FIN 971: Corporate Finance
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Syllabus

This course is about corporate finance puzzles. There are two parts to a puzzle: theory and data. For instance, Myers entitles his 1984 AFA presidential address “The Capital Structure Puzzle”. Under a (strong) set of assumptions, Modigliani-Miller theory says that a firm’s value does not depend on its mix between debt and equity. Data says otherwise, thus there is a puzzle. The literature then relaxed the theoretical assumptions to try to match the data. The objective of this course is to find and attempt to answer puzzles (i.e. propose theory) for both nonfinancial and financial firms.

You will be evaluated on weekly problem sets and computer assignments which can be undertaken in groups, as well as an individual final project. The final project will either find a new puzzle and try to provide theory to answer it or just try to solve an old puzzle. Since we are focusing on puzzles you need to do both theory and data work. You should state a well-defined question, explain how your work differs from the most relevant paper or two related to your question, and finally provide some preliminary results.

We will study some papers in depth rather than a cursory review of the literature. There are three works which provide background for class lectures:


I. Benchmark Theory: the MM Invariance Propositions
*(T) 2.

II. Data Moments
*(T) 2.

III. Deviations from Benchmark Theory
(T) Chapters 3-6.

a. Taxes and Financial Distress (Tradeoff Theory)
b. Moral Hazard (Agency Theory)

c. Asymmetric Information (Pecking Order Theory)

d. Imperfect Competition

e. Control Issues

IV. Security Design and Intermediation
(T) Chapter 12

V. Dynamic Models
a. Benchmark


b. Frictions


c. Industry Dynamics


VI. Welfare and Macro Implications of Financial Frictions
(T) Chapters 13, 14, 15