

## 1<sup>st</sup> year Course

### Corporate Finance Ib

#### Alex Stomper (VGSF)

Email: [stomper@ihs.ac.at](mailto:stomper@ihs.ac.at)

Website: <http://web.mit.edu/astomper/www>

#### Course Description:

This course introduces students to basic concepts of corporate finance and corporate governance. The **first part** of the course presents conditions for irrelevance of a firm's financial structure and governance. These conditions serve as a traditional framework for classifying corporate finance theory. The **second part** of the course covers some models that describe corporate finance in the presence of conflicts of interests and informational asymmetries between different classes of stakeholders (creditors, owners, managers).

The first two parts of the course will be based on lecture notes. The **third part** of the course will cover a set of papers in order to provide a foundation for a discussion of a 2007 working paper titled "Moral Hazard, Collateral, and Liquidity" by Viral V. Acharya and S. Viswanathan. The students will thus get an opportunity to see how corporate finance theory evolved from single-firm analyses towards analyses of industry equilibria.

We will cover the following papers:

- Stiglitz J, and A. Weiss, 1981, Credit rationing in markets with imperfect information, *American Economic Review*, 71, 393-410.
- Bester, H, 1985, Screening vs. rationing in credit markets with imperfect information, *American Economic Review*, 75, 850-855.
- Aghion, P., and P. Bolton, 1992, An incomplete contracts approach to contracting, *The Review of Economic Studies*, 87, 439-542.
- Hart, O., and J. Moore, 1994, A theory of debt based on the inalienability of human capital, *Quarterly Journal of Economics*, 109, 841-879.
- Kiyotaki, N., and J. Moore, 1997, Credit cycles, *Journal of Political Economy*, 105, 211-248.
- Diamond, D., 1989, Reputation acquisition in debt markets, *Journal of Political Economy*, 97, 828-862.
- Diamond, D., 1991, Debt maturity structure and liquidity risk, *Quarterly Journal of Economics*, 106, 709-737.
- Allen, F., and D. Gale, 1994, Liquidity preference, market participation, and asset price volatility, *American Economic Review*, 84, 933-955.
- Allen, F., and D. Gale, 1998, Optimal financial crises, *Journal of Finance*, 53, 1245-1284.
- Holstrom B., and J. Tirole, 1998, Private and public supply of liquidity, *Journal of Political Economy*, 106, 1-14.
- Caballero R., and A. Krishnamurty, 2001, International and domestic collateral constraints in a model of emerging market crisis, *Journal of Monetary Economics*, 48, 513-548.
- Acharya, V., and S. Viswanathan, 2007, Moral hazard, collateral and liquidity, working paper, London Business School and Fuqua School of Business.

#### Course Preparation:

Please read the following in advance of taking the course:

Chapter 1: Tirole, J., 2006, *The Theory of Corporate Finance*, Princeton University Press.

Chapter 1-3: Grinblatt, M. and Titman, S., 1998, *Financial Markets and Corporate Strategy*, Irwin/McGraw-Hill

## Time schedule – summer term 2007

Tue,	Apr 07	14.00-16:00 HS II
Thu,	Apr 09	14.00-16:00 HS II
Mon,	May 25	13.00-17.00 HS II
Wed,	May 27	13.00-17.00 HS II
Fri,	May 29	11.00-13.00 MR1 at WU
Mon,	Jun 22	13.00-17.00 HS II
Wed,	Jun 24	13.00-17.00 HS II

## Location:

Institute for Advanced Studies, Vienna  
1060, Stumpergasse 56  
HS II ground floor

WU-Wien  
1190, Heiligenstädter Straße 46-48  
MR 1 4<sup>th</sup> floor (entrance over 3<sup>rd</sup> floor)

## Examination:

At the end of the second part of the course, I will ask you to jointly write a critical report based on a theory paper that I will hand out to you. This exercise will prepare you for a task that any researcher repeatedly faces, i.e. the task of refereeing a paper submitted to a scientific journal. 30% of your grade will be based on your joint “referee report”.

In addition, I will ask each of you to single-handedly write reports based on one the following four empirical papers. These papers are related to some of my current research projects.

- Davydenko, S. A., When do firms default? A study of the default boundary, working paper, University of Toronto.
- Franks, J. R., and S. V. Sanzhar, Evidence on debt overhang from distressed equity issues, working paper, London Business School and University of North Carolina.
- Garmaise, M., Production in entrepreneurial firms: The effects of financial constraints on labor and capital, *The Review of Financial Studies*, forthcoming.
- Nickell, S., and D. Nicolitsas, 1999, How does financial pressure affect firms?, *European Economic Review* 43, 1435-1456.

You will be asked to present your reports in the last meeting of our class; these presentations account for 30% of your grade. We may want to also schedule a meeting in order to discuss chapter 5 of Wooldridge (2002) before you start working on your reports.

There will also be a final exam, on **Fri, Jul 17, 2009**. Your exam grade will count for 40% of your overall grade. I view the exam as a way of giving you an incentive to review any theoretical arguments that we discussed in class. For this reason, I will ask you to reproduce a few of these arguments by way of formal analysis, just like we will do it in class.