

Corporate Finance

CEMFI

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Professor:

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Office hours:

TBA

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Summary and aims: How are firm financing and investment decisions affected by moral hazard and adverse selection? How can capital structure or regulations mitigate the associated agency costs? The aim of the class will be to explore these questions and understand the link between theory, data, and identification. The course will critically discuss influential debates in the corporate finance literature such as the debate on financing constraints, or the discussion of the bank lending channel. In doing so, we will also explore the latest advances in empirical toolkits that are especially relevant to study firm dynamics.

Pre-requisite: Basic Optimization.

Assesment: Presentation of papers in class, assignments, and final exam.

Material:

Classes will be based on J. Tirole, “The Theory of Corporate Finance.” In addition, for each session additional papers in the reading list will be discussed.

Course Secretary: TBA.

Overview of Topics

Topic 1 Back to Basics: Capital Structure 101.

- Perfect capital markets: the Modigliani-Miller propositions
- Enter Taxes!
- Enter Bankruptcy!

Material: slides; [Modigliani and Miller, 1958](#); [Miller, 1988](#); [Heider and Ljungqvist, 2015](#).

Topic 2 Debt Overhand and Risk Shifting.

Material: slides; [Landier et al., 2015](#).

Topic 3 Adverse Selection and Capital Structure.

- The Groucho Marx principle of capital structure.
- Applications: Market timing, stock price reactions, and the pecking order!

Material: slides; Chapter 6 of [Tirole, 2010](#); [Myers, 1984](#).

Topic 4 Moral Hazard and Capital Structure.

- Ability to borrow: "You only lend to the rich" .
- Boosting ability to borrow: monitoring, collateral, diversification

Material: slides; Chapters 3 and 4 of [Tirole, 2010](#); [Lamont, 1997](#); [Boutin et al., 2013](#).

Topic 5 Financial Constraints and its Discontents.

- Introducing cash flow into Q!
- Theoretical and empirical critique.

Material: slides and papers ([Fazzari et al., 1987](#); [Kaplan and Zingales, 2000](#); [Fazzari et al., 2000](#)).

Topic 6 Bankruptcy Law, Default, and Renegotiation.

- A simple theory of cash diversion, debt and bankruptcy.

Material: slides and papers ([Hart and Moore, 1998](#); [Rodano et al., 2016](#); [Dobbie and Song, 2015](#); [Bernstein et al., 2019](#); [Farre-Mensa et al., 2020](#).)

Topic 7 The Bank Lending Channel and its Discontents.

- A simple model of the bank lending channel and bank shocks!
- The problem of footnote 9!

Material: slides and papers ([Khwaja and Mian, 2008](#); [Jiménez et al., 2014](#); [Amiti and Weinstein, 2018](#); [Paravisini et al., 2015](#)).

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