

Theoretical Corporate Finance References

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Organization

Corporate finance is a large, ever-growing, and ever-changing field. Consequently, it is virtually impossible to organize corporate finance into clear or widely agreed upon categories that can be studied independently or sequentially. Nonetheless, a number of “literatures” have developed within corporate finance to help with this classification. This classification may not result in the most elegant or even the clearest organization. However, from a practical standpoint, it is useful to think about corporate finance in terms of the various literatures because working in any of these literatures necessitates a deep understanding of the related research.

As an example, consider corporate dividend policy, a change to which will necessarily impact a firm’s capital structure. However, research on capital structure and dividend policy has developed largely independent of one another. While there are always exceptions to be found in studies “bridging” literatures, the simple fact is that when you write a capital structure paper, your target audience consists primarily of those people who work on capital structure and you are much more likely to get a referee who works on capital structure than on dividend policy. Therefore, understanding the relevant capital structure literature, as opposed to the dividend literature, is arguably more important and should take priority.

While convenient from an organizational perspective, classifying research by literatures can unfortunately present too narrow of a perspective. For example, understanding the interplay between capital structure and dividend policy is a potentially interesting exercise. So, while I hope to present a reasonably clear organization of corporate finance, I want to emphasize that thinking more broadly across strands of literature can be very fruitful, including the corporate finance and asset pricing divide.

In addition to the lack of a convenient classification system, corporate finance is so large that it is impossible to cover *all* of corporate finance in one semester (or even one year). This requires making some tough choices on what topics to cover. This syllabus contains a relatively comprehensive outline of most major subfields in corporate finance but it clearly cannot be covered in one course. Rather, I wanted to have a good starting point to select topics on which to focus, and to provide a starting point for other topics that may be of interest to you.

In terms of theory versus empirics, the two do not always line up so cleanly. For example, there are a number of theoretical papers investigating how information asymmetry affects financial policy, few of which generate a “pecking order” prediction. Likewise, there is a host of papers investigating the pecking order hypothesis, few of which actually investigate the role of information asymmetry. Similarly, there are a number of papers investigating tradeoff theories but these studies are often nebulous on

precisely what is being traded off. Therefore, I have split the theory and empirics into separate sections.

I. THEORY OF THE FIRM

Classics

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II. FINANCIAL POLICY – CAPITAL STRUCTURE

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(followed by comments from Joseph Stiglitz, Stephen Ross, Sudipto Bhattacharya, and Franco Modigliani)

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III. FINANCIAL POLICY – DIVIDENDS

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113. ?

IV. CORPORATE INVESTMENT

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Models of Costly External Finance

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- Myers (1977) (underinvestment from debt overhang),
- Townsend (1979) and Gale and Hellwig (1985) (underinvestment from the **costly** state verification auditing/bankruptcy cost)
- Myers (1984), and Myers and Majluf (1984) (underinvestment from the dilution/adverse selection cost)
- Aghion and Bolton (1992), Bolton and Scharfstein (1990), Diamond (1991), Hart and Moore (1994, 1998) (ex ante underinvestment is inversely related to entrepreneur wealth and ex post underinvestment because of inefficient asset liquidation by investors.)

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Agency Conflicts Between Managers and Outside Shareholders

See also the papers from above by:

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Empire Building

See also the papers from above by:

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Internal Capital Markets

V. CORPORATE GOVERNANCE

Surveys

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