

東京ファイナンス研究会 (Tokyo Finance Workshops)

#48: (Cancelled)

Vagueness as Adjudicator Authority: Theory and Evidence on Contract Vagueness and Enforcement Evaluation

Date & Time : 2011/4/5(Tue) 16:30-18:00

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Abstract

I develop a simple model of optimal contract vagueness that allows for renegotiation and builds on the literatures on authority delegation and transaction costs in contracting. The main predictions of the model are that optimal contract vagueness and renegotiation rates depend on the complexity of underlying business relationships and the characteristics of the adjudicators who enforce the contract. In particular, contracts will be vaguer when relationships are more complex and when enforcement institutions are of higher quality. Meanwhile, firms that enforce contracts in higher quality institutions may renegotiate their contracts less often while those with more complex projects always renegotiate them more often. Using new data on material contracts available through the SEC, evidence is provided to support this model and the joint comparative statics of the model are used to perform an evaluation of public versus private contract enforcement. This latter analysis finds that contracts committed to be enforced through private enforcement (i.e., arbitration) are both vaguer and renegotiated less often than those committed to be enforced through public enforcement (i.e., courts). This evidence is consistent with private enforcement having a quality advantage over public enforcement.