

Overview

This course is intended to cover the traditional core questions in corporate finance: investment and capital structure. We will also explore the literature that studies the interrelations between corporate finance and other fields: industrial organization, financial markets, etc. We will mainly focus on theoretical research articles, and try to make use of the most parsimonious models needed to highlight the intuitions underlying the papers we will be discussing. We may also address theoretical insights by presenting some related empirical papers.

Course Requirement and Grading

Course requirement include regular attendance, participation and reading of the articles prior to class.

Grading:

- 20% Presentation of research paper
- 30% Referee report
- 50% Seminar paper

Course Outline

Here is a tentative outline for the course. It contains the core materials we will cover as well as some advanced topics. Depending on the pace of the course and the interest of the audience, there may be changes to this syllabus over time, which will be updated as time goes by. Apart from the papers listed below, we will mostly use Tirole's book, "The Theory of Corporate Finance", (2006), Princeton University Press.

The following reading list provides the required readings only. A supplemental list of papers to be covered during the course will be provided later.

1. Frictionless Corporate Finance: Modigliani-Miller, The newoclassical model of investment and empirical evidence

- ✓ Hayashi (1982), "Tobin's Marginal q and Average q : A Neoclassical Interpretation", *Econometrica*, Vol. 50, No. 1, pp. 213-224.

- ✓ Kaplan, S. N. & Zingales, L. (1997), 'Do Investment-Cash Flow Sensitivities Provide Useful Measures of Financing Constraints?', *The Quarterly Journal of Economics* 112(1), pp. 169-215.
- ✓ Rauh, J. D. (2006). Investment and financing constraints: Evidence from the funding of corporate pension plans. *The Journal of Finance*, 61(1), 33-71.

2. Models of Credit Constraints

- ✓ Tirole, Chapter 3 and 6
- ✓ Hart, O. & Moore, J. (1994), 'A Theory of Debt Based on the Inalienability of Human Capital', *The Quarterly Journal of Economics*, 109(4), 841-879.
- ✓ Innes, R. D. (1990). Limited liability and incentive contracting with ex-ante action choices. *Journal of economic theory*, 52(1), 45-67.
- ✓ Townsend, R. M. (1979). Optimal contracts and competitive markets with costly state verification. *Journal of Economic theory*, 21(2), 265-293.
- ✓ Bolton, P., & Scharfstein, D. S. (1990). A theory of predation based on agency problems in financial contracting. *The American Economic Review*, 93-106.

3. Capital Structure

- ✓ Modigliani, F., & Miller, M. H. (1958). The cost of capital, corporation finance and the theory of investment. *The American economic review*, 261-297.
- ✓ Leland, H., & Pyle, D. (1977). Information asymmetries, financial structure, and financial intermediation, *Journal of Finance*, 371-387.
- ✓ Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of financial economics*, 13(2), 187-221.
- ✓ Aghion, P., & Bolton, P. (1989). The financial structure of the firm and the problem of control. *European Economic Review*, 33(2), 286-293.
- ✓ Baker, M. & Wurgler, J. (2002), 'Market Timing and Capital Structure', *The Journal of Finance* 57(1), pp. 1-32.
- ✓ Shyam-Sunder, L. & Myers, S. C. (1999), 'Testing static tradeoff against pecking order models of capital structure', *Journal of Financial Economics* 51(2), 219 - 244.
- ✓ Frank, M. Z. & Goyal, V. K. (2003), 'Testing the pecking order theory of capital

structure', *Journal of Financial Economics* 67(2), 217 - 248.

- ✓ Kaplan, S. N. & Strömberg, P. (2004), 'Characteristics, Contracts, and Actions: Evidence from Venture Capitalist Analyses', *The Journal of Finance* 59(5), pp. 2177-2210.
- ✓ Lemmon, M. L.; Roberts, M. R. & Zender, J. F. (2008), 'Back to the Beginning: Persistence and the Cross-Section of Corporate Capital Structure', *The Journal of Finance* 63(4), pp. 1575-1608.

4. Topics in Corporate Governance

5. Corporate Finance and Product Markets

- ✓ Tirole, chapter 7.1
- ✓ Brander, J. A., & Lewis, T. R. (1986). Oligopoly and financial structure: The limited liability effect. *The American Economic Review*, 956-970.
- ✓ Bolton, P., & Scharfstein, D. S. (1990). A theory of predation based on agency problems in financial contracting. *The American Economic Review*, 93-106.
- ✓ Aggarwal, R. K., & Samwick, A. A. (1999). Executive compensation, strategic competition, and relative performance evaluation: Theory and evidence. *The Journal of Finance*, 54(6).

6. Corporate Finance, Information and Market Efficiency