The course is an investigation of important topics in corporate finance. Although we cannot expect to cover every topic and even all aspects of the topics we do cover, I hope the students will have an appreciation of the basic paradigms, methods and ideas in modern research in corporate finance.

Each student is expected to take short quizzes, present a paper in class, and write a short (up to 6 pages) term paper. The project may be based upon published papers or pertaining to original research students are conducting. All topics must be approved by the professor in advance. The deadline for the term paper is May 31st. Extensions may be granted. However, if for any reason whatsoever you do not complete the course requirements until 9/1/07, you will be in serious trouble!

The underlined papers will be discussed in detail in class - other papers may be mentioned in less detail. The expanded reading list is for students who are interested in research in specific areas.

One class needs to be re-scheduled and the dates for the tests will be announced in the first class period.

SYLLABUS:

Week 1 (1/22)

Game Theory -Basic tools.


Week 2 (1/29)


Week 3 (2/5)

Major concepts (continued).

Capital Structure
Introduction.


Interactions:


Additional article: Dammon and Senbet (1988),

Week 4 (2/12)- to be rescheduled in April.

Week 5 (2/19)

Clayton and Ravid (2002). Additional articles:

Week 6 (2/26)

Capital structure, empirical

First Quiz.

Additional topic: Debt Maturity.

Bankruptcy


Additional bankruptcy papers:

Pulvino (1999).

Week 7 (3/5)

Design of Securities

Spring Break 3/12

*Week 8 (3/19)*

**Corporate Governance and executive compensation**

Introduction


Week 9 (3/26)

**Executive Objective Function and Corporate Hedging**


Week 10 (4/2)

**Corporate Governance and executive objectives** (continued)


*Week 11 (4/9)*

**Mergers and the conglomerate discount**


*Week 12 (4/16)*

**Mergers and the conglomerate discount** (continued)


*Week 13 (4/23)*

**Mergers** (continued)

Week 14 (4/30)

**Conclusion, presentations.**
READING LIST:

BOOKS:


PAPERS + BOOKS:

A. Capital Structure:


Kayhan, A. And S. Titman: "Firms' Histories and their Capital Structure" University of Texas working paper, presented in the WFA 2004, forthcoming JFE.


Leary, M. and M. Roberts “Do firms re-balance their capital structure?” Journal of Finance


McDonald, R. “Corporate Financial Policy When there are Tax Intermediating Dealers" Working paper, Northwestern University, presented in the WFA 2004.


Welch, I. "Columbus Egg: Stock Returns are the Real Determinant of Capital Structure" *Journal of Political Economy*, 2004

C. Interactions


D: Game Theory.


E: Debt as a Signal in Models With Asymmetric Information.


F. Debt Maturity


Leland, H. "Bond Prices, Yield Spreads and Optimal Capital Structure with Default Risk" Finance working paper # 240, Haas School of Business, University of California, Berkeley, November 1994(b).


G: Debt Policy Without Signalling in Models With Asymmetric Information.


H. Dividends.


I: Security Design and the boundaries of the firm


J: Initial Public Offers.


K: Mergers and Acquisitions, the conglomerate discount.


L Corporate Governance and Executive Compensation


Prendergast, C. “The Provision of Incentives in Firms” Journal of Economic Literature, March 1999, pp. 7-64.


M: Bankruptcy.


Berkovitch, E. and R. Israel "The Bankruptcy Decision and Debt Contract Renegotiation" working paper, the University of Michigan, 1991.


Harris, M. and A. Raviv "The Design of Bankruptcy Procedures" working paper # 137 Kellogg School of Management Northwestern University, 1992.


N. Managerial Objectives and Hedging


