Corporate Finance
Syllabus and References

Professor: Albert Banal-Estanol (albert.banalestanol@upf.edu)
Lectures: Tuesday-Thursday, 15:00–17:00
Office: Jaume I, 20E26
Office hours: Friday 11:00-12:00 or by email appointment.

Teaching assistant: Miguel De Jesus (Miguel.dejesus@upf.edu)
Classes: Thursday, 14:00-15:00
Office: 20.140
Office hours: By email appointment

Description of the Course

This course covers the theory and empirics of corporate finance. The starting point of the course is an introduction to the Modigliani-Miller irrelevance theorems, which describe a frictionless set-up in which capital structure is independent of the firms’ characteristics or choices and is irrelevant for the valuation of the firm.

A variety of deviations from this frictionless scenario are then studied. In these different cases we analyse optimal capital structure, corporate taxation, financial distress, the use of capital structure as a signalling device, and control allocation, amongst others, and how these affect the firm’s valuation and investment decisions. In addition, we will also cover topics related to mergers and acquisitions, initial public offerings, project finance, and securitisation.

Students should organize in pairs. Each group will present and discuss one of the empirical articles, together with related papers, in class. Presentations should last for about 25-30 minutes. A class discussion about the paper or related issues will follow the presentation. Therefore, all students should read the paper in advance and ask questions and make comments. In addition, the empirical articles are part of the material to be covered in the final exam. The articles marked # are suitable for presentation by students. Students are welcome to suggest other (relevant) papers outside of this list they may be interested in presenting instead.

The papers (and book chapters) marked with a * are compulsory readings while the others should be used to complement the lectures. Every week practice sessions will be held with exercises to be handed in regularly. Handouts will be distributed during the course.
**Grading**

The final grade will be based on the final exam (65%) the grades from the practical exercises (15%) and the presentation of the empirical paper (15%). A final 5% will be based on active participation in class discussion following the presentations.

**Recommended Books**

The books are intended just to clarify concepts, not to introduce new ones. Given that even within relevant subsections of the books sometimes the authors digress a bit into topics outside our immediate interest, you should notice those and skip them accordingly. So, in general, even for required-reading subsections, read them a bit diagonally, skimming through it.


**Other Useful Books**


Kevin F. Hallock and Kevin F. Murphy: *The Economics of Executive Compensation Vol I and Vol II* Cheltenham, UK (Edward Elgar 1999)

Topics and reference articles:

1. The Modigliani and Miller Irrelevance Propositions, Taxes and Bankruptcy Costs

- The Modigliani-Miller Theorem
- Corporate Taxes – the debt tax shield
- Personal Taxes
- Bankruptcy Costs – The Static Trade-Off Theory

References


(CH14: important sections: 14.1, 14.2, 14.4 and 14.9, skim through section 14.5, skip 14.3, 14.6-14.8, and 14.10 / CH15: important section: 15.2, skim through 15.1, 15.3 15.6, skip 15.4 and 15.5)


MacKie Mason J. K. (1990) *Do Firms Care Who Provides Their Financing* Corporate Finance and Investment University of Chicago


2. Agency problems and capital structure

- Moral hazard
- Effort problem
- Asset Substitution or Risk shifting
- Underinvestment
- Debt overhang

References


3. Capital Structure as a Control Mechanism

- Agency costs
- Liquidation and termination threat
- Control allocation

References


**4. Asymmetric Information**

- Adverse Selection
- The pecking order theory
- Market Timing
- Signalling
  - Signalling through dividends
  - Signalling through capital structure

**References**


5. Financial Constraints

- Moral Hazard and Debt Capacity
- The Role of Collateral
- Macroeconomic Implications of Financial Constraints

References

  - Moral Hazard: Sections 3.1, 3.2.1, 3.2.2, 3.4.1, 3.4.2
  - Collateral: 4.3(intro), 4.3.1, 4.3.2, 4.3.3, 14.2.1, 14.2.2
  - Macroeconomic Implications: 13.1, 13.3.1, 13.3.2


6. Mergers and Acquisitions
Mergers and acquisitions
Block trading
Disciplinary effect of M&A

References:


# Bhagat S., A. Shleifer and R. W. Vishny (1990) Hostile Takeovers in the 1980s: The Return to Corporate Specialization Brookings-Papers-on-Economic-Activity; 0(0), Special Issue: 1-72.


# Demsetz H. and K. Lehn (1985) The Structure of Corporate Ownership: Causes


Weston, Kwang and Hoag (1990), "Mergers, Restructuring, and Corporate Control", Prentice Hall.

7. Initial Public Offerings

Going public-The free rider problem
Going private-Leveraged buyouts
Motives to go public
Stylised facts
Theories on underpricing- Asymmetric information and others

References:

# Ellis K, M. O’Hara and R. Michaely (2000) When the Underwriter is the Market
Maker: An Examination of Trading in the IPO Aftermarket. Journal of Finance


Roell A. The Decision to Go Public: An Overview European Economic Review; 40(3-5),:1071-81.

8. Project finance

Project finance versus corporate finance

References:


9. Managerial Compensation (time permitting)

Managerial compensation as a standard principal agent model
Undersensitivity
Market vs. accounting data


Bertrand, Marianne, and Mullainathan, Sendhil (2001), Are CEOs Rewarded for Luck ? The Ones Without Principal Are", Quarterly Journal of Economics

Bertrand, M. and S. Mullainathan, (2003), "Enjoying the Quiet Life? Corporate

Brian J. Hallock and Kevin F. Murphy: *The Economics of Executive Compensation Vol I and Vol II* Cheltenham, UK Edward Elgar 1999


**10. Risk and Liquidity Management (time permitting)**

References


**11. Securitisation (time permitting)**


Echave: “Securitisation: the end of the beginning”, journal of International Banking and Financial Law
Kavanagh, “Securitization and Structured Finance: Legitimate Business Management Tools”

Keys, Mukherjee, Seru, and Vig 2008, “Did Securitization Lead to Lax Screening? Evidence From Subprime Loans”, working paper LBS.