GSF

Professor David McLean
dm1448@georgetown.edu
https://sites.google.com/site/davidmcleanswebpage/

Course Description

This course explores the links between finance, law, and economic growth. We begin by asking whether finance causes economic growth, and then turn to the law and finance literature on how legal institutions shape financial development. Finally, we examine shareholder capitalism—the idea that firms should maximize shareholder value—and its implications for investment, innovation, and the broader economy, connecting it back to both the finance-growth and law-and-finance literatures.

Schedule

August 12
13:00 to 15:00
Lecture: Finance and Growth

16:00 to 18:00
Lecture: Finance and Growth
Student Paper Discussions

August 13
10:00 to 12:00
Lecture: Law and Finance

13:00 to 15:00
Lecture: Law and Finance
Paper Discussions

August 14
10:00 to 12:00
Lecture: Shareholder Capitalism

13:00 to 15:00
Lecture: Shareholder Capitalism
Student Paper Discussions

Grading

Writing Assignment – 20%
Paper Discussion – 40%
Class Participation – 40%

Writing Assignment

Think about some schools that you would like to work at. Go to their finance department's website and find the job market paper of a recent hire. Write a referee report for the paper. We will talk more about this in class.

Student Paper Discussion

Each student will lead a paper discussion. You may work in teams of two. Teams should prepare slides for a 20-minute presentation, which will be followed by questions and comments from the class. Please email me to let me know which paper (listed below) you want to discuss.

Students should read all of the discussion papers, including the ones they are not presenting. You don't have to know all the details, but you should be familiar with the methodologies, main findings, and how the paper contributed to the literature. If you don't understand something please bring it up in class so we can discuss it as a group.

Beck, T., R. Levine, and N. Loayza (2000). "Finance and the Sources of Growth." JFE 58(1–2). — *finance raises growth mainly through productivity (TFP), not capital accumulation.*

Guiso, L., P. Sapienza, and L. Zingales (2004). "Does Local Financial Development Matter?" QJE 119(3). — *within-country (Italy) evidence that local financial development eases entry and firm growth.*

Aghion, P., P. Howitt, and D. Mayer-Foulkes (2005). "The Effect of Financial Development on Convergence." QJE 120(1). — *finance determines whether poor countries catch up to the technological frontier.*

Bekaert, G., C. R. Harvey, and C. Lundblad (2005). "Does Financial Liberalization Spur Growth?" JFE 77(1). — *equity-market liberalizations are followed by faster growth.*

Kortum, S., and J. Lerner (2000). "Assessing the Contribution of Venture Capital to Innovation." RAND Journal of Economics 31(4). — venture capital has an outsized effect on patented innovation.

Chava, S., A. Oettl, A. Subramanian, and K. Subramanian (2013). "Banking Deregulation and Innovation." JFE 109(3). — *interstate banking deregulation reshapes innovation — and not only for the better.*

Fang, V. W., X. Tian, and S. Tice (2014). “Does Stock Liquidity Enhance or Impede Firm Innovation?” Journal of Finance 69(5). — *more liquid stocks innovate less; a sharp identification debate.*

Bernstein, S. (2015). “Does Going Public Affect Innovation?” Journal of Finance 70(4). — *IPOs change the quality and direction of innovation; instrumented by NASDAQ returns.*

Nenova, T. (2003). “The Value of Corporate Voting Rights and Control: A Cross-Country Analysis.” JFE 68(3). — *control-block vote values across 18 countries — the companion to Dyck-Zingales.*

Doidge, C., G. A. Karolyi, and R. M. Stulz (2004). “Why Are Foreign Firms Listed in the U.S. Worth More?” JFE 71(2). — *the bonding hypothesis: cross-listing imports stronger investor protection.*

Leuz, C., D. Nanda, and P. D. Wysocki (2003). “Earnings Management and Investor Protection.” JFE 69(3). — *weaker protection → more earnings management across 31 countries.*

Johnson, S., R. La Porta, F. Lopez-de-Silanes, and A. Shleifer (2000). “Tunneling.” American Economic Review 90(2). — *the legal anatomy of how controlling shareholders expropriate minorities.*

Papers and Books Referenced in the Lectures

The papers and books referenced in the lectures are listed below. They are in the same order as discussed in the lecture. None are required reading, but you will get more out of the lectures if you are familiar with at least some of them.

Module 1 — Finance and Growth

Solow, R. M. (1956, 1957). "A Contribution to the Theory of Economic Growth" and "Technical Change and the Aggregate Production Function." *QJE 70(1); Review of Economics and Statistics 39(3)*.

