Corporate Finance I – RSM3032

Instructors:
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Course Description (both parts)
This course is designed to introduce students to foundational theoretical models and empirical techniques in corporate finance. It is designed to have two components - a theory focused module and an empirical methods module - that are linked. The course will begin with the theory-focused module and conclude with the empirical-focused module. The goal of the theoretical component is to review classical theory papers in corporate finance and contract theory. It is assumed that students have taken an introductory course in microeconomics and are familiar with game theory and incomplete information. The goal of the empirical component of the course is to review econometric methods commonly used in corporate finance research. The module is designed to act as a bridge between a typical graduate course in theoretical microeconometrics and the practice of empirical research. It is assumed that students have taken an introductory course in econometrics and are familiar with, among other things, evaluation of econometric estimators and problems with omitted variables.

Course Evaluation (both parts)
Class Participation 20%
Problem Set (1) 15%
Referee Report (2) 25%
Comment on Empirical Methodology 10%
Final Paper 30%

Class meetings (both parts)
- Thursday, 2pm – 5 pm, RSM6024
  - Theory: October 13, 20, November 3, 10
  - Empirical: November 17, 24, December 1, 8

Course resources (theory – Pat will send his separately for the empirical section)
- There is no required textbook, but there is a highly recommended on:
  The Theory of Corporate Finance, by Jean Tirole, Princeton University Press

Class requirements (theory – Pat will send his separately for the empirical section)
- Depending on the topic, we will cover 2-4 papers each class. Students are expected to read these papers carefully and should be prepared to actively contribute to class discussions. At a minimum, you should have a thorough understanding of the central idea of each paper. You should critically evaluate each paper and think of some improvements, extensions, and additional research ideas related to the paper. Talking to each other BEFORE class will definitely improve our conversations in class.
- Additional papers are listed for each topic, including overview and survey papers. We will not have time to cover these papers in class, but you should make an effort to read them.

Topics (theory – Pat will send his separately for the empirical section)
1) Capital Structure – the classics
2) Capital Structure – “slightly” more modern
3) Financial Contracting
4) Corporate Diversification and M&A
Tentative reading list (theory – Pat will send his separately for the empirical section)
- Papers marked with a “*” will be discussed in class – read and understand and be ready to discuss
- Papers marked in bold will also be discussed, but not in depth – read
- Note: I listed way more “non-bold” papers than you can possibly read, but it is a useful list passed down by prior instructors both at Rotman and other schools

Some background readings (optional, but helpful)


Class 1: Capital structure – the classics


Class 2: Capital structure – “slightly” more modern

*Myers, S., and N. Majluf, 1984, Corporate financing and investment decisions when firms have information that investors do not have, Journal of Financial Economics 13, 187-221.


Zwiebel, J., 1996, Dynamic capital structure under managerial entrenchment, American Economic Review 86, 1197-1215


Class 3: Financial contracting


Class 4: Mergers and Acquisitions (and, if time, empirics of corporate diversification)


