

# Topics in Corporate Finance Spring 2008

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November 19, 2007  
Preliminary, subject to change

## 1 Course Description

### OBJECTIVES

The class will cover a variety of topics within corporate finance. My aim is to teach a class that will generate research ideas. I have centered the class around topics that have attracted recent research attention.

### COURSE TOPICS

1. Firm objectives, firm organization, firm managers
2. Security choice
3. Law, finance, politics
4. Dynamic contracting
5. Corporate finance and asset prices
6. Firms, behavioral consumers, behavioral investors

### COURSE DETAILS

The class meets once a week on Wednesdays, from 3-5.45pm, room TBA.

### CLASS FORMAT AND ASSIGNMENTS

I expect you to actively participate in class discussion. There are three formal course requirements:

- Present a paper one week.

I have suggested a list of papers to cover over the semester. For some weeks I have suggested papers for further reading. If there is a topic you are especially interested in that is not on this list, let me know and I will consider allowing you to present a different paper instead.

For your presentation, you should aim to go into enough detail to communicate the main idea. You do not need to cover every result in the paper. In fact, it is probably better if you do not do so, and instead concentrate on fully explaining a smaller number central results.

- Prepare a discussion of a paper one week.

Give a brief (10-15 minutes) discussion of the strengths/weaknesses of the paper presented.

- Prepare a research proposal on a topic linked to the class.

The proposal should be approximately five pages. If you propose a theoretical paper, you should outline the model and some initial conjectures. If you propose an empirical paper you should tell me where you will get the data. In both cases you should explain the contribution that you hope the proposed paper will make.

## 2 Course Outline (preliminary, subject to change)

JAN 16, 23: FIRM OBJECTIVES, FIRM ORGANIZATION, FIRM MANAGERS

*Jan 16*

*References*

- [1] Jean Tirole. Corporate governance. *Econometrica*, 69(1):1–35, January 2001.
- [2] Bengt Holmström and Paul Milgrom. Multitask principal-agent analyses: Incentive contracts, asset ownership, and job design. *Journal of Law, Economics and Organization*, 7(Special Issue):24–52, 1991.
- [3] Jonathan Levin and Steve Tadelis. Profit sharing and the role of professional partnerships. *Quarterly Journal of Economics*, 120(1):131–171, February 2005.

*Jan 23*

*References*

- [1] Robert E. Lucas. On the size distribution of business firms. *Bell Journal of Economics*, 9(2):508–523, Autumn 1978.

- [2] Xavier Gabaix and Augustin Landier. Why has CEO pay increased so much? *Working paper*, 2006.

*Further reading: empirics*

*References*

- [1] M. Bennedsen, F Pérez-González, K. Nielsen, and D. Wolfenzon. Inside the family firm: The role of families in succession decisions and performance. *Quarterly Journal of Economics*, Forthcoming.
- [2] Marianne Bertrand and Antoinette Schoar. Managing with style: the effect of managers on firm policies. *Quarterly Journal of Economics*, 118(4):1169–1208, November 2003.
- [3] Vojislav Maksimovic and Gordon Phillips. Do conglomerate firms allocate resources inefficiently across industries? Theory and evidence. *Journal of Finance*, 57(2):721–767, April 2002.

*Further reading: surveys*

*References*

- [1] Luigi Zingales. In search of new foundations. *Journal of Finance*, 55(4):1623–1653, August 2000.
- [2] Andrei Shleifer and Robert M Vishny. A survey of corporate governance. *Journal of Finance*, 52(2):737–783, June 1997.
- [3] Lars A. Stole and Jeffrey Zwiebel. Intra-firm bargaining under non-binding contracts. *Review of Economic Studies*, 63(3):375–410, July 1996.
- [4] Milton Harris and Artur Raviv. The theory of capital structure. *Journal of Finance*, 46(1):297–355, March 1991.
- [5] Oliver Hart. Financial contracting. *Journal of Economic Literature*, 39(4):1079–1100, December 2001.

FEB 6, 13: SECURITY CHOICE

(No class on January 30)

*Feb 6: Security choice*

*References*

- [1] Erik Berglöf and Ernst Ludwig von Thadden. Short-term versus long-term interests: Capital structure with multiple investors. *Quarterly Journal of Economics*, pages 1056–1084, November 1994.
- [2] Douglas W Diamond and Raghuram G Rajan. Liquidity risk, liquidity creation and financial fragility: A theory of banking. *Journal of Political Economy*, 109(2):287–327, April 2001.
- [3] Douglas W Diamond. Presidential address, committing to commit: Short-term debt when enforcement is costly. *Journal of Finance*, 59(4):1447–1479, August 2004.

*Feb 13: Security choice*

*References*

- [1] Mathias Dewatripont and Jean Tirole. A theory of debt and equity: Diversity of securities and manager-shareholder congruence. *Quarterly Journal of Economics*, pages 1027–1054, November 1994.
- [2] Viral V. Acharya, Rangarajan K. Sundaram, and Kose John. Cross-country variations in capital structures: The role of bankruptcy codes. *Working Paper*, 2006.

