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Corporate Finance I

Academic Year: (2018 / 2019) **Review date: 11/05/2018 03:22:29**

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)

SUMMARY:
The first half of the corporate finance course can be divided into two parts. The first part covers financial contracting decisions under the two well-known agency problems: moral hazard and

asymmetric information. The second part covers the role of monitors and advisors in corporate decisions. This course covers mainly theoretical models. The objective is to give you, through theoretical modeling, a basic set-up to understand the trade-offs present in agency problems in financial contracting. Also, how different mechanisms help in the resolution of those problems.

The current fashion in corporate finance research is mainly empirically driven. But you need to know theory to do good empirical research. This course provides the theory behind most of the empirical contributions and also some insight on empirical evidence. I encourage you to register for courses in the PhD Program that are empirical in nature.

LEARNING ACTIVITIES AND METHODOLOGY

2 problems sets

ASSESSMENT SYSTEM

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

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

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