**Ownership Structure, Reputation Crises and Recovery**

The authors build a model that analyses the effects of reforms that repair firms with damaged reputations. These reforms are beneficial for firms because they reduce firms’ reputation costs. The authors’ main questions is: how do these reforms affect a manager’s reputation incentives? If he is an owner-manager, he internalizes the costs of bad reputation, but also the benefits of the reforms. So the reforms may reduce his incentives to build a reputation. On the other hand, when there is separation between ownership and control, the manager does not internalize the costs of bad reputation. The right compensation structure paired with the reforms can help get the benefits of the reforms without the costs. They proceed to test their theory with an experiment

There is nothing theoretically new in the trade-off. It has been explored in other contexts, like, for example, banking: we know that bailouts can increase banks’ moral hazard. A similar mechanism is going on here. The only new theoretical insight is that the effect of the reforms depends on whether the firm is run by the ownere or by a professional manager.

**Better Monitoring…. Worse Productivity?**

This paper studies the following dynamic contracting setting: there is a principal-agent model in which the agent’s compensation depends not directly on his output, but on the principal’s reports about his output, which are in turn based on private signals.

The paper points out that the principal has incentive to report strategically, basically making incentives too high powered; to do so, he shades some reports downward, pooling relatively bad outcomes with really bad ones. And that this destroys some information.

Given the principal’s misreporting incentive, it can be optimal not to offer incentive pay at all, but just to offer a flat wage.

To me, the intuition for how the misreporting works (and leads to the flat wage) is still not entirely clear, but I am interested in the paper, and think it would be a nice addition to the program.

**Persuasion in Relationship Finance**

**Optimal Contracts, Managerial Rents, and Efficient Short-termism**

The paper asks the interesting question of how firms choose their investment horizons. The literature has argued that firms have short-term views: they choose shorter-horizon, lower-NPV projects over longer-horizon, higher-NPV ones. However, there is little empirical evidence that short-termism is associated with lower firm value. Why? The paper develops a model in which managers choose short-term, lower NPV projects, but that may actually be optimal, even under optimal wage contracts. The key idea is that there are two problems associated with longer-term projects: (i) it takes longer to learn about managerial ability and (ii) the firm needs to pay the manager a higher wage to induce him to exert effort, but then he has a higher incentive to invest even if he hasn’t found a good project.

**Information Cascaded and Threshold Implementation**

The authors extend Welch’s (1992) information cascade model by including an all or nothing threshold. In particular, like in the literature, a proposer sequentially approaches N agents to fund a project. These agents can observe a private signal about the quality of the project and what the previous agents decided, before choosing whether to fund the project or not. Deviating from the literature, the agents that chose to fund the project, fund it only if the number of supporters exceeds a pre-specified threshold. They show that as the number of agents grows large, information aggregation is efficient. This contrasts Welch’s results.

While I like the idea, I struggle to see its application. The main application that the authors give is crowdfunding. In crowdfunding, while agents may observe who else has agreed to fund the project, they do not observe who hasn’t.

**The Limits of Reputation**

The paper has been around a while, so I would discourage putting it on the program. However, it does make the interesting point that it is not always good to be a reputable VC. Since reputable VCs are more likely to terminate projects (they have really high outside options), they may end up sitting on the sidelines and not partnering with entrepreneurs who prefer less reputable, but more reliable VCs.

**Agency in Intangibles**

This paper studies a dynamic principal-agent problem in which the agent becomes harder to incentivize following good outcomes. This is supposed to represent an agent that produces intangibles, which make monitoring difficult.

It seems to me to have a parallel in Biais and Landier’s paper on agency rents: there, by assumption, more productive agents also have higher private benefits, making them more costly to incentivize.

Here, the author argues that this channel is a serious omission from investment theory. But I am not sure why this is the most serious one. Still, the model seems well done, and explains some interesting high-level facts in the data.