FEB 20, 27: LAW, POLITICS, FINANCE

*Feb 20: Empirics*

*References*

- [1] Rafael La Porta, Florencio Lopez de Silanes, Andrei Shleifer, and Robert W. Vishny. Law and finance. *Journal of Political Economy*, 106(6):1113–1155, 1998.
- [2] Rafael La Porta, Florencio Lopez de Silanes, Andrei Shleifer, and Robert W. Vishny. Legal determinants of external finance. *Journal of Finance*, 52(3):1131–1150, July 1997.
- [3] Simeon Djankov, Rafael La Porta, Florencio Lopez de Silanes, and Andrei Shleifer. Courts. *Quarterly Journal of Economics*, pages 453– 517, May 2003.
- [4] Daniel Berkowitz, Katharina Pistor, and Jean-Francois Richard. Economic development, legality, and the transplant effect. *European Economic Review*, 47:165–195, 2003.
- [5] Daron Acemoglu and Simon Johnson. Unboundling institutions. *Journal of Political Economy*, 113(5):949–995, October 2005.

- [6] Raghuram G Rajan and Luigi Zingales. The great reversals: the politics of financial development in the twentieth century. *Journal of Financial Economics*, 69(1):5–50, July 2003.
- [7] Mark J Roe. *Political Determinants of Corporate Governance: Political Context, Corporate Impact*. Oxford, 2003.
- [8] Holger Spamann. On the insignificance and/or endogeneity of La Porta et al.’s ‘antidirector rights index’ under consistent coding. *Working Paper*, 2006.
- [9] Simeon Djankov, Rafael La Porta, Florencio Lopez de Silanes, and Andrei Shleifer. The law and economics of self-dealing,. *Working Paper*, 2006.
- [10] Josh Lerner and Antoinette Schoar. Does legal enforcement affect financial transactions? the contractual channel in private equity, February 2005.
- [11] Mara Faccio and David C Parsley. Sudden deaths: Taking stock of political connections. *Working Paper*, 2006.
- [12] Marianne Bertrand, Francis Kramarz, Antoinette Schoar, and David Thesmar. Politically connected CEOs and corporate outcomes: Evidence from France. *Working Paper*, 2005.

*Feb 27: Politics*

*References*

- [1] Marco Pagano and Paolo Volpin. The political economy of corporate governance. *American Economic Review*, 95:1005–1030, 2005.

*Further reading*

*References*

- [1] Patrick Bolton and Howard Rosenthal. Political intervention in debt contracts. *Journal of Political Economy*, 110:1103–34, October 2002.
- [2] Eric Maskin and Jean Tirole. The politician and the judge: Accountability in government. *American Economic Review*, 94(4):1034–1054, September 2004.

MAR 5, 19: DYNAMIC CONTRACTING

(March 12 is spring break)

*References*

- [1] Peter M DeMarzo and Yuliy Sannikov. A continuous-time agency model of optimal contracting and dynamic capital structure. *Journal of Finance*, Forthcoming.

APRIL 2: CORPORATE FINANCE AND ASSET PRICES

(No class on March 26)

*References*

- [1] James Dow and Gary Gorton. Noise trading, delegated portfolio management, and economic welfare. *Journal of Political Economy*, 105(5):1024–1050, October 1997.

*Further reading*

*References*

- [1] Franklin Allen. Presidential address: Do financial institutions matter? *Journal of Finance*, 56(4):1165–1175, August 2001.
- [2] James Dow and Gary Gorton. Stock market efficiency and economic efficiency: Is there a connection? *Journal of Finance*, 52(3):1087–1129, July 1997.
- [3] Avanidhar Subrahmanyam and Sheridan Titman. The going-public decision and the development of financial markets. *Journal of Finance*, 54(3):1045–1082, June 1999.
- [4] Philip Bond and Hülya Eraslan. Information-based trade. *Working Paper*, 2006.
- [5] James Dow, Gary Gorton, and Arvind Krishnamurthy. Equilibrium investment and asset prices under imperfect corporate control. *American Economic Review*, 95(3), June 2005.
- [6] Amil Dasgupta, Andrea Prat, and Michela Verardo. The price of conformism. *Working Paper*, 2005.

APR 9, 16, 23: FIRMS, BEHAVIORAL CONSUMERS, BEHAVIORAL INVESTORS

*References*

- [1] Xavier Gabaix and David Laibson. Shrouded attributes, consumer myopia, and information suppression in competitive markets. *Quarterly Journal of Economics*, 121(2):505–540, May 2006.
- [2] Ran Spiegler. The market for quacks. *Review of Economic Studies*, 73(4):1113–1131, October 2006. 4.

- [3] Sujoy Mukerji and Jean-Marc Tallon. Ambiguity aversion and incompleteness of financial markets. *Review of Economic Studies*, 68(4):883–904, October 2001.

#### FURTHER READING

##### *References*

- [1] Larry G Epstein. Sharing ambiguity. *American Economic Review*, 91(2):45–50, May 2001.
- [2] Ricardo J. Caballero and Arvind Krishnamurthy. Collective risk management in a flight to quality episode. *Working Paper*, 2007.
- [3] Sujoy Mukerji. Ambiguity aversion and incompleteness of contractual form. *American Economic Review*, 88(5):1207–1231, December 1998.
- [4] Sujoy Mukerji and Jean-Marc Tallon. Ambiguity aversion and the absence of indexed debt. *Economic Theory*, 24(3):665–85, 2004.
- [5] Peter M DeMarzo, Dimitri Vayanos, and Jeffrey Zwiebel. Persuasion bias, social influence, and unidimensional opinions. *Quarterly Journal of Economics*, 118(3):909–968, August 2003.