Course Objective:

The objective of the course is to provide an introduction to the modern theory of corporate finance and financial markets. The course will expose students to existing work and provide basic tools to do research in these areas. Research may be either theoretical, i.e., model-building and model-solving, or theoretically-motivated empirical research, i.e., empirical work guided by formally articulated theoretical hypotheses. We will examine examples of both types of research.

Course Organization:

The course will consist of lectures, which 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 list of topics and papers appears below. The final grade will be based on class participation, on an exam and on a project. Details will be discussed in class.

Course Materials:

Below, there is a list of articles for each topic. They are the core of the material for the course. In addition, I refer to relevant chapters in the following books:

Grades

1) Homeworks 40%
2) Final Exam 50%
3) Class Participation 10%

The deliverables for the course consist of the following:

1. (40%) Homeworks: Problem Sets posted on Blackboard. You should also email a pdf copy of your answers to Ekaterina and myself by the beginning of each TA class, from the first on of Friday September 20 at 10:30am. Please also hand in a physical copy to Ekaterina at the beginning of each TA class. Show your full calculations.

2. (50%) Final Exam

The exam will be written.

3. Final grades will also be based on class participation (10%). During each class, I expect you to discuss the material that is presented. I hope that every student will participate on a regular basis in these discussions. Participations can take the form of asking questions or elaborating on a specific point.
Course Overview

Starred articles (*) are covered in class in detail.

1. Modigliani-Miller and the Classics
   Tuesday, September 17; and Wednesday, September 18

Articles:
Bhattacharya, S., 1979, Imperfect information, dividend policy, and ‘the bird in the hand’ fallacy, Bell Journal of Economics 10, 259-270.
*Myers, S. C., 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.

2. Payout Policy
   Thursday, September 19
Articles:

- Bhattacharya, S., 1979, Imperfect information, dividend policy, and “the bird in the hand” fallacy, Bell Journal of Economics 10 (1), 259-270.

3. Financial Contracting and Security Design
   Wednesday, September 25 and Thursday, September 26

Book Chapters:
• Hart, Chapters 5-6.

Articles:
• Townsend R., 1979, Optimal contracts and competitive markets with costly state verification, Journal of Economic Theory 21, 265-293.

4. Models of Financial Crises
Thursday, September 26 and Tuesday, October 1

Articles:

5. Bankruptcy and Financial Distress
Wednesday, October 2, and Thursday, October 2

Articles:
6. **Law and Finance**

   **Tuesday, October 8, and Wednesday, October 9**

   Articles:
   

7. **Moral Hazard and Compensation**

   **Thursday, October 10**
Book Chapter:
- Mas-Colell, Whinston, and Green, Chapter 14.

Articles:

8. Final Exam
   TBD