

Causes, effects, and prevention of agent corruption in Chinese SOEs[†]

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Abstract: This article analyzes agent corruption in a state-owned enterprise (SOE) in a duopoly model, in which an SOE competes with a private enterprise. The manager of the SOE contemplates to embezzle, and is caught and subject to punishment at a probability. The comparative statics of the compensation to the manager, the legal loopholes in the SOE, the unit transaction cost of corruption, and the government's concern for employment are examined, and their effects on outputs, social welfare and the value of the government's objective function are considered. The conditions under which corruption may be socially good are also presented.

Keywords: Agent corruption; Information asymmetry; State-owned enterprises (SOEs); Transitional economy

JEL classification code: P20; L32; L13

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