Corporate Finance I

Academic Year: (2017 / 2018) **Review date: 08-05-2017**

Department assigned to the subject: Business Administration Department

Coordinating teacher: TRIBO GINE, JOSE ANTONIO

Type: Electives ECTS Credits : 5.0

Year : 1 Semester : 2

REQUIREMENTS (SUBJECTS THAT ARE ASSUMED TO BE KNOWN)

To have followed a course of microeconomics, some basic notions of econometrics and some notions of financial economics.

OBJECTIVES

The objective is to give a comprehensive picture of the modern literature of corporate finance. The classes will combine theoretical and empirical models. Also the students will use a database to replicate the results of some important papers on the literature of corporate finance.

DESCRIPTION OF CONTENTS: PROGRAMME

LECTURE 1: CAPITAL STRUCTURE, SOME INITIAL ISSUES
1.1/ Corporate finance. Concepts.
1.2/ Modigliani-Miller Theorem
1.3/ What different theories say about capital structure?.
1.4/ An overview of financial structure in different countries

LECTURE 2: TAX DISTORTIONS
2.1 Corporate Taxes.
2.2 Bankruptcy costs versus corporate taxes. Miller¿s critique.
2.3 Personal taxes versus corporate taxes
2.4 Miller¿s equilibrium model.

LECTURE 3: FINANCIAL STRUCTURE AND THE CONFLICTS BETWEEN BORROWERS AND LENDERS
3.1/ The conflict of interest between shareholders and debtholders
3.2/ Asset substitution: The original example of Jensen and Meckling (1976)
3.3/ Debt overhang problem (Myers 1977)
3.4/ Short-term financing bias and Managerial aversion to liquidation.
3.5/ Possible solutions

LECTURE 4:
FINANCIAL STRUCTURE AND THE AGENCY PROBLEMS BETWEEN MANAGERS AND INVESTORS
4.1 The separation of ownership and control
4.2 Model to address agency problems: (Jensen&Meckling and Stulz)
4.3 Contracts contingent on control rights
4.3.1 Model of Hart (1995) an introduction to Aghion and Bolton
4.3.2 The model of Aghion and Bolton, (1992)
4.4 Debt contracting
4.4.1 Bolton and Scharfstein, (1996)
4.4.2 Debt maturity (Diamond, 1991)
4.5 The importance of diversity (Hart, 2001)

LECTURE 5: THE SIGNALLING ROLE OF FINANCIAL STRUCTURE
5.1 Leverage as a information mechanism(Ross, 1977).
5.2 Signalling with shares (Leland y Pyle, 1977).
5.3 The model of Myers and Majluf and the pecking order theory
5.4 Private versus public debt. The paper of banks as financial providers
5.5 Empirics over the pecking order theory

LEARNING ACTIVITIES AND METHODOLOGY

2 problems sets

ASSESSMENT SYSTEM

Final grade is 60% the grade of the exam and 40% problem sets. A minimum score of 4.00 is required in the final exam to pass the subject

% end-of-term-examination:	60
% of continuous assessment (assigments, laboratory, practicals…):	40

BASIC BIBLIOGRAPHY

- Jean Tirole The theory of corporate finance, Princeton University Press, 2010
- João Amaro de Matos Theoretical Foundations of Corporate Finance , Princenton University Press, 2001
- Oliver Hart Firms, Contracts, and Financial Structure , Clarendon Press, 1993