Romer, P. M. (1990). "Endogenous Technological Change." *Journal of Political Economy 98(5)*.

Aghion, P., and P. Howitt (1992). "A Model of Growth through Creative Destruction." *Econometrica 60(2)*.

Nordhaus, W. D. (2004). "Schumpeterian Profits in the American Economy: Theory and Measurement." *NBER Working Paper 10433*.

Fogel, K., R. Morck, and B. Yeung (2008). "Big Business Stability and Economic Growth: Is What's Good for GM Good for America?" *Journal of Financial Economics 89(1)*.

Bagehot, W. (1873). Lombard Street: A Description of the Money Market. *Henry S. King*.

Hicks, J. (1969). A Theory of Economic History. *Oxford University Press*.

Schumpeter, J. A. (1911 [1934]). The Theory of Economic Development. *Harvard University Press*.

Robinson, J. (1952). The Rate of Interest and Other Essays. *Macmillan*.

Lucas, R. E. (1988). "On the Mechanics of Economic Development." *Journal of Monetary Economics 22(1)*.

Goldsmith, R. W. (1969). Financial Structure and Development. *Yale University Press*.

King, R. G., and R. Levine (1993). "Finance and Growth: Schumpeter Might Be Right." *Quarterly Journal of Economics 108(3)*.

Levine, R., and S. Zervos (1998). "Stock Markets, Banks, and Economic Growth." *American Economic Review 88(3)*.

Jayaratne, J., and P. E. Strahan (1996). "The Finance-Growth Nexus: Evidence from Bank Branch Deregulation." *Quarterly Journal of Economics 111(3)*.

Rajan, R. G., and L. Zingales (1998). "Financial Dependence and Growth." *American Economic Review 88(3)*.

Wurgler, J. (2000). "Financial Markets and the Allocation of Capital." *Journal of Financial Economics 58(1–2)*.

Brown, J. R., S. M. Fazzari, and B. C. Petersen (2009). "Financing Innovation and Growth: Cash Flow, External Equity, and the 1990s R&D Boom." *Journal of Finance 64(1)*.

Hsu, P.-H., X. Tian, and Y. Xu (2014). "Financial Development and Innovation: Cross-Country Evidence." *Journal of Financial Economics 112(1)*.

Brown, J. R., G. Martinsson, and B. C. Petersen (2013). “Law, Stock Markets, and Innovation.” *Journal of Finance 68(4)*.

Module 2 — Law and Finance

La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. W. Vishny (1998). “Law and Finance.” *Journal of Political Economy 106(6)*.

La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. W. Vishny (1997). “Legal Determinants of External Finance.” *Journal of Finance 52(3)*.

Dyck, A., and L. Zingales (2004). “Private Benefits of Control: An International Comparison.” *Journal of Finance 59(2)*.

La Porta, R., F. Lopez-de-Silanes, and A. Shleifer (1999). “Corporate Ownership Around the World.” *Journal of Finance 54(2)*.

La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. W. Vishny (2000). “Investor Protection and Corporate Governance.” *Journal of Financial Economics 58(1–2)*.

La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. W. Vishny (2002). “Investor Protection and Corporate Valuation.” *Journal of Finance 57(3)*.

Demirgüç-Kunt, A., and V. Maksimovic (1998). “Law, Finance, and Firm Growth.” *Journal of Finance 53(6)*.

McLean, R. D., T. Zhang, and M. Zhao (2012). “Why Does the Law Matter? Investor Protection and Its Effects on Investment, Finance, and Growth.” *Journal of Finance 67(1)*.

Djankov, S., C. McLiesh, and A. Shleifer (2007). “Private Credit in 129 Countries.” *Journal of Financial Economics 84(2)*.

Djankov, S., O. Hart, C. McLiesh, and A. Shleifer (2008). “Debt Enforcement Around the World.” *Journal of Political Economy 116(6)*.

Qian, J., and P. E. Strahan (2007). “How Laws and Institutions Shape Financial Contracts: The Case of Bank Loans.” *Journal of Finance 62(6)*.

La Porta, R., F. Lopez-de-Silanes, and A. Shleifer (2006). “What Works in Securities Laws?” *Journal of Finance 61(1)*.

Jackson, H. E., and M. J. Roe (2009). “Public and Private Enforcement of Securities Laws: Resource-Based Evidence.” *Journal of Financial Economics 93(2)*.

Rajan, R. G., and L. Zingales (2003). “The Great Reversals: The Politics of Financial Development in the Twentieth Century.” *Journal of Financial Economics 69(1)*.

Acemoglu, D., and S. Johnson (2005). “Unbundling Institutions.” *Journal of Political Economy 113(5)*.

