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Organisational form and individual motivation: public ownership, privatisation and fat cats

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Notes

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5. Also, the main culprit is democracy and not state ownership as such if decisions are distorted because of a desire to please voters. This would suggest that state ownership is more efficient under dictatorship (such as in the former Soviet bloc) than under democracy, which is scarcely convincing.
6. This was true in the study of the period 1974–1986 by Jensen and Murphy ([1990](#)). However, a widespread view that CEOs were under-incentivised caused payments to become highly sensitive to changes in shareholder value, which has led to new agency problems related to earnings manipulation (Bergstresser and Philippon [2006](#)).
7. For example, Bénabou and Tirole ([2003](#)) refer to how Tom Sawyer gets his friends to compensate him for getting the perceived privilege to paint a fence.
8. Grönblom and Willner ([2008](#)) deal with public and private ownership in the presence of excess wages that are included in the total surplus.
9. The privatisation of refuse collection forced households in some British cities to roll their dustbins from their back-gardens to the pavement before being emptied, and to roll them back again afterwards. This may have saved money, but partly by forcing customers to do part of the job.
10. To assume the slope -1 is equivalent to normalising all prices by dividing them by the original value of the income demand function.
11. The assumption of sluggishness by a feasible alternative also address free entry.
12. Strictly speaking, a distribution is convergent to a bell-shaped distribution.
13. For this, see Holmstrom.
14. It would be mid, and Wanzent negative wages.



15. Note that a weighted objective function of the type $\alpha E(\text{CS}) + (1 - \alpha)E(\pi)$ yields the same solutions as (3.7), as can be seen by dividing by $1 - \alpha$, and denoting $\alpha/(1 - \alpha)$ by ρ . Note, however, that $\alpha = 1$ would require a break-even constraint or a maximum subsidy, because $E(\text{CS})$ is non-concave (see also Appendix 2). We might alternatively use a weight for the total surplus (because $\rho E(\text{CS}) + E(\pi) = \rho(E(\text{CS}) + E(\pi)) + (1 - \rho)E(\pi)$), or for output (see Willner 2013).

16. Normalising the slope of inverse demand to -1 implies that CS is the triangle $(a - p)x/2 = x^2/2$.

17. This requires the stringent but widely used assumption that random shocks in different firms are independent, and hence a focus on firm-specific risks only. Common risks are assumed to be observable.

18. Willner and Grönblom (2009) and Sugden and Valania (2013) adopt a different approach, where the agent is partly opportunistic, partly committed. She decides according to a cooperative intra-personal Nash-game, in which PRP can cause opportunism to dominate.

19. Apart from some symbols, the only difference as compared to James (2005) is that we have replaced β by β' .

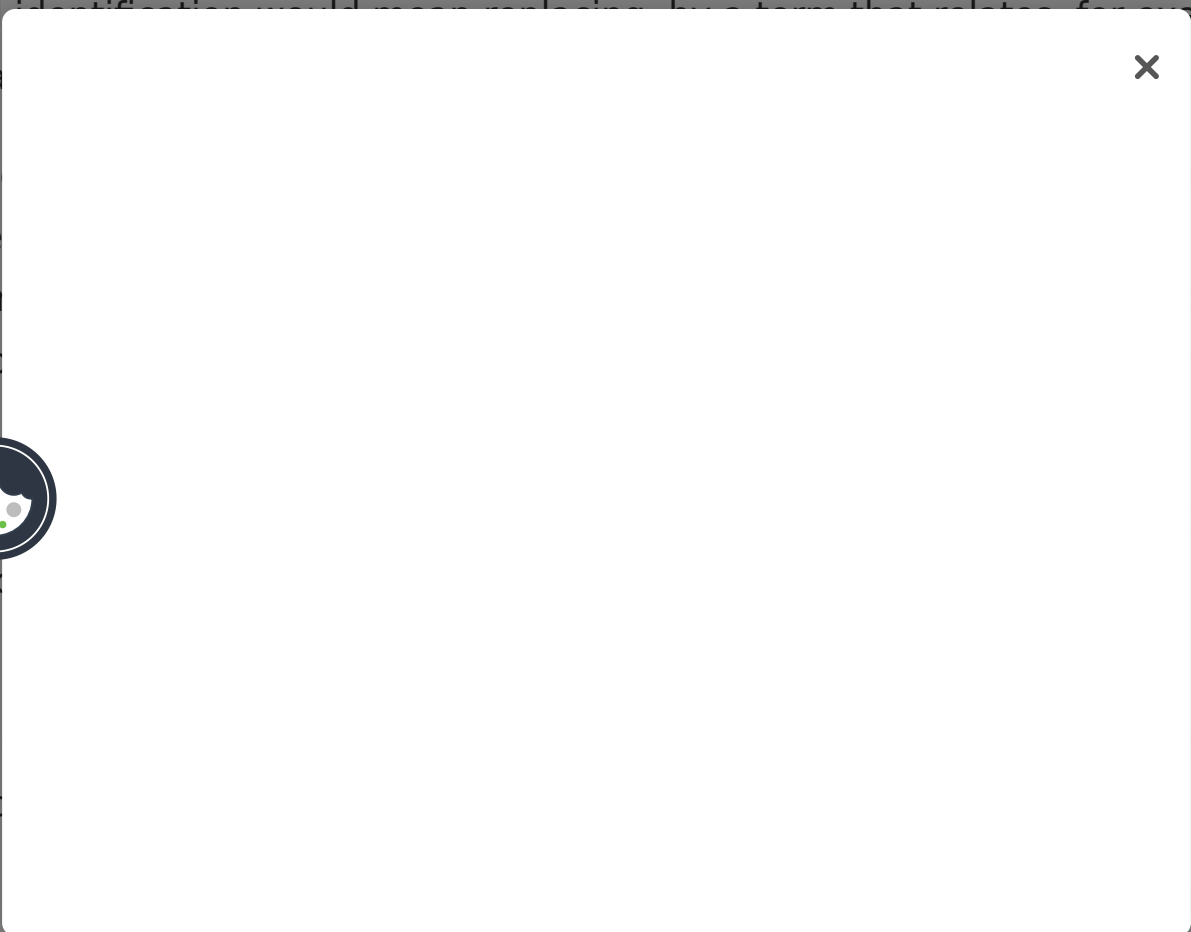
20. Goal identification would be more interesting here, but that takes us, for example, to the organisational structure.

21. The simple example because of the simple agency behind the New Public Finance targets,

22. $A = (a - c)^2/2$ and $TS_P = 3(a - c)^2/8$. The condition for $TS_P > TS_G$ is $a - c > 4c$.

23. The reason is because they work together.

24. The standards of performance (Hood 1995), which would cause MCO if they make it impossible to



derive satisfaction from overperforming.

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