



**BOCCONI UNIVERSITY**  
**PhD in Economics and Finance**  
**Finance 1 - cod 40214**

(Corporate Finance Modern - Theory of Corporate Finance)  
Weeks 1-8 – Fall 2019

**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:

- Hart, Oliver D. (1995), *Firms, Contracts, and Financial Structure*, Clarendon Press, Oxford.
- Mas-Colell, Andreu, Michael D. Whinston, and Jerry R. Green (1995), *Microeconomic Theory*, Oxford University Press.

## 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:

\*Modigliani, F., and M. Miller, 1958, The cost of capital, corporation finance, and the theory of investment, *American Economic Review* 48, 261-297.

\*Miller, M., 1977, Debt and taxes, *Journal of Finance* 32, 261-275.

\*Myers, S. C., 1977, Determinants of Corporate Borrowing, *Journal of Financial Economics* 5, 147-175.

\*Ross, S., 1977, The determination of financial structure, *Bell Journal of Economics* 8, 23-40.

Bhattacharya, S., 1979, Imperfect information, dividend policy, and 'the bird in the hand' fallacy, *Bell Journal of Economics* 10, 259-270.

\*Leland, H., and D. Pyle, 1977, Information asymmetries, financial structure, and financial intermediation, *Journal of Finance* 32, 371-388.

\*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.

\*Jensen M., 1986, Agency costs of free cash flow, corporate finance and takeovers, *American Economic Review* 76, 323-329.

\*Jensen, M., and W. Meckling, 1976, Theory of the firm: managerial behavior, agency costs and ownership structure, *Journal of Financial Economics* 3, 305-360.

\*Grossman, S. J. and O. D. Hart, 1982 Corporate Financial Structure and Managerial Incentives, *The Economics of Information and Uncertainty*, edited by John McCall. Chicago: University of Chicago Press, pp. 107-140.

\*Stulz, R., 1990, Managerial discretion and optimal financing policies, *Journal of Financial Economics* 26, 3-27.

\*Hart, O. D., and J. H. Moore, 1995, Debt and Seniority: An Analysis of the Role of Hard Claims in Constraining Management, *American Economic Review* 85, 567-585.

### 2. Payout Policy

**Thursday, September 19**

#### Articles:

- \*Michaely, R., S. Rossi, and M. Weber, 2017, Signaling safety, Working paper, Bocconi University.
- Lintner, J., 1956, Distribution of incomes of corporations among dividends, retained earnings, and taxes, *American Economic Review* 46 (2), 97-113.
- \*Miller, M. H. and F. Modigliani, 1961, Dividend policy, growth, and the valuation of shares, *Journal of Business* 34 (4), 411-433.
- \*Miller, M. H. and K. Rock, 1985, Dividend policy under asymmetric information, *Journal of Finance* 40 (4), 1031-1051.
- Allen, F., A. E. Bernardo, and I. Welch, 2000, A theory of dividends based on tax clienteles, *Journal of Finance* 55 (6), 2499-2536.
- Allen, F. and R. Michaely, 2003, Payout policy. *Handbook of the Economics of Finance* 1, 337-429.
- \*Benartzi, S., R. Michaely, and R. Thaler, 1997, Do changes in dividends signal the future or the past? *Journal of Finance* 52 (3), 1007-1034.
- Bernheim, B. D. and A. Wantz, 1995, A tax-based test of the dividend signalling hypothesis, *American Economic Review* 85 (3), 532-551.
- Bhattacharya, S., 1979, Imperfect information, dividend policy, and "the bird in the hand" fallacy, *Bell Journal of Economics* 10 (1), 259-270.
- Chetty, R. and E. Saez, 2005, Dividend taxes and corporate behavior: Evidence from the 2003 dividend tax cut, *Quarterly Journal of Economics* 120 (3), 791-833.
- Easterbrook, F. H., 1984, Two agency-cost explanations of dividends, *American Economic Review* 74 (4), 650-659.
- \*Fama, E. F. and K. R. French, 2001, Disappearing dividends: changing firm characteristics or lower propensity to pay? *Journal of Financial Economics* 60 (1), 3-43.
- \*Grullon, G., R. Michaely, and B. Swaminathan, 2002, Are dividend changes a sign of firm maturity? *Journal of Business* 75 (3), 387-424.
- Guttman, I., O. Kadan, and E. Kandel, 2010, Dividend stickiness and strategic pooling, *Review of Financial Studies* 12 (23), 4455-4495.
- Jagannathan, M., C. P. Stephens, and M. S. Weisbach, 2000, Financial flexibility and the choice between dividends and stock repurchases, *Journal of Financial Economics* 57 (3), 355-384.
- John, K. and J. Williams (1985). Dividends, dilution, and taxes: A signalling equilibrium, *Journal of Finance* 40 (4), 1053-1070.
- La Porta, R., F. Lopez-de Silanes, A. Shleifer, and R. W. Vishny, 2000, Agency problems and dividend policies around the world, *Journal of Finance* 55 (1), 1-33.
- Lambrecht, B. M. and S. C. Myers, 2012, A Lintner model of payout and managerial rents, *Journal of Finance* 67 (5), 1761-1810.

