The course

- This is an advanced course in corporate finance. It will introduce you to the main issues in corporate finance, identify principle theoretical tools and empirical approaches, force you to read and understand the “greatest hits” in the field, and foster your thinking about current research questions. The objective is to prepare students to critically evaluate and conduct research in corporate finance.

Class meetings

- Classes are scheduled every Wednesday from 1-4 pm. First class January 13th

Course resources

- There is no required textbook for the course.
- A good reference text for the theory section is Tirole, J., The Theory of Corporate Finance, Princeton University Press
- Most papers that you are required to read can be accessed via the internet.

Class requirements and grading

- After the short introductory session (Jan 6) 8 Regular ~3 hour lectures, one lab session, one proposal presentation brownbag and one final presentation.
- Regular sessions are scheduled on Wednesdays, 1-4pm in room 470
- Classroom participation (20%), two empirical exercises (20%), two referee reports (20%), a paper proposal (20%) and a final exam (20%). To be clear, there is no requirement for a paper, but rather a requirement to put together a paper proposal, where you will be asked to outline a research question, lay out how you would think you would proceed with exploring this question
- Each class will flag 3-5 key papers and many others. You need to read the flagged papers and be prepared to discuss them for each 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.
- Key dates:
  - Referee report 1 (~ Feb 10)
  - Empirical exercise 1 (~ Feb 24)
  - Referee Report 2 (~ March 9)
  - Empirical exercise 2 (~March 16)
  - Paper proposal brownbag – March 23
  - Final Exam – April 6
  - Paper proposal - April 20
Class overview

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<th>Date</th>
<th>Topic</th>
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<tbody>
<tr>
<td>January 13th</td>
<td>Theory 1 – Frictions and Corporate Finance</td>
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<td>January 20th</td>
<td>Theory 2 – Theoretical Approaches to Capture Frictions:</td>
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<td>Imperfect information, and incomplete contracts</td>
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<td>January 27th</td>
<td>Capital structure – Theory (Referee report 1 dist.)</td>
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<td>February 3rd</td>
<td>Capital structure – Empirics</td>
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<td>February 10th</td>
<td>Topics in empirical Corp Fin (Empirical exercise 1 dist.)</td>
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<td>February 17th</td>
<td>No class – reading week</td>
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<td>February 24th</td>
<td>Corporate Governance 1 (Referee report 2 dist.)</td>
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<td>March 2nd</td>
<td>Corporate Governance 2 (Empirical exercise 2 dist.)</td>
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<td>March 9th</td>
<td>Identification and endogeneity in empirical Corp Fin 1</td>
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<td>March 16th</td>
<td>Identification and endogeneity in empirical CF 2 (Emp. ex 2)</td>
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<td>March 23rd</td>
<td>Paper proposals ‘brownbag’</td>
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<td>April 6th</td>
<td>Final Exam</td>
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<td>April 20th</td>
<td>Paper proposal presentations</td>
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Tentative reading list and course schedule

You are required to read all papers marked in bold. Papers marked with a * will be discussed in class. Note that some readings in first two lectures you only need to skim, and they will be more of the focus in the second set of lectures on capital structure.
Lecture 1 – Frictions and Corporate Finance (Alexander Dyck)

Required Reading for session 1
Start with these two readings

*Tirole, Jean, *The Theory of Corporate Finance*, Introduction, p 1.-11

And for the first session also read the following that are in asterisks

1. A Theory of the Firm

2. The Firm as a Nexus of Explicit Contracts and Its Implications

3. The Firm as a Nexus of Explicit and Implicit Contracts and Its Implications

4. The Firm as a Collection of Growth Options and Its Implications

5. The Firm as a Collection of Assets and Its Implications
Hart, Oliver, and John Moore, 1994, Debt and the inalienability of human capital, Quarterly Journal of Economics 109, 841-879.

6. Financial Intermediation

Lecture 2 – Alexander Dyck – We will return to some of articles from Lecture 1, and some chapters in Tirole Text

Lectures 3 & 4 – Capital Structure (Sergei Davydenko)

Capital structure, taxes, and valuation

Capital Structure and signaling

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

Pecking order theory of capital structure
*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.

Capital structure and product markets
Capital structure and bankruptcy


General empirical evidence


Capital structure dynamics


Lecture 5 – Topics in empirical corporate finance (Sergei Davydenko)

Costs of financial distress


Financing frictions and investment


Lectures 6 & 7 Corporate Governance (Alexander Dyck)

I – What is the ‘Governance Problem’, and is it a Big Problem?


A – Capitalized Estimates of the Governance Problem

Dyck, Morse and Zingales, “How Pervasive is Corporate Fraud?”

B – Specific Types of Governance Problems: Entrenchment, etc.

David Yermack, “Flights of Fancy: Corporate Jets, CEO Perquisites, and Inferior Shareholder Returns,”

II - Addressing the Governance Problem

A – Internal to the Firm

A.1 Ownership: Management, Institutional, Activist

* Gillan and Starks, “The Evolution of Shareholder Activism in the United States,”
* Bebchuk, Brav and Jiang, “The Long-Term Effects of Hedge Fund Activism,” ssrn.

A.2 Incentive Contracts and Other Direct Incentives

A.3 Boards of Directors


B – External to the Firm

B.1 Gatekeepers


B.2 Takeover Markets and Private Equity


B.3 Law and Corporate Governance


*Rafael LaPorta, Florencio Lopez-de-Silanes, and Andrei Shleifer, “The Economic Consequences of Legal Origins,” in *Journal of Economic Literature,* 2008, 46:2 285-332................................. 21


**B.4 Non-Market actors: Whistleblowers, Media and Tax Authorities**


**Lectures 8 & 9 – Endogeneity and identification in empirical corporate finance research (Sergei Davydenko)**

*Review articles*


*Common pitfalls*


Instrumental variables


Natural experiments and Diff-in-Diff


Regression Discontinuity Design


Matching


*Structural estimation*
