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CONTENTS

This paper covers the question if and how incentive schemes work evaluated by their impact on company performance (market capitalization and profit before tax). Based on a unique data set for German executive directors of DAX companies it can be proved that neither short (STI) nor long term incentives (LTI) plans necessarily support the company success. It rather depends on the efficiency of each plan, i. e. on its design. Special attention has to be paid on target setting. Short term focused objectives often miss their targets, whereas long term ori-ented objectives significantly support the company success. To solve the prisoner's dilemma between employers and employees by a quasi-endless game, additional measures may be helpful, such as share ownership guidelines.

This paper developed two points. First, the economic history of the United States' past two hundred years indicates that financial sector regulation had, from c. 1800 onwards for about 150 years, been dominated by policies that benefitted small banks at the cost of large branching banks. This approach resulted in a fragmented banking sector dominated by small unit banks and characterised by fragility. Second, history shows that a significant share of legislation and bank regulation can be explained by the economic theory of regulation.

State guarantees are supposed to have positive influence on banks' ratings as they provide an additional safety net to depositors while lending the guarantor's creditworthiness to the bank. Based hereupon, we research if and to what extent guarantees perceptibly affect market prices of securities issued by banks. Our results indicate that banks receive governmental rating subsidies of up to 7 notches depending on the region. Furthermore, literature suggests that guarantees and subsequent bailout expectations increase the risk appetite of banks enjoying this governmental support, as protected actors feel less incentivized to apply market discipline. Based hereupon, we consider the possibility of reversed causality: Is the probability of bailouts correlated to a bank's risk taking? Analysing the drivers of governmental support for different types of banks, we find that governments are particularly willing to bail out (traditional commercial) banks with low returns on investment, or weak share performance, and a higher exposure to risk.