### **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.
- Gale D., and M. Hellwig, 1985, Incentive compatible debt contracts: the one period problem, *Review of Economic Studies* 52, 647-63.
- Bolton, P., and D. Scharfstein, 1990, A theory of predation based on agency problems in financial contracting, *American Economic Review* 80, 93-106.
- \*Aghion, P., and P. Bolton, 1992, An incomplete contracts approach to financial contracting, *Review of Economic Studies* 59, 473-494.
- Berglof, E., and E. L. von Thadden, 1994, Short-term versus long-term interests: capital structure with multiple investors, *Quarterly Journal of Economics* 109, 1055-1084.
- \*Dewatripont, M., and J. Tirole, 1994, A theory of debt and equity: diversity of securities and manager-shareholder congruence, *Quarterly Journal of Economics* 109, 1027-1054.
- \*Hart, O., and J. Moore, 1994, A theory of debt based on the inalienability of human capital, *Quarterly Journal of Economics*, 109, 841-879.
- \*Bolton, P., and D. Scharfstein, 1996, Optimal debt structure and the number of creditors, *Journal of Political Economy* 104, 1-25.

#### **4. Models of Financial Crises**

**Thursday, September 26 and Tuesday, October 1**

Articles:

- \*Holmstrom, B., and J. Tirole, 1997, Financial intermediation, loanable funds, and the real sector, *Quarterly Journal of Economics* 112, 663-691.
- \*Allen, F. 1983. Credit rationing and payment incentives. *Review of Economic Studies* 50 (4): 639-646.
- \*Eaton, J., and M. Gersovitz. 1981. Debt with potential repudiation: Theoretical and empirical analysis. *Review of Economic Studies* 48: 289-309.
- \*Gennaioli, N., A. Martin, and S. Rossi, 2014, Sovereign default, domestic banks, and financial institutions, *Journal of Finance* 69, 821-868.
- Acharya, V., I. Drechsler, and P. Schnabl, 2013, A Pyrrhic victory? Bank bailouts and sovereign credit risk, *Journal of Finance*, forthcoming.

#### **5. Bankruptcy and Financial Distress**

**Wednesday, October 2, and Thursday, October 2**

Articles:

- \*Gennaioli, N., and S. Rossi, 2010, Judicial discretion in corporate bankruptcy, *Review of Financial Studies* 23, 4078-4114.
- \*Gennaioli, N., and S. Rossi, 2013, Contractual resolutions of financial distress, *Review of Financial Studies* 26, 602-634.
- \*Djankov, S., O. D. Hart, C. McLiesh, and A. Shleifer, 2008, Debt enforcement around the world, *Journal of Political Economy* 116, 1105-1149.
- Gertner, R., and D. S. Scharfstein, 1991, A theory of workouts and the effects of reorganization law, *Journal of Finance* 46, 1189-1222.
- Asquith, P., R. Gertner, and D. Scharfstein, 1994, Anatomy of Financial Distress: An Examination of Junk-bond Issuers, *Quarterly Journal of Economics* 109, 625-658.
- Franks, J. R., and W. N. Torous, 1989, An Empirical Investigation of U.S. Firms in Reorganization, *Journal of Finance* 44, 747-770.
- Gilson, S. C., K. John, and L. H. P. Lang, 1990, Troubled Debt Restructurings: An Empirical Study of Private Reorganization of Firms in Default, *Journal of Financial Economics* 27, 315-353.
- Wruck, K.H., 1990, Financial distress, reorganization, and organizational efficiency, *Journal of Financial Economics* 27, 419-444.
- Ponticelli, J., and L. S. Alencar 2016, Court enforcement and firm productivity: evidence from a bankruptcy reform in Brazil, *Quarterly Journal of Economics* 131, 1365-1413.

## **6. Law and Finance**

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

Articles:

- \*La Porta, R., F. Lopez de Silanes, and A. Shleifer, 2008, The economic consequences of legal origins, *Journal of Economic Literature* 46, 285-332.
- La Porta, R., F. Lopez-De-Silanes, A. Shleifer, and R. W. Vishny, 1997, Legal determinants of external finance, *Journal of Finance* 52, 1131-1150.
- La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. W. Vishny, 1998, Law and finance, *Journal of Political Economy* 106, 1113-1155.
- \*Rossi, Stefano, and Paolo F. Volpin, 2004, Cross-country determinants of mergers and acquisitions, *Journal of Financial Economics* 74, 277-304.
- \*Greenstone, M., P. Oyer and A. Vissing-Jorgensen, 2006, Mandated disclosure, stock returns, and the 1964 securities acts amendments, *Quarterly Journal of Economics* 121, 399-460.
- \*Franks, J., C. Mayer, and S. Rossi, 2009, Ownership: Evolution and regulation, *Review of Financial Studies* 22, 4009-4056.
- \*Agrawal, A. K., 2013, The impact of investor protection law on corporate policy: Evidence from the Blue Sky laws, *Journal of Financial Economics* 107, 417-435.

## **7. Moral Hazard and Compensation**

**Thursday, October 10**

Book Chapter:

- Mas-Colell, Whinston, and Green, Chapter 14.

Articles:

- \*Holmstrom, B., 1979, Moral hazard and observability, *Bell Journal of Economics* 10, 74-91.
- Holmstrom, B., and P. Milgrom, 1991, Multi-task principal agent analyses: linear contracts, asset ownership, job design, *Journal of Law, Economics, & Organization* 7, 24-52.
- Edmans, A., and X. Gabaix, 2011, Tractability in incentive contracting, *Review of Financial Studies* 24, 2865-2894.

**8. Final Exam**

**TBD**