

CITY UNIVERSITY

MSc in FINANCIAL ECONOMICS ECM015 Topics in Corporate Finance

Reading List

The list below will refer to the following textbooks:

[GT] M. Grinblatt and S. Titman, Financial Markets and Corporate Strategy, Irwin McGraw-Hill.

[T] J. Tirole, The Theory of Corporate Finance, Princeton, 2006.

[BD] J. Berk and P. DeMarzo, Corporate Finance, Pearson, 2007.

[BKM] Z. Bodie, A. Kane, and A.J. Marcus, Investments, Irwin McGraw-Hill (5th or 6th edition)

[BM] Brealey, R. and S.C.Myers (2003). Principles of Corporate Finance. McGraw Hill 7th edition.

[CWS] T.E. Copeland, J.F. Weston, and K. Shastri, Financial Theory and Corporate Policy, Addison-Wesley.

Chapter 1: Introduction: The Role of the Financial Manager

Main reading: [BM] Chapter 1

Chapter 2: Valuing Real Assets

Main reading: [GT] Chapters 10.1, 10.2, 10.4, 10.5, 10.6, 11.0 (only ideas from introduction)

Supplementary reading: [BM] Chapter 5

Article for discussion next week:

Graham, John R. and Harvey, Campbell R : “How CFOs make capital budgeting and capital structure decisions”, Journal of Applied Corporate Finance (2002)

Optional reading:

Bradford Cornell Simon Cheng (1995): “Using the DCF Approach to Analyze Cross-sectional Variation in Expected Returns”, Anderson School of Management working paper, downloadable at:

<http://repositories.cdlib.org/cgi/viewcontent.cgi?article=1139&context=anderson/fin>

Chapter 3: Firm's Capital Structure: Debt, Equity and the Modigliani and Miller Theorem

Main reading: [GT] Chapters 14.1, 14.2, 14.3, [BD] Chapter 14

Supplementary reading: [BM] Chapter 17 and 18

Read **The Economist** "Survey of Corporate Finance: The Party's Over" (see files).

Some of the questions we might discuss include:

- a. Why would debt "be good for you"?
- b. In what sense have lenders "sold a put option to stockholders"? Why should this create a problem if it is true?
- c. What is going on in "Chart 3"? What does it say about the bond market?
- d. Explain why 3G investments by European telecoms are a problem.
- e. What is wrong with buying other companies? Can't acquisitions enhance shareholder value? Cisco has been doing a lot of this and the stockmarket seems think it's cool.
- f. In the article "Shareholder Value", what are the underlying assumptions regarding the economics of value and value creation?
- g. Why are employee stock options being "villainized"—blamed for a lot of problems?
- h. How would you summarize the conclusions of the survey?

Chapter 4: Taxes and Bankruptcy and the trade-off theory

Main reading: [GT] Chapters 16.1, 16.2, 16.3 and [BM] Chapter 18

Miller, "Debt and Taxes", Journal of Finance 1977

Berens and Cuny "The Capital Structure Puzzle Revisited", Review of Financial Studies, 1995

Chapter 5: Dividend Policy

Main reading: [GT] Chapter 15 (15.1, 15.2, 15.3 and 15.5) and [BM] Chapter 16

Allen and Michaely (2003): "Payout policy", Handbook of Economics and Finance

Bagwell and Shoven (1989) "Cash Distributions to Shareholders", Journal of Economic Perspectives

Chapter 6: Moral Hazard and optimal contracting

Main reading: [T] Chapter 3.2

Myers, S. (1977), Determinants of Corporate Borrowing, Journal of Financial Economics, 5,147:175.

Chapter 7: Adverse Selection and Financing

Main reading: [T] Chapter 6.2

Chapter 8: Signaling Theory: Capital Structure and Dividend Policy (not part of the material of the exam)

Main reading: [GT] Chapter 19

Supplementary reading: [BM] Chapter 12

Miller and Rock (1985), Dividend policy under asymmetric information, Journal of Finance.

Dewenter and Warther (1998), "Dividends, asymmetric information, and agency conflicts: evidence from a comparison of dividend policies of Japanese and US firms" Journal of Finance.

Grullon and Michaely (2004), "The information content of share repurchase programs" Journal of Finance.

Chapter 9: Mergers and Acquisitions

Main reading: [GT] Chapter 20 (the material of 20.10 and 20.11 will only be covered if there is enough time)

Supplementary reading: [BM] Chapter 32

Andrade, Mitchell and Stafford (2001), "New Evidence and Perspectives on Mergers", Journal of Economic Perspectives.

Andrade and Stafford (2004), "Investigating the Economic Role of Mergers", Journal of Corporate Finance.

Gugler, Mueller and Yurtoglu (2004), "The Determinants of Merger Waves", WP University Vienna.

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

Chapter 9: Private equity

G W Murphy, D Prussman The Manchester School 36 3, 223-250 (1968)

L Phalippou, O Gottschalk, <http://csrn.com/abstract=473221> (2008)

D Cumming, D.S. Siegel, M Wright Journal of Corporate Finance 13 439-460 (2007)

A Metrick, A Yasuda; <http://ssrn.com/abstract=996334> (2008)

BVCA Performance Measurement Survey; <http://www.bvca.co.uk/doc.php?id=918> (2007)

Chapter 10: Securitisations

Criado and van Rixtel: "Structured finance and the financial turmoil of 2007-2008: an introductory overview", Bank of Spain working paper.

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.

Chapter 11: Project finance

Brealey, R.A., I. A. Cooper, and M.A. Habib, 1996, Using Project Finance to Fund Infrastructure Investments, *Journal of Applied Corporate Finance* 9:3, pp. 25-38

Esty, B. C. "Petrozuata: A Case Study on the Effective Use of Project Finance." *Journal of Applied Corporate Finance* 12, no. 3 (fall 1999): 26-42.

Esty, Benjamin C. "The Economic Motivations for Using Project Finance." 2003. Mimeo.