Spamann, H. (2010). “The Antidirector Rights Index Revisited.” *Review of Financial Studies 23(2)*.

Djankov, S., R. La Porta, F. Lopez-de-Silanes, and A. Shleifer (2008). “The Law and Economics of Self-Dealing.” *Journal of Financial Economics 88(3)*.

La Porta, R., F. Lopez-de-Silanes, and A. Shleifer (2008). “The Economic Consequences of Legal Origins.” *Journal of Economic Literature 46(2)*.

Module 3 — Shareholder Capitalism

McLean, R. D. (2023). The Case for Shareholder Capitalism: How the Pursuit of Profit Benefits All. *Cato Institute*.

Brooks, A. S., J. E. Yellen, R. Potts, et al. (2018). “Long-Distance Stone Transport and Pigment Use in the Earliest Middle Stone Age.” *Science 360*.

Blegen, N. (2017). “The Earliest Long-Distance Obsidian Transport: Evidence from the ~200 ka Middle Stone Age Sibilo School Road Site, Baringo, Kenya.” *Journal of Human Evolution 103*.

Horan, R. D., E. Bulte, and J. F. Shogren (2005). “How Trade Saved Humanity from Biological Exclusion: An Economic Theory of Neanderthal Extinction.” *Journal of Economic Behavior & Organization 58(1)*.

Friedman, M. (1970). “The Social Responsibility of Business Is to Increase Its Profits.” *New York Times Magazine*, September 13.

Friedman, M. (1962). Capitalism and Freedom. *University of Chicago Press*.

Friedman, M., and R. Friedman (1980). Free to Choose. *Harcourt Brace Jovanovich*.

Smith, A. (1776). An Inquiry into the Nature and Causes of the Wealth of Nations. *W. Strahan and T. Cadell*.

Ibn Khaldun (1377). The Muqaddimah: An Introduction to History, trans. Franz Rosenthal. *Princeton University Press*.

Sima Qian (ca. 94 BCE). Records of the Grand Historian (Shiji), trans. Burton Watson. *Columbia University Press*.

Edmans, A. (2020). Grow the Pie: How Great Companies Deliver Both Purpose and Profit. *Cambridge University Press*.

Ritter, J. R. (2025). “Initial Public Offerings: Updated Statistics.” *University of Florida IPO Data*.

Ball, R., and P. Brown (1968). “An Empirical Evaluation of Accounting Income Numbers.” *Journal of Accounting Research 6(2)*.

Bernard, V. L., and J. K. Thomas (1989). “Post-Earnings-Announcement Drift: Delayed Price Response or Risk Premium?” *Journal of Accounting Research 27*.

Bernard, V. L., and J. K. Thomas (1990). “Evidence That Stock Prices Do Not Fully Reflect the Implications of Current Earnings for Future Earnings.” *Journal of Accounting and Economics 13(4)*.

Schumpeter, J. A. (1942). Capitalism, Socialism and Democracy. *Harper & Brothers*.

Bolt, J., and J. L. van Zanden (2020). “Maddison Style Estimates of the Evolution of the World Economy: A New 2020 Update.” *Maddison Project Database, University of Groningen*.

Solow (1956, 1957), Romer (1990), Aghion and Howitt (1992), and Nordhaus (2004) are also referenced in this lecture; see Module 1 for full citations.

Bénabou, R., and J. Tirole (2010). “Individual and Corporate Social Responsibility.” *Economica 77*.

Hart, O., and L. Zingales (2017). “Companies Should Maximize Shareholder Welfare Not Market Value.” *Journal of Law, Finance, and Accounting 2*.

Hart, O., and L. Zingales (2022). “The New Corporate Governance.” *University of Chicago Business Law Review 1*.

Gilson, R. J., and J. N. Gordon (2013). “The Agency Costs of Agency Capitalism: Activist Investors and the Revaluation of Governance Rights.” *Columbia Law Review 113*.

Bebchuk, L. A., A. Cohen, and S. Hirst (2017). “The Agency Problems of Institutional Investors.” *Journal of Economic Perspectives 31(3)*.

Bebchuk, L. A., and S. Hirst (2019). “The Specter of the Giant Three.” *Boston University Law Review 99*.

Tallarita, R. (2023). “The Limits of Portfolio Primacy.” *Vanderbilt Law Review 76*.

Tol, R. S. J. (2023). “Costs and Benefits of the Paris Climate Targets.” *Climate Change Economics 14*.

Ke, D. (2024). “Left Behind: Partisan Identity, Stock Market Participation, and Wealth Inequality.” *Journal of Banking and Finance 164*.