10/11/2023 **The Constrained Corporation**

This comprises a brief comparison between current liability exposure of shareholders to proposed exposure under shareholder liability for corporate malfeasance.

Corporate limited liability for financial indebtedness applies to shareholders in either case.

For corporate malfeasance shareholder liability for actionable damages applies.

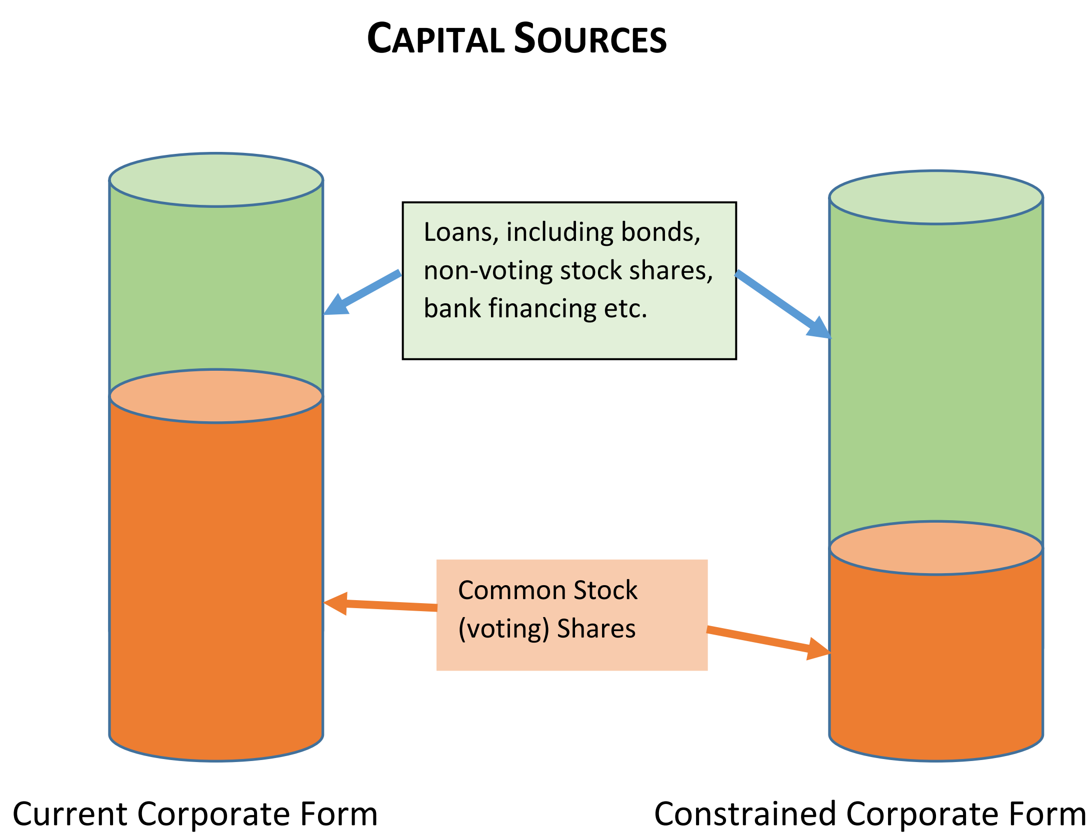
How would this affect the corporate sources and uses of funds? It may be appropriate to surmise that the proportion of funding from initial offerings to debt financing should be considerably less.

This implies that the price earnings ratio would be affected. Given that fewer shares would be issued and that total earnings could be less affected, earnings per share should be higher than otherwise. Today the market is at about a PE ratio of 15. Hence there should be a lower PE ratio due to higher earnings per share, especially because of greater risk of loss to the shareholder. Sources of funding would rely on debt more than on public stock offerings.

In the words of Investipedia:

…suppose there are two similar companies that differ primarily in the amount of debt they assume. The one with more debt will likely have a lower P/E value than the one with less debt.

We show this below with a bar graph:



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