In the first chapter, I estimate the magnitudes of manager-shareholder conflicts and external financing costs for large private firms in the U.S. I compare the results to estimation from a sample of comparable public firms. Linear issuing costs of equity are 8.19% for large private firms, much higher than 4.88% for large public firms. Managerial diversion on cash is more severe in public firms. Per dollar, the manager of public firms can consume more fractions of corporate cash as a private benefit. My estimates also show that, in addition to agency and external financing, large private and large public firms differ in two technology dimensions: the volatility of their productivity shocks and their capital adjustment costs. Counterfactual experiments provide an insight into why many large private firms remain private.

The second chapter provides the first evidence on value creation in acquisitions by private firms. Acquiring firm ownership type has strong effects on post-takeover performance. Private bidders experience 16-20 per cent greater operating performance improvements following acquisitions relative to public firms. This difference is not due to differences in target types, merger accounting, private equity ownership or subsequent listing of some private firms. Further analysis of governance arrangements allows us to attribute this effect to lower agency costs/better incentive alignment in private firms. Overall, not only do private firms pay lower prices for target firm assets, they also operate them more efficiently.