COURSE DESCRIPTION

To introduce doctoral students to the basic and current research questions and methods – theoretical and empirical – in corporate finance.

COURSE MATERIALS

**Recommended Books:** There are several books that provide surveys/overviews of one or more areas in corporate finance. Among these:

- Tirole, *Corporate Finance*
- Finance Handbooks such as: *Handbook of the Economics of Finance: Corporate Finance and Asset Pricing* by George M. Constantinides, Milton Harris and Rene M. Stulz (Jan 7, 2013); by Jarrow, R. A., V. Maksimovic and W.T. Ziemba, Finance, (Vol. 9, Handbooks in Operations Research and Management)
- Matos, Joao Amaro De, *Theoretical Foundations of Corporate Finance*
- Hart, O., *Firms Contracts and Financial Structure*

**Journal Abbreviations:**

Topics and Readings

Note:

• The topics and readings for our initial (2-3) sessions are provided below. The topics and readings for the various sessions will be finalized and provided as the semester proceeds.

• My plan is to provide an overview of the main issues/approaches in corporate finance. After the initial sessions indicated, our focus will be on topics such as: (i) corporate control (ii) liquidity (iii) property rights (iv) security design (v) product markets (vi) internal capital markets (vii) financial intermediaries such as banks, mutual funds and VC (viii) legal environment and emerging markets.

• In general, papers should be read by students before class. After the first few sessions – specific papers will be regularly assigned to students for presentation/discussion in class.

A. Introduction and traditional theories of capital structure

• Introduction to course; quick (subjective) overview of issues and approaches in corporate finance.
• M&M and Optimal Capital Structure with corporate and personal taxes
• Trade-off with dissipative bankruptcy costs Readings:

  • Miller, Merton (1977). Debt and Taxes, JF
  • Titman S., and R. Wessels (1988). The determinants of capital structure choice, JF

B. Agency and Information Asymmetry in Corporate Finance

• Basic concepts of moral hazard and adverse selection.
• Implications for:
  – Capital structure: under/over investment; bond covenants; signaling through capital structure choice; financing choice and information
  – Free Cash Flow
  – Financial distress
  – IPOs
  – Payout policy – dividends

Readings:

• Myers, S., (1977). Determinants of corporate borrowing, JFE
Myers, S. and N. Majluf (1984). Corporate financing and investment decisions when firms have information that investors do not have, JFE

C. Banking Theory


D. Banking Empirical Papers

# Chava and Roberts (2008), How Does Financing Impact Investment? The Role of Debt Covenants, Journal of Finance


E. Investment Banking, Institutional Investors, Stock Exchanges

# Welch, I. (1992), Sequential sales, learning, and cascades, Journal of Finance
# Tufano P., (1989) Financial Innovation and First-Mover Advantages, JFE
# Parrino, R., RW Sias and LT Starks (2003), Voting with their feet: institutional ownership changes around forced CEO turnover, JFE
• # Siegel, Jordan I. (2003?), Can Foreign Firms Bond Themselves Effectively by Renting U.S. Securities Laws? JFE


• # Khanna, N., Tice, S., 2000, Strategic Responses of Incumbents to New Entry: the Effect of Ownership Structure, Capital Structure, and Focus, RFS

G. Private Equity – Venture Capital

• # T Hellman and M Puri (2000) The interaction between product market and financing strategy: the role of venture capital, RFS

• # S Kortum, J Lerner (2000), Assessing the Contribution of Venture Capital to Innovation Rand Journal of Economics


• # Benson, David and Rosemarie H. Ziedonis, 2010, Corporate venture capital and the returns to acquiring portfolio companies, JFE


H. Stock Market Liquidity

• # Stock splits, trading continuity, and the cost of equity capital (2009), Lin, Singh and Yu, JFE

• # Market liquidity and performance monitoring (1993), Holmstrom and Tirole, Journal of Political Economy
• # Asset liquidity and stock liquidity (2011), Gopalan, Kadan and Pevzner (RFS)


I. Law and Finance and Emerging Markets


# Dyck, Alexander and Luigi Zingales.(2003?), Private Benefits of Control: an International


J. Incomplete Contracts & Property Rights

• # Hart, O., Chapters 2, 5 in Book: Firms Contracts and Financial Structure


K. Incentive Contracts & CEO compensation

• Background Reading – everyone should read/skim through


• # Bertrand, M. and S. Mullainathan, 2001, Are CEOs rewarded for luck? The ones without principals are, Quarterly Journal of Economics 116, 901-932.

• # Core, John, Robert Holthausen and David Larcker, (1999), Corporate Governance, Chief Executive Officer Compensation, and Firm Performance, JFE

• # Adams, Renee, Heitor Almeida, and Daniel Ferreira, (2005), “Powerful CEOs and their Impact on Corporate Performance”, RFS
L. *Internal Capital Markets*

*Background Reading – everyone should read/skim through*


M. *Corporate Governance & Boards*

• # Duchin, Ran, John G. Matsusaka, and Oguzhan Ozbas, 2010, When are Outside Directors Effective?, Journal of Financial Economics


N. *Large Shareholders. Free Cash Flows, Corporate Governance and Market for Corporate Control*


*Background Reading – everyone should read/skim through*


• # Gompers, Paul A., Joy L. Ishii, and Andrew Metrick, 2003, Corporate Governance and Equity Prices, Quarterly Journal of Economics

O. *Internal Capital Markets*


• # Whited, T., (2001) Is It Inef cient Investment that Causes the Diversification Discount? The Journal of Finance

• Khanna, N and S. Tice (2001), The Bright Side of Internal Capital Markets, JF