Course Objective:

The objective of the course is to provide an introduction to the theory of corporate finance, financial intermediation, and financial markets. The goal is to expose students to existing work and provide basic tools to do research in the area. While the course covers the theories in the area, it also provides essential tools in forming frameworks that can serve as a basis for empirical work.

Course Organization:

The course will consist of lectures, in which I will review papers from the literature. Some papers will be discussed in class in great depth, while others will be mentioned briefly and left for the students for further research. The general structure has three parts: corporate finance, financial intermediation, and financial markets. Each one consists of several lectures covering different theories and subtopics. A tentative list of topics and papers appears below. Topics and papers may be dropped or added, depending on progress.

Grades:

The final grade will be based on an exam and a final project. Both get equal weights.

The exam will be scheduled during the exam period immediately after the end of classes. The exam will cover all the material discussed in class. I will distribute all the previous exams I gave in this course including solutions to the problems. This will be the best source of practice for the exam.
The project will be due on Memorial Day weekend. You will be expected to write a short paper, where you develop and solve a simple model and describe the motivation and implications. Each project topic will have to be approved, and so you will need to schedule a meeting with me and discuss your ideas.

**Course Materials:**

The slides I use for class presentations are available online as lecture notes. Below, I provide details on which sets of lecture notes will be used for the different topics. I also provide details on the articles covered by the lecture notes. For a couple of topics, I will use simplified versions of articles based on the following books:


**Course Overview:**

Here is a tentative list of topics and the lecture notes, articles, and book chapters that are covered in them:

1. Corporate Finance

1.a. Separation of Ownership and Control: Moral Hazard

**Lecture Notes:**

- “Moral Hazard”

**Book Chapters:**

- Mas-Collel, Whinston, and Green, Chapter 14.
I.b. Capital Structure

Lecture Notes:

• “Capital Structure”

Book Chapters:

• Tirole, Chapters 3 and 6.

Articles:


• Modigliani, F., and M. Miller, 1958, “The cost of capital, corporation finance, and

- 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.


1.c. Financial Contracting

Lecture Notes:

- “Financial Contracting”

Book Chapters:

- Tirole, Chapter 10.

Articles:


1.d. Corporate Control

Lecture Notes:

- “Corporate Control”

Book Chapters:

- Tirole, Chapter 11.

Articles:


2. Financial Intermediation

2.a. Liquidity Provision and Runs

Lecture Notes:

- “Financial Intermediation and Crises”

Book Chapters:

- Tirole, Chapter 12.
Articles:


2.b. Monitoring and Credit Markets

Lecture Notes:

- “Financial Intermediation and Crises”
- “Financial Fragility”

Book Chapters:

- Tirole, Chapter 13.

Articles:


2.c. Short Term Debt and Incentives

Lecture Notes:

- “Short Term Debt and Incentives in Banks”

Articles:


3. Financial Markets

3.a. Information and Trading in Financial Markets

Lecture Notes:

- “Financial Markets”

Articles:


**3.b. Financial Market Feedback**

**Lecture Notes:**

• “Financial Markets, Information, and Real Investments”
• “Feedback Effects”

**Articles:**


