





### < Working Papers

## **Debt and Seniority: An** Analysis of the Role of Hard **Claims in Constraining** Management

Oliver Hart & John Moore









**WORKING PAPER 4886** 

DOI 10.3386/w4886

ISSUE DATE October 1994

We argue that long-term debt has a role in controlling management's ability to finance future investments. A company with high (widely-held) debt will find it hard to raise capital, since new security holders will have low priority relative to existing creditors. Conversely for a company with low debt. We show there is an optimal debt-equity ratio and mix of senior and junior debt if management undertakes unprofitable as well as profitable investments. We derive conditions under which equity and a single class of senior long-term debt work as well as more complex contracts for controlling investment behavior.

Download a PDF

Information on access

Acknowledgements and Disclosures

Download Citation

## **Published Versions**

American Economic Review, vol. 85, no. 3, pp. 567-585, (June 1995). citation courtesy of *RePEc* 

## Related

TOPICS Microeconomics

Households and Firms

**Econometrics** 

**Estimation Methods** 

PROGRAMS Corporate Finance

## **More from NBER**

In addition to working papers, the NBER disseminates affiliates' latest findings through a range of free periodicals — the NBER Reporter, the NBER Digest, the Bulletin on Retirement and Disability, the Bulletin on Health, and the Bulletin on Entrepreneurship — as well as online conference reports, video lectures, and interviews.



## <u>2023, 15th Annual Feldstein Lecture, Mario Draghi, "The Next Flight of the Bumblebee: The Path to Common Fiscal Policy in the Eurozone"</u>

**LECTURE** 

Dr. Mario Draghi, who served as President of the European Central Bank and Prime Minister of Italy, presented the 2023...



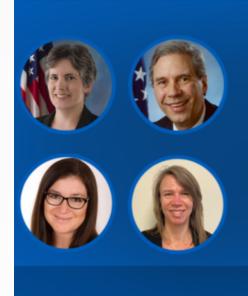
# Methods Lecture: Linear Panel Event Studies Jesse M. Shapiro, Harvard University and NBER Liyang Sun, CEMFI

2023 Methods Lectures, Jesse Shapiro and Liyang (Sophie) Sun, "Linear Panel Event Studies"

July 28, 2023

**LECTURE** 

Overview: Linear panel event studies are increasingly used to estimate and plot causal effects of changes in policies...



Panel Discussion:

## Long-Term Dynamics of the Employment-to-Population Ratio

Karen Glenn, Social Security Administration Stephen Goss, Social Security Administration Nicole Maestas, Harvard University and NBER Julie Topoleski, Congressional Budget Office July 26, 2023

<u>2023, SI Economics of Social Security, Panel Discussion, "Long-Term Dynamics of the Employment-to-Population Ratio"</u>

#### LECTURE

Supported by the Alfred P. Sloan Foundation, the National Science Foundation, and the Lynde and Harry Bradley...

### **FOLLOW**









### **National Bureau of Economic Research**

Contact Us
1050 Massachusetts Avenue
Cambridge, MA 02138
617-868-3900
info@nber.org
webaccessibility@nber.org

### HOMEPAGE

© 2024 NATIONAL BUREAU OF ECONOMIC RESEARCH. ALL RIGHTS RESERVED.