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Objective: To introduce doctoral students to the basic and current research questions and methods – theoretical and empirical – in corporate finance.

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 a fairly regular basis 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 the provide surveys/overviews of one or more areas in corporate finance. Among these:

- Tirole, Corporate Finance
- Finance Handbooks such as: Jarrow, R. A., V. Maksimovic and W.T. Ziemba, Finance, (Vol. 9, Handbooks in Operations Research and Management)
- Matos, Joao Amaro De, Theoretical Foundations of Corporate Finance
- Hart, O., Firms Contracts and Financial Structure

Journal Abbreviations:
Topics and Readings

Note:

• The tentative topics and readings are below – the topics and papers for the various sessions will be finalized 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) liquidity (iii) property rights (iv) security design (v) product markets (vi) internal capital markets (vii) financial intermediaries such as banks, mutual funds and VC (viii) legal environment and emerging markets.

• In general, papers should be read by students before class. After the initial 2-3 sessions – specific papers will be regularly assigned to students for presentation/discussion in 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

Readings:

• Miller, Merton (1977). Debt and Taxes, JF
• Titman S., and R. Wessels (1988). The determinants of capital structure choice, JF

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
  – Financial distress
  – IPOs
  – Payout policy – dividends

Readings:

• Myers, S., (1977). Determinants of corporate borrowing, JFE
• Myers, S. and N. Majluf (1984). Corporate financing and investment decisions when firms have information that investors do not have, JFE
• Jensen, M. (1986). Agency costs of free cash flow, corporate finance and takeovers, AER

C. Banking Theory

• # Diamond, D., and P. Dybvig (1983), Bank Runs, Deposit Insurance, and Liquidity (The Journal of Political Economy)

D. Banking Empirical Papers

• # Chava and Roberts (2008), How Does Financing Impact Investment? The Role of Debt Covenants, Journal of Finance

E. Investment Banking, Institutional Investors, Stock Exchanges

• # Welch, I. (1992), Sequential sales, learning, and cascades, Journal of Finance
• # Tufano P., (1989) Financial Innovation and First-Mover Advantages, JFE
• # Parrino, R., RW Sias and LT Starks (2003), Voting with their feet: institutional ownership changes around forced CEO turnover, JFE
• # Siegel, Jordan I. (2003?), Can Foreign Firms Bond Themselves Effectively by Renting U.S. Securities Laws? JFE

F. Private Equity – Venture Capital
• # T Hellman and M Puri (2000) The interaction between product market and financing strategy: the role of venture capital, RFS
• # S Kortum, J Lerner (2000), Assessing the Contribution of Venture Capital to Innovation (Rand Journal of Economics)
• # Benson, David and Rosemarie H. Ziedonis, Corporate venture capital and the returns to acquiring portfolio companies, JFE, 2010

Product market considerations

• # Bolton and Scharfstein (1990). A theory of predation based on agency problems in financial contracting, AER
• # Chevalier, J. (1995), Do LBO Supermarkets Charge More? An Empirical Analysis of the Effects of LBOs on Supermarket Pricing, JF
• # Khanna, N., Tice, S., 2000, Strategic Responses of Incumbents to New Entry: the Effect of Ownership Structure, Capital Structure, and Focus, RFS

G. Stock Market Liquidity

• # Stock Market Liquidity and the Cost of Issuing Equity (2005), Butler, Grullon, and Weston, Journal of Financial and Quantitative Analysis
• # Stock splits, trading continuity, and the cost of equity capital (2009), Lin, Singh and Yu, JFE
• # Stock Market Liquidity and Firm Dividend Policy Banerjee, Gatchev and Spindt Journal of Financial and Quantitative Analysis
• # Market liquidity and performance monitoring (1993), Holmstrom and Tirole, Journal of Political Economy

• # Asset liquidity and stock liquidity (2010), Gopalan, Kadan and Pevzner, Washington University in St. Louis Working Paper


• # Discretionary disclosure and stock-based incentives (2003), Nagar, Nanda and Wysocki, JFE

II. Law and Finance and Emerging Markets

• # Demirg-Kunt, Asli and Vojislav Maksimovic (1998), ”Finance and firm growth” The Journal of Finance


• # La Porta, Rafael, Florencio Lopez-de-Silanes, and Guillermo Zamarippa (2003), Related Lending, Quarterly Journal of Economics


I. Incomplete Contracts & Property Rights

• # Hart, O., Chapters 2, 5 in Book: Firms Contracts and Financial Structure


J. Incentive Contracts & CEO compensation

• Background Reading – everyone should read/skim through


- # Core, John, Robert Holthausen and David Larcker, (1999), Corporate Governance, Chief Executive Officer Compensation, and Firm Performance, JFE
- # Adams, Renee, Heitor Almeida, and Daniel Ferreira, (2005), “Powerful CEOs and their Impact on Corporate Performance”, RFS
- # Fernandes, Ferreira, Matos and Murphy ”The Pay Divide: (Why) are U.S. Top Executives Paid More?” (working paper SSRN (2010)).

K. Internal Capital Markets

- Background Reading – everyone should read/skim through

L. Corporate Governance & Boards

- # Duchin, Ran, John G. Matsusaka, and Oguzhan Ozbas, 2010, When are Outside Directors Effective?, Journal of Financial Economics

M. Large Shareholders and Corporate Governance
• # Dennis, David J. and Jan M. Serrano, Active Investors and Management Turnover Following Unsuccessful Control Contests, Journal of Financial Economics, 40 (February 1996) 239-266.

N. Free Cash Flows, Corporate Governance and Market for Corporate Control

• Background Reading – everyone should read/skim through
• # Bertrand, Marianne and Sendhil Mullainathan, 2003, “Enjoying the Quiet Life? Corporate Governance and Managerial Preferences” The Journal of Political Economy
• # Gompers, Paul A., Joy L. Ishii, and Andrew Metrick, 2003, Corporate Governance and Equity Prices, Quarterly Journal of Economics