

Topics in Corporate Finance Seminar

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Objective: To introduce doctoral students to the basic and current research questions and methods in corporate finance theory

Requirements: Students are required to read and be ready to discuss the materials assigned for class. A tentative list of the topics and the papers/materials is provided below. On occasion ‘take-home’ problems will be assigned. My plan is to have students present papers on occasion in class. There will be a take-home final exam that takes the form of developing research proposals and/or the review of a recent research paper.

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

- Tirole, *Corporate Finance*
- Matos, Joao Amaro De, *Theoretical Foundations of Corporate Finance*
- Hart, O., *Firms Contracts and Financial Structure*
- 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)

Journal Abbreviations:

Journal of Financial Economics: **JFE**; *Journal of Finance:* **JF**; *Review of Financial Studies:* **RFS**; *Journal of Business:* **JB**; *Journal of Political Economy:* **JPE**; *Quarterly Journal of Economics:* **QJE**; *American Economic Review:* **AER**

UT Dallas Syllabus Policies and Procedures

The information contained in the following link constitutes the University’s policies and procedures segment of the course syllabus.

Please go to <http://go.utdallas.edu/syllabus-policies> for these policies.

Topics and Readings

Note:

- *The topics and readings for our initial 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) stock market trading and liquidity (iii) property rights (v) product markets (vi) internal capital markets (vii) financial intermediaries such as banks, mutual funds and VCs (viii) legal environment and emerging markets (ix) Behavioral Finance*
- *In general, the important papers should be read by students before class. I will indicate the relevant papers and will post slides on blackboard prior to 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

Some Readings:

- Miller, Merton (1977). Debt and Taxes, JF
- DeAngelo and R. Maulis (1980). Optimal capital structure under corporate and personal taxes, JFE
- Titman, S., (1984). The effect of capital structure on the firm's liquidation decision, JFE

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
 - IPOs

Readings:

- Tirole Chapters 3 & 4
- Myers, S., (1977). Determinants of corporate borrowing, JFE
- Smith, C., and J. Warner (1979). On financial contracting: An analysis of bond covenants
- Myers, S. and N. Majluf (1984). Corporate financing and investment decisions when firms have information that investors do not have, JFE

- Leland, H., and D. Pyle (1977). Information asymmetry, financial structure and financial intermediation, JF
- Jensen, M. (1986). Agency costs of free cash flow, corporate finance and takeovers, AER
- M. Miller and K. Rock, Dividend Policy under Asymmetric Information, Journal of Finance, 40 (1985), 1031-51.
- Easterbrook, Frank H., 1984, Two Agency-Cost Explanations of Dividends, American Economics Review, 74 (4) 650-659.
- Rock, K., 1986, Why new issues are underpriced, Journal of Financial Economics

C. *Banking Theory and Financial Intermediation*

Readings:

- Diamond, D., (1984) Financial Intermediation and Delegated Monitoring (Review of Economic Studies)
- Diamond, D., and P. Dybvig (1983), Bank Runs, Deposit Insurance, and Liquidity (The Journal of Political Economy)
- Rajan, R. (1992), Insiders and Outsiders: The Choice between Informed and Arm's-Length Debt, JF
- Sahlman, William A., (1990) The Structure and Governance of Venture-Capital Organizations, Journal of Financial Economics
- Benveniste, L.M., and P.A. Spindt (1989), How investment bankers determine the offer price and allocation of new issues, Journal of Financial Economics
- Welch, I. (1992), Sequential sales, learning, and cascades, Journal of Finance

D. *Stock Market Trading and Market Feedback*

Readings:

- Stock price informativeness, cross-listings, and investment decisions (2008) Thierry Foucault and Thomas Gehrig Journal of Financial Economics 88
- Bond P, Goldstein I, Prescott ES. 2010. Market-based corrective actions. Rev. Financ. Stud.
- Glosten L, Milgrom P. 1985. Bid, ask, and transaction prices in a specialist market with heterogeneously informed traders. J. Financ. Econ. 1
- Grossman SJ, Stiglitz JE. 1980. On the impossibility of informationally efficient markets. Am. Econ. Rev. 70(3)
- Holmstrom B, Tirole J. 1993. Market liquidity and performance monitoring. J. Polit. Econ. 101(4):
- Kyle AS. 1985. Continuous auctions and insider trading. Econometrica 53(6)
- Maug E. 1998. Large shareholders as monitors: Is there a trade-off between liquidity and control? J. Finance 53(1):
- Morck R, Shleifer A, Vishny RW. 1990. The stock market and investment: Is the market a sideshow? Brookings Pap. Econ. Act.

E. *Product market considerations*

- Tirole Ch. 7
- Bolton and Scharfstein (1990). A theory of predation based on agency problems in financial contracting, AER
- Brander, J.A., and T. Lewis (1986). Oligopoly and financial structure: The limited Liability Effect, American Economic Review

F. *Law and Finance and Emerging Markets*

- Almeida, H. and D. Wolfenzon (2006), A theory of pyramidal ownership and family
- Burkart, Mike, Fausto Panunzi and Andrei Shleifer. 2003. "Family Firms" *Journal of Finance* 58:5, pp. 2167-2201

G. *Incomplete Contracts & Property Rights*

- Hart, O., Chapters 2, 5 in *Book: Firms Contracts and Financial Structure*

H. *Corporate Governance*

- Jensen, M. C. and K. J. Murphy, 1990a, Performance Pay and Top Management Incentives, *Journal of Political Economy* (Vol. 98), 225-264.
- Bebchuk, Lucian, Jesse Fried and David Walker, (2002), Managerial Power and Rent Extraction in the Design of Executive Compensation, (*University of Chicago Law Review*)
- Shleifer, A., and R. Vishny, (1986), Large Shareholders and Corporate Control, *The Journal of Political Economy*
- Burkart, M., D. Gromb, F. Panunzi (1997) Large Shareholders, Monitoring, and the Value of the Firm - *Quarterly Journal of Economics*
- Grossman, S., and O. Hart (1980), Takeover bids, the free-rider problem and the theory of the corporation, *Bell Journal of Economics* 11:42-64
- Bolton, P., and E.-L. von Thadden (1998), Blocks, liquidity, and corporate control, *Journal of Finance*
- 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. *Internal Capital Markets*

- Stein, J., 1997. Internal capital markets and the competition for corporate resources. *Journal of Finance*
- Scharfstein, D., Stein, J., 2000. The dark side of internal capital markets: divisional rent-seeking and inefficient investment. *Journal of Finance*

J. *Behavioral Corporate Finance*