

Title: Sunk costs of physical capital and the form of enterprise: Investor-owned firms, consumer cooperatives and public enterprises

Author: Kazuhiko Mikami (Department of Applied Economics, University of Hyogo.

Email: mikami@econ.u-hyogo.ac.jp)

Abstract: This paper considers the implications of sunk costs of physical capital for the enterprise forms of firms. In particular, we study the viability and efficiency of three types of firms — investor-owned firm, consumer cooperative and public enterprise — when the sunk costs give rise to increasing returns to scale in production, adverse selection in the credit market, and a suboptimal level of investment in a voting process. We will show how the viability and efficiency of enterprises depend upon the level of sunk costs in relation to market size, the degree of informational asymmetry on the project risk, and the heterogeneity of firm owners. Based upon the theoretical results, we attempt to explain the form of enterprise for firms in the electricity supply industry.