

LAW & ECONOMICS WORKSHOP

presents

Oliver Hart

Harvard Economics Department

Short-term, Long-term, and Continuing Contracts

Tuesday, September 15, 2015

4:10 – 5.45

**Solarium (room FA2) - Falconer Hall
84 Queen's Park**

Parties often regulate their relationships through “continuing” contracts that are neither long-term nor short-term but usually roll over. We study the trade-off between long-term, short-term, and continuing contracts in a two period model where gains from trade exist in the first period, and may or may not exist in the second period. A long-term contract that mandates trade in both periods is disadvantageous since renegotiation is required if there are no gains from trade in the second period. A short-term contract is disadvantageous since a new contract must be negotiated if gains from trade exist in the second period. A continuing contract can be better. In a continuing contract there is no obligation to trade in the second period but if there are gains from trade the parties will bargain “fairly” using the first period contract as a reference point. This can reduce the cost of negotiating the next contract. Continuing contracts are not a panacea, however, since fair bargaining may limit the use of outside options in the bargaining process and as a result parties will sometimes fail to trade when this is efficient.

Oliver Hart is currently the Andrew E. Furer Professor of Economics at Harvard University, where he has taught since 1993. Hart works mainly on contract theory, the theory of the firm, corporate finance, and law and economics. His research centers on the roles that ownership structure and contractual arrangements play in the governance and boundaries of corporations. He has published a book (*Firms, Contracts, and Financial Structure*, Oxford University Press, 1995) and numerous journal articles. He has used his theoretical work on firms in two legal cases as a government expert (*Black and Decker v. U.S.A.* and *WFC Holdings Corp. (Wells Fargo) v. U.S.A.*). He is a Fellow of the Econometric Society, the American Academy of Arts and Sciences, and the British Academy and has several honorary degrees. He has been president of the American Law and Economics Association and a vice president of the American Economic Association

For more workshop information, please contact Nadia Gulezko at n.gulezko@utoronto.ca.