OSTROM WORKSHOP COLLOQUIUM SERIES

Rick Geddes

Cornell University
Department of Policy Analysis and Management

"Institutional Economics and the Cost of Capital"

Monday, October 28, 2019

12:00–1:00 PM • Ostrom Workshop, 513 N. Park

There is robust academic debate on the relative cost of capital of public and private equity providers for infrastructure projects. Arrow and Lind's influential 1970 article concluded that the social cost of public-sector provided capital is lower than that of private capital because risk is more efficiently spread across numerous taxpayers than across relatively concentrated private investors. Jensen and Meckling, however, studied the agency costs that arise as a consequence of increased separation between equity holders and managers. Those two countervailing forces –risk spreading and agency costs—are critical in determining the cost of capital. We analyze various differences in the nature of residual claims in the public and private sectors, and study their potential effects on the relative social cost of capital. Our analysis suggests that Arrow and Lind's conclusions may not be as instructive in determining the public sector's cost of capital as is often thought.

Rick Geddes is Professor in the Department of Policy Analysis and Management at Cornell University, and Visiting Scholar at the American Enterprise Institute. His published work has appeared in the *American Economic Review*, *Journal of Regulatory Economics*, *Journal of Legal Studies*, *Journal of Law & Economics*, and the *Journal of Law, Economics, and Organization*. Geddes holds a Ph.D. degree in economics from the University of Chicago, and a BS in economics from Towson State University.

Presentations are open to the public and are live streamed (see our website for URL and papers). You are welcome to bring your lunch. For questions, contact Allison Sturgeon (sturgeon@iu.edu; 812/855–3151).

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