1 Introduction and Administrative Issues

We meet on Wednesdays from 12 noon to 2 p.m. in room 715. We might have to schedule an extra day for extra classes, but we shall do this later on as the course develops if we need to.

The aim of this course is to teach Corporate Finance in the context of equilibrium models of asset pricing and of industry equilibrium. While this is not the standard approach of the discipline, it has the advantage of facilitating a coherent understanding of the diverse models and of the wealth of empirical work in corporate finance.

Besides providing an introduction to Corporate Finance, this course has therefore also the ambition of suggesting a useful approach to theoretical and empirical research in the field, as a topics course.

Consequently, grading will be based on a final exam (1/2) and on a short class presentation (1/2). The topic of the presentation, to be agreed upon with me and with the class, should consist of a survey of interesting material not covered in the lectures.

2 List of Topics and References

While I will certainly not be able to cover all the references the following, the list might still be useful as a baseline for the student presentations. More detailed reading lists for some of the topics will be distributed in class.

There is no book for the course, just because one does not exist. I will distribute some class notes, especially in the first part of the course. Useful books nonetheless are:


2.1 The value of the firm and stock returns

Equilibrium models, allocations and asset prices, no-arbitrage, with complete and incomplete markets.


Cross sectional distribution of stock returns: CAPM and production-based models.


Irrelevance Theorems: Modigliani-Miller on capital structure and dividend policy - complete and incomplete markets.


2.2 Determinants of the Stochastic Process of Cash-Flows

Size - Industry equilibrium


Financial constraints and liquidity.


Capital Structure - static and dynamic.


P. Bolton and M. Dewatripont (2005): *Contract Theory*, MIT Press; ch. 3.2.1 and 4.6.2


Dividend Policy.


Managerial compensation - static and dynamic.

K. Murphy (1999): ‘Executive Compensation,’ mimeo, USC.


V. Acharya and A. Bisin (2004): ‘Entrepreneurial Incentives and Efficiency of Stock Market Economies,’ mimeo, NYU.

A. Bisin, P. Gottardi, and A. Rampini (2004): ‘Managerial Hedging and Portfolio Monitoring,’ mimeo, NYU.


Corporate Governance - static and dynamic - complete and incomplete contracts.


T. Philippon (2004): ‘Corporate Governance over the Business Cycle,’ mimeo, NYU.


Diversification.


2.3 Financial Intermediation


