

**Table 1: Comparison of Bankruptcy Laws
in the U.S. versus Three European Countries**

	U.S.	Europe
How is bankruptcy initiated?	Voluntary filings by managers	Involuntary and voluntary filings
Timing of bankruptcy	No sanctions for delay in filing	Sanctions for delay in filing
Is an outside official appointed?	Normally not	Always
Who decides initially between liquidation and reorganization?	Existing managers (during the exclusivity period)	Outside official or bankruptcy judge
How are the firm's assets distributed in liquidation?	Absolute priority rule	Absolute priority rule
Is there an "automatic stay" of secured creds. in reorganization?	Yes	France: yes Germany: no Britain: yes under admin. order
Who proposes the reorganization plan?	Managers during exc. period	Outside bankruptcy official
How is the reorganization plan adopted?	Majority vote by creditors' classes and equity	France: bank. court Britain: vote by creditors' committee Germany: majority vote by creditors

**Table 2: Bankruptcy Costs:
Four Alternative Bankruptcy Policies**

	Punish- ment Effect	Gambling Effect	Delay Effect	Type I Error	Type II Error
Applies to:	All firms	Distressed firms	Distressed inefficient firms	Distressed inefficient firms	Distressed efficient firms
Cost:	$N\Delta V$	ρNG	$\delta\rho ND$	$r\delta\rho NC_I$	$(1-s)*$ $(1-\delta)*$ ρNC_{II}
Policies:					
U.S. Ch.7/ Ch.11	<i>high</i>	<i>low</i>	<i>low</i>	<i>high</i>	<i>low</i>
Liquidation only	<i>low</i>	<i>high</i>	<i>high</i>	0	<i>high</i>
Expert Judgment	<i>low</i>	<i>high</i>	<i>high</i>	<i>low</i>	<i>low</i>
Reform Proposal	<i>low</i>	<i>high</i>	<i>high</i>	0	0