European University Institute

Topics in Corporate Finance
(10 hours, 5 lectures)

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Syllabus

(April-May 2013)

Course Description:
The course will address asymmetric information problems in companies' financing decisions and companies' governance. First, the basic problem of financing constraints will be explained from the point of view of the agency conflict, and how these financing constraints are influenced by collateral, liquidity, renegotiation possibility, and product market competition. Secondly, active means of investors' participation in corporate governance will be considered: monitoring by the large stakeholders, hostile takeovers, and problems associated with those corporate governance systems.

Grading:
The final grade will be based on a referee report of the article (40%) and a home-take exam (60%). Participation in class will also be considered.

Course material:
The course will be based on selected articles and on "The Theory of Corporate Finance" book by Jean Tirole. Additional references will be provided during the course.

List of topics:

PART 1. Optimal financing contract

1. Borrowing constraints:

*Innes, R. 1990. "Limited liability and incentive contracting with ex ante action choices". Journal of Economic Theory, 52.

*Townsend, R. 1979. "Optimal contracts and competitive markets with costly state verification". Journal of Economic Theory, 21.

*Gale, D. and M. Hellwig. 1985. "Incentive-compatible debt contracts: the one-period problem". Review of Economic Studies, 52.

Hart, O. and J. Moore. 1998. "Default and renegotiation: a dynamic model of debt". Quarterly Journal of Economics, 113

2. Shifting borrowing constraints: how to facilitate financing

Besanko, D. and A. Thakor. 1987. “Collateral and rationing: sorting equilibria in monopolistic and competitive credit markets”. International Economic Review, 28.

Diamond, D. 1984. “Financial intermediation and delegated monitoring”. Review of Economic Studies, 51.

Aghion, P., P. Bolton, and J. Tirole. 2004. “Exit options in corporate finance: liquidity vs ncentives,” Review of Finance, 3

Hart, O. and J. Moore. 1994. “A theory of debt based on the inalienability of human capital,” Quarterly Journal of Economics, 109

Farrell, J. and N. Gallini. 1988. “Second-sourcing as a commitment device: monopoly incentives to attract competition,” Quarterly Journal of Economics

PART 2. Active monitoring by investors

1. **Active monitoring by the large stakeholders of the company:**

*Grossman, S. and O. Hart. 1980. “Takeover bids, the free rider problem, and the theory of the corporation”. Bell Journal of Economics, 11.

*Shleifer, A., and R. W. Vishny, 1986, “Large Shareholders and Corporate Control”. Journal of Political Economy, 94

*Admati, A. R., P. Pfleiderer, and J. Zechner, 1994, “Large Shareholder Activism, Risk Sharing, and Financial Market Equilibrium,”Journal of Political Economy, 102(6), 1097–1130.

*Thomas H. Noe, 2002. "Investor Activism and Financial Market Structure," Review of Financial Studies, Society for Financial Studies, vol. 15(1), pages 289-318, March.

Bagnoli, M., and B. Lipman, 1988, “Successful takeovers without exclusion,” Review of Financial Studies

Tirole, Jean, 2001. "Corporate Governance," Econometrica, Econometric Society, vol. 69(1), pages 1-35, January.

Burkart, M., D. Gromb, and F. Panunzi, 1997, “Large Shareholders, Monitoring, and the Value of the Firm,” The Quarterly Journal of Economics, 112(3), 693–728.

Admati, A. R., and P. C. Pfleiderer, 2009, “The “Wall Street Walk" and Shareholder Activism: Exit as a Form of Voice,”Review of Financial Studies, 22(7)

2. Liquidity costs for the block holder, planning the exit (venture capital):

*Bolton, P. and Von Thadden, E.-L. 1998, "Blocks, Liquidity, and Corporate Control," The Journal of Finance, 53

*Aghion, P., P. Bolton, and J. Tirole. 2004. "Exit options in corporate finance: liquidity versus incentives". Review of Finance, 8.

*Faure-Grimaud, A. and D. Gromb. 2004. "Public trading and private incentives". Review of Financial Studies, 17.

*Black, B. and R. Gilson. 1998. "Venture capital and the structure of capital markets: banks vs stock markets". Journal of Financial Economics, 47.

3. Hostile takeovers:

*Stein, J.C. 1988, "Takeover threats and managerial myopia", Journal of Political Economy 96:61−80.

*Stein, J. 1989. "Efficient capital markets, inefficient firms: a model of myopic corporate behavior". Quarterly Journal of Economics, 104.

*Andrei Shleifer & Robert W. Vishny, 1986. "Greenmail, White Knights, and Shareholders' Interest," RAND Journal of Economics, The RAND Corporation, vol. 17(3), pages 293-309, Autumn.

Porter, M.E. 1992a, "Capital disadvantage: America's failing capital investment system", Harvard Business Review, pp. 65–82.

Porter, M.E. 1992b, "Capital choices: changing the way America invests in industry", Journal of Applied Corporate Finance 4

Narayanan, M.P. 1985, "Managerial incentives for short-term results", Journal of Finance 40

Shleifer, A., and R.W. Vishny. 1989, "Equilibrium short horizons of investors and firms" American Economic Review 80