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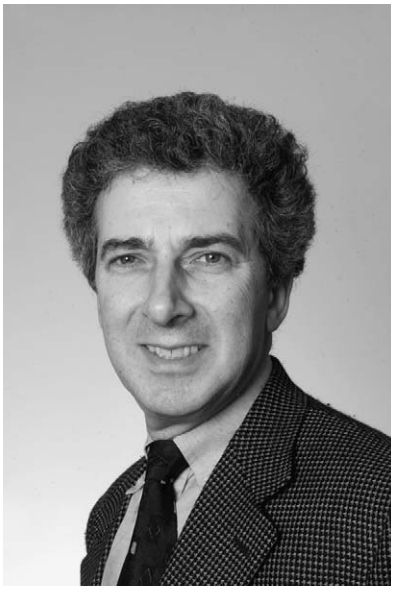
Announcement

JFI Best Paper Prize for 2005

The *JFI* editors are pleased to announce that the *JFI* Stuart Greenbaum Prize for the most significant paper published in the 2005 *Journal of Financial Intermediation* has gone to Julian Franks and Oren Sussman for the paper "Financial innovations and corporate bankruptcy," published in Volume 14, Issue 3. The prize carries with it a $2500 check for the winners.



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The abstract is reprinted on the next page.

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Financial innovations and corporate bankruptcy

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Abstract

In this paper we construct an evolutionary theory of bankruptcy law in which bankruptcy law is perceived as a mechanism for standardizing the default clauses in debt contracts. Our theory is motivated by the comparative histories of England and the US. A central normative question is why bankruptcy law cannot be left to the contracting parties operating in a market environment. We argue that State intervention may be required because freedom-of-contracting regimes suffer from a problem of under-innovation and tend to slip into institutional stagnation. Judges and legislators can resolve the problem, but they tend to be biased towards the preservation of private benefits, and thus make bankruptcy law too soft. Our theory also explains why cycles in institutional structure may occur.

JEL classification: G28; G33; G38; K12

Keywords: Standard contracts; Financial innovations; Institutional stagnation; Corporate bankruptcy; Freedom of contracting