017.04.001>
Reference: YJETH 4658

To appear in: *Journal of Economic Theory*

Received date: 3 February 2015
Revised date: 22 March 2017
Accepted date: 3 April 2017

Please cite this article in press as: Frankel, D.M. Efficient ex-ante stabilization of firms. *J. Econ. Theory* (2017), <http://dx.doi.org/10.1016/j.jet.2017.04.001>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



Efficient Ex-Ante Stabilization of Firms

David M. Frankel*

Melbourne Business School

April 18, 2017

Abstract

Distressed firms are vulnerable to inefficient panic-based runs of their workers, suppliers, and customers. A policymaker may try to prevent such a run by pledging to protect the interests of these stakeholders should a firm cease to do business. However, this promise also enables the firm to demand better terms of trade from its stakeholders, which blunts the policy's effectiveness. We show how to avoid such an adverse response by the use of partial, countercyclical insurance. Under certain conditions, such a scheme costlessly implements the first-best outcome in the limit as the stakeholders' information becomes precise. We also identify least-cost efficient schemes in the cases of large noise, learning, and duopoly.

JEL: C72; D42; D62; G38; H21.

Keywords: Financial Distress, Bankruptcy, Insurance, Stabilization Policy, Moral Hazard, Global Games, Coordination, Learning, Duopoly.

*Melbourne Business School, 200 Leicester Street, Carlton, VIC 3053, Australia. I thank seminar participants at Bonn, CORE, U. Edinburgh, U. Essex, U. Exeter, Hebrew U., U. Iowa, Melbourne Business School, NYU, Northeastern U., Oxford, Pompeu Fabra, U. St. Andrews, U. Southampton, and University of Technology - Sydney, as well as Alessandro Pavan (the editor) and four anonymous referees.

Download English Version:

<https://daneshyari.com/en/article/5100076>

Download Persian Version:

<https://daneshyari.com/article/5100076>

[Daneshyari.com](https://daneshyari.com)