nancial instruments known as *transferable promissory notes.*[10]. Transferable promissory notes have a long history in Korea stretching back several hundred years, comparable to the origin of bills of exchange in Europe. However, the modern version of these notes saw their heyday in the period of rapid industrialization in Korea, backed by laws amended or newly promulgated in the 1960s.[11]

Transferable promissory notes are short-term corporate liabilities that have the legal provisions of *endorsement*, *transferability*, and the *possibility of discount*. They are similar to bills of exchange in terms of their legal provisions, but differ from them in that promissory notes are *promises to pay*, rather than an *order to pay* that has been formally accepted by a bank. This legal difference, although seemingly minor, turns out to be important when considering the incentive effects within the production chain. Their use in Korea has been very substantial even as recently as the 1990s, as we will see shortly.

In essence, transferable promissory notes act as a device in which a creditworthy firm can make its creditworthiness available to other firms in the production chain. The mechanics are best explained through an example. Consider a production chain with three firms - firms $0, 1$ and 2. Suppose that only firm 0 has sufficient collateral assets to be creditworthy. Firms 1 and 2 cannot borrow from outside sources, and neither do they have enough working capital to finance an expansion in production. Firms 1 and 2 must incur wage costs of $w > 0$, and each step in the production chain takes one time period. The final product can be sold for $q > 3w$, so that there is

[10]Known as *Uh-um* (어음) in Korean, and in particular the subclass of uh-um known as *promissory uh-um.*

[11]The text (in Korean only) of the relevant laws on promissory notes can be found at http://lawpia.com/html7/bill.htm. We are not aware of any English translations, but we welcome suggestions from readers for possible sources.