

DISSERTATION PROPOSAL

Empirical Study of Public and Private Firms

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In the first essay, I quantify the economic differences in manager-shareholder conflicts as well as external financing costs between U.S. public and private firms by estimating a dynamic model of investment. My estimates indicate that public and private firms differ significantly in agency conflicts and financing costs. Public firm value would rise by 3.52% and private firm value would rise by 0.65% if we eliminated all agency conflicts. Privately-held firms face external financing costs equal to 15.4% of capital raised, much higher than those of 7.2% for public firms. My estimates show that the differences in public and private firms are not simply due to agency and financing concerns. Rather, they differ in other fundamental economic dimensions. I find that the volatility of productivity shocks and the capital stock adjustment costs also play substantial roles in explaining the differences between public and private firms. The model also provides insight into why privately held firms do not go public or vice versa.

In the second essay, we document that despite better access to capital, public firm acquirers realize lower gains in operating performance after acquisitions. By examining evidence within public firms across different qualities of governance, we are able to attribute the difference to the higher agency costs in public firms. We find robust evidence that public acquirers experience lower operating profitability after acquisitions than private acquirers by examining a matched sample of public and private firms based on industry, size, and current operating performance and by employing an instrumental variable approach.