Corporate Finance 3
Bocconi University

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Professor:
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Office hours:
Monday, 18.00-19.00
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Summary and aims: Show how financing decisions are affected by moral hazard and adverse selection, and how different securities can (or cannot) mitigate the associated agency costs. More specifically, the course will critically discuss two influential debates in the empirical literature. First, the debate on financing constraints, starting from Fazzari, Hubbard, and Petersen (88) and its critique by Kaplan and Zingales (1998). Second, the debate on the definition and identification of the bank lending channel starting with the seminal paper by Kwaïja and Mian (2008) and its critique by Paravasini et. al. (2016). In both cases, the aim will be to understand the link between theory, data, and identification.

Pre-requisite: Basic Optimization.

Assesment: Presentation of a paper in class, and research project.

Material:
The first classes will be based on J. Tirole, “The Theory of Corporate Finance”. Then we will follow the papers to be discussed in class and which are in the reading list.

Course Secretary: Angela Baldassari.
Overview of Topics

Topic 1  Back to Basics: capital structure 101.

- Perfect capital markets: the Modigliani-Miller propositions
- Adverse Selection.
- Moral Hazard.

Material: slides and Tirole, chapters 3 to 6.

Topic 2  Financial Constraints and its Discontents.

- Fazzari, Hubbard and Petersen (1988): the introduction of cash flow into Q!

Material: slides and papers.

Topic 3  The Bank Lending Channel and its Discontents.

- Khwaja and Mian (2008): a simple model of the bank lending channel and bank shocks!
- Khwaja and Mian (2008): identifications, fixed effects everywhere!
- Khwaja and Mian (2008): the problem of footnote 9!
- Paravasini et. al. (2015): specialization and assortative matching.

Material: slides and papers.