Three Essays on Corporate Debt and CEO Compensation

by

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ABSTRACT

This dissertation consists of three distinct papers in corporate finance and fixed income financial markets, with a focus on the impact of legislation, regulation and the design of incentive pay contracts on firm governance and agency conflicts. In each chapter, I examine whether legal, regulatory, or other monitoring mechanisms play a role in aligning the interests of the firm's managers with those of its stakeholders, and whether compliance with regulatory requirements substitutes for or complements other mechanisms of corporate governance.

In the first two chapters, I use at-issue (public and private) bond yield spreads as a proxy for the cost of debt capital, to examine whether state antitakeover laws or the implementation of the 2002 Sarbanes-Oxley Act have mitigated risk shifting incentives, bad governance or information asymmetry problems in companies that are incorporated in takeover friendly states or headquartered in less visible rural areas, respectively. Among other issues, the third dissertation chapter examines whether boards use compensation contracts to delegate monitoring of executives to active market traders or alternative measures such as those based on accounting information, when the potential of executive self dealing is high.

By understanding the interaction of law and regulation and other corporate governance monitoring mechanisms, I gain insight into the optimal design of legal and compensation contracts that would mitigate agency conflicts between CEOs and the firm's various stakeholders.