

**Corporate Finance I**  
**PhD in Finance**  
**Università della Svizzera Italiana**  
Fall 2023  
Fausto Panunzi

**Course content:**

The course offers a graduate level introduction to corporate finance theory. Rather than providing an exhaustive overview of the field, the course focuses in depth on selected topics, in particular the firms' financing choices (e.g., capital structure) and the allocation of corporate control. In addition, the course reviews the recent literature on institutional aspects of corporate finance. The material consists of modern game- and contract-theoretic tools applied to corporate finance. The course also aims at training students to use these tools for their own research.

The following specific topics will be covered (one or the other topic may be shortened or omitted due to the limited time available).

- Modigliani-Miller Theorem
- Moral Hazard Models of Financial Contracting
- Asymmetric Information Models of Financial Contracting
- Theories of Debt
- Debt and Managerial Incentives
- Liquidity
- Control Rights and Corporate Governance
- Credit Rationing and Economic Activity

**Pre-requisite:**

- The course offers a self-contained, graduate level introduction to corporate finance theory. It does not require prior knowledge of corporate finance nor are students expected to have read other graduate finance courses.
- While the course is not technically demanding, it applies modern game and contract theory. Hence, participants are expected to be familiar with basic concepts in these areas. The course is, however, not designed as game or contract theory course; its scope is not

abstract discussion of game and contract theory tools and results, but their corporate finance applications.

**Textbook:**

- We will use some chapter of the book by Jean Tirole, *The Theory of Corporate Finance*, Princeton University Press (2006)

**Grading:**

- Based solely on written exam

**Assignments:** Problem sets

- The course allocates time to discuss the problem sets that students are asked to solve in advance.
- Problem sets do not count for the final grade but solving them is an ideal preparation for the exam

**Tentative Schedule:**

- October 17 (T.), 9.30-12.30 (Zoom)
- October 24 (T.), 9.30-12.30 (Zoom)
- October 31 (T.), 9.30-12.30 (?)
- November 7 (T.), 9.30-12.30 (?)
- November 14 (T.), 9.30-12.3 (?)
- November 21 (T.), 9.30-12.30 (?)
- November 28 (T.), 9.30-12.30 (?)
- December 5 (T.), 9.30-12.30 (?)
- Exam TBA

**Reading Material:**

The course is based on articles and lecture notes. The lectures notes will be made available as the course progresses. Lectures will be based on

Tirole, Jean, 2006, *The Theory of Corporate Finance*, Princeton University Press, Princeton N.J.

Other surveys or reference books you may want to consult or find interesting include:

Becht, Marco, Patrick Bolton and Ailsa Roell, 2003, "Corporate Governance", in: Handbook of the Economics of Finance, Constantinides, George, Milton Harris and René Stulz (eds.), North-Holland, Amsterdam

Burkart, Mike and Samuel Lee, 2008, "One Share - One Vote: The Theory," Review of Finance, 12(1):1-49.

Hart, Oliver, 1995, Firms Contracts and Finance Structure, Oxford University Press

Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, 2000, "Investor Protection and Corporate Governance," Journal of Financial Economics, 58: 3-27

Shleifer, Andrei, and Robert W. Vishny, 1997, "A Survey of Corporate Governance," Journal of Finance, 52,737-783.

### **Modigliani-Miller Theorem**

Fama, Eugene, 1978, "The Effects of a Firm's Investment and Financing Decision on the Welfare of Its Security Holders", American Economic Review, 68(3), 272-284.

Grinblatt, Mark and Sheridan Titman, 1998, Financial Markets and Corporate Strategy, Chapter 13, Irwin/McGraw-Hill.

Modigliani, F. and M. H. Miller, 1958, "The Cost of Capital, Corporation Finance, and the Theory of Investment", American Economic Review, 48: 261-297.

### **Moral Hazard Models of Financial Contracting**

Tirole, Jean, 2006, The Theory of Corporate Finance, Princeton University Press, Princeton N.J. Chapter 3.1-3.6

Jensen, M. and W. Meckling, 1976, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," Journal of Financial Economics, 3, 305-360.

Myers, Stewart 1977, "The Determinants of Corporate Borrowing," Journal of Financial Economics, 5, 147-175.

Stiglitz, Joseph and Andrew Weiss, 1981, "Credit Rationing in Markets with Imperfect Information", American Economic Review, 71, 393-410.

### **Asymmetric Information Models of Financial Contracting**

Myers, Stewart, 1984, "The Capital Structure Puzzle," Journal of Finance, 39, 575-592.

Myers, S. and M. Majluf, 1984, "Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have," Journal of Financial Economics, 13, 187-221.

Ross, S.,1977, "The Determination of Financial Structure: The Incentive Signalling Approach," Bell Journal of Economics, 8, 23-40

### **Theories of Debt**

Aghion, P. and P. Bolton, 1992, "An Incomplete Contracts Approach to Financial Contracting," *Review of Economic Studies*, 77, 388-401.

Bolton, P. and D. Scharfstein, 1990, "A Theory of Predation Based on Agency Problems in Financial Contracting," *American Economic Review*, 80, 94-106.

Gale, Douglas, and Martin Hellwig, 1985, "Incentive Compatibility Debt Contracts: The One Period Problem," *Review of Economic Studies*, 52, 647-663.

Hart, Oliver D., and John Moore, 1994, "A Theory of Debt Based on the Inalienability of Human Capital," *Quarterly Journal of Economics*, 109, 841-879.

### **Debt and Managerial Incentives**

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

Jensen, Michael C., 1986, "Agency Costs of Free Cash Flow, Corporate Finance and Takeovers," *American Economic Review*, 76, 323-329.

Zwiebel, Jeffrey, 1996, "Dynamic Capital Structure Under Managerial Entrenchment," *American Economic Review*, 86, 1197-1215.

### **Liquidity**

Froot, K., D. Scharfstein, and J. Stein, 1993, "Risk Management: Coordinating Corporate Investment and Financing Policies", *Journal of Finance*, 48: 1629-58

Holmstrom, B. and J. Tirole, 1998, "Private and Public Supply of Liquidity", *Journal of Political Economy*, 106, 1-40

Holmstrom, B. and J. Tirole, 2000, "Liquidity and Risk Management", *Journal of Money, Credit and Banking*, 32, 295-319

Jensen, M. and W.R. Meckling, 1976, "Agency Costs of Free Cash Flow, Corporate Finance and Takeovers", 76, 323-39