

Economic Analysis of Privatization

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(Abstract)

This collection of papers originates from my interest in the reform efforts in transitional economies. Each of the chapters is self-contained.

Chapter one presents a brief literature survey of those schools of thought that have contributed to our knowledge about privatization.

In chapter two, a public firm model and a private firm model are compared based on agency approach, assuming that the owner of a firm has cost information but also bears the cost of production. I find that the question which type of ownership, private or public, is superior does not have a clear cut answer. Private ownership may induce higher work effort but suffers from a discrepancy of private and social goals. While production distortion is less serious, an obvious disincentive to work exists in the public firm.

Chapter three examines how privatization can be considered as a threat to stimulate a public firm manager's work incentive when his effort level cannot be observed by the government. I find that, in the case when commitment to privatize is impossible, the government will set a strictly positive wage rate and a strictly positive investment subsidy to signal the government's determination to implement the privatization policy.

In chapter four, I examine the role that public investment plays in a financial market with a credit rationing problem. Two kinds of borrowers co-exist in the economy, namely the public and the private. Public borrowers enjoy a "first mover" advantage to borrow money from banks. In this situation, the credit rationing is found escalating. But since the success of a public project (owned by a public borrower) can exert positive externality on the productivity of private projects, the adverse effect induced by credit rationing can be alleviated. We show that if the quality of the public projects is good enough, the economic growth rate can be higher than the case without public projects in the economy.

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