

Duke University
Fuqua School of Business

Professor Adriano Rampini
Finance 553

Corporate Finance Theory
Fall 2009

Preliminary Syllabus

This second year Ph.D. course in the theory of corporate finance provides a rigorous introduction and prepares students for theoretical research in corporate finance.

Topics. The topics include the role of debt, financial intermediation, financial distress, liquidity, capital reallocation, and the dynamics of financing constraints. The last part of the course considers the macroeconomic and growth implications of corporate finance.

The course is based on journal articles, but you may want to use Tirole, J., 2006, *The Theory of Corporate Finance*, Princeton University Press, Princeton, as a reference book. You may also want to refer to Salanié, B., 2005, *The Economics of Contracts*, MIT Press, Cambridge, or Bolton, P., and M. Dewatripont, 2005, *Introduction to the Theory of Contracts*, MIT Press, Cambridge.

Prerequisites, Requirements, and Miscellanea. No background beyond first year graduate microeconomics is required, although familiarity with contract theory and information economics is useful. Course requirements include problem sets, a paper critique/paper, and a final exam. The course meets on Tuesdays from 1:15pm to 4:00pm in Seminar Room A. The first class meets on Tuesday, August 25. You can contact me by email at rampini@duke.edu or by phone at 919 660-7797. There is a course web page with a schedule and additional course information (url <http://faculty.fuqua.duke.edu/~rampini/finance553.htm>).

1. Debt and Financing with Costly State Verification

Townsend, R., 1979, Optimal contracts and competitive markets with costly state verification, *Journal of Economic Theory* 21, 417-425.

Gale, D., and M. Hellwig, 1985, Incentive-compatible debt contracts: the one-period problem, *Review of Economic Studies* 52, 647-663.

2. Financial Intermediaries

Diamond, D., 1984, Financial intermediation and delegated monitoring, *Review of Economic Studies* 51, 393-414.

Diamond, D., and P. Dybvig, 1983, Bank runs, deposit insurance, and liquidity, *Journal of Political Economy* 91, 401-19.

Morris, S., and H. Shin, 1998, Unique equilibrium in a model of self-fulfilling currency attacks, *American Economic Review* 88, 587-597.

Goldstein, I., and A. Pauzner, 2005, Demand deposit contracts and the probability of bank runs, *Journal of Finance* 60, 1293-1327.

3. Financing and Control

- Aghion, P., and P. Bolton, 1992, An incomplete contracts approach to financial contracting, *Review of Economic Studies* 59, 473-494.
- Hart, O., 1995, *Firms, Contracts and Financial Structure*, Oxford University Press, Oxford.
- Hart, O., and J. Moore, 2008, Contracts as reference points, *Quarterly Journal of Economics* 123, 1-48.

4. Financial Distress

- Myers, S., 1977, The determinants of corporate borrowing, *Journal of Financial Economics* 5, 147-175.
- Gertner, R., and D. Scharfstein, 1991, A theory of workouts and the effects of reorganization law, *Journal of Finance* 46, 1189-1222.
- Bulow, J., and J. Shoven, 1978, The bankruptcy decision, *Bell Journal of Economics* 9, 437-471.
- Shleifer, A., and R. Vishny, 1992, Liquidation values and debt capacity: a market equilibrium approach, *Journal of Finance* 47, 1343-66.

5. Multiple Financiers

- Bolton, P., and D. Scharfstein, 1996, Optimal debt structure and the number of creditors, *Journal of Political Economy* 104, 1-25.
- Berglöf, E., and E.-L. von Thadden, 1994, Short-term versus long-term interests: capital structure with multiple investors, *Quarterly Journal of Economics* 109, 1056-1084.
- Berglöf, E., G. Roland, and E.-L. von Thadden, 2007, The design of corporate debt structure and bankruptcy, working paper.
- Stulz, R., and H. Johnson, 1985, An analysis of secured debt, *Journal of Financial Economics* 14, 501-521.

6. Capital Reallocation: M&A, Takeovers, and Restructuring

- Grossman, S., and O. Hart, 1980, Takeover bids, the free-rider problem, and the theory of the corporation, *Bell Journal of Economics* 11, 42-64.
- Grossman, S., and O. Hart, 1988, One share/one vote and the market for corporate control, *Journal of Financial Economics* 20, 175-202.
- Eisfeldt, A., and A. Rampini, 2006, Capital reallocation and liquidity, *Journal of Monetary Economics* 53 369-399.
- Gomes, J., and D. Livdan, 2004, Optimal diversification: reconciling theory and evidence, *Journal of Finance* 59, 507-535.

7. Liquidity, Financial Intermediation, and the Government

Holmström, B., and J. Tirole, 1997, Financial intermediation, loanable funds, and the real sector, *Quarterly Journal of Economics* 112, 663-91.

Holmström, B., and J. Tirole, 1998, Private and public supply of liquidity, *Journal of Political Economy* 106, 1-40.

8. Illiquidity and Search in Financial Markets

Duffie, D., N. Gârleanu and L. Pedersen, 2005, Over-the-counter markets, *Econometrica* 73, 1815-1847.

9. Dynamic Financing with Moral Hazard

DeMarzo, P., and Y. Sannikov, 2006, Optimal security design and dynamic capital structure in a continuous-time agency model, *Journal of Finance* 61, 2681-2724.

DeMarzo, P., M. Fishman, Z. He, and N. Wang, 2008, Dynamic agency and the q theory of investment, working paper.

Clementi, G. L., and H. Hopenhayn, 2006, A theory of financing constraints and firm dynamics, *Quarterly Journal of Economics* 121, 229-265.

DeMarzo, P. and M. Fishman, 2007a, Agency and optimal investment dynamics, *Review of Financial Studies* 20, 151-188.

DeMarzo, P. and M. Fishman, 2007b, Optimal long-term financial contracting, *Review of Financial Studies* 20, 2079-2128.

10. Dynamic Financing with Limited Enforcement

Albuquerque, R., and H. Hopenhayn, 2004, Optimal dynamic lending contracts with imperfect enforceability, *Review of Economic Studies* 71, 285-315.

Cooley, T., R. Marimon, and V. Quadrini, 2004, Aggregate consequences of limited contract enforceability, *Journal of Political Economy* 112, 817-847.

Hopenhayn, H., and I. Werning, 2008, Equilibrium default, working paper.

Rampini, A., and S. Viswanathan, 2009, Collateral and capital structure, working paper.

11. Financing Constraints and Business Cycles

Bernanke, B., and M. Gertler, 1989, Agency costs, net worth, and business fluctuations, *American Economic Review* 79, 14-31.

Scheinkman, J., and L. Weiss, 1986, Borrowing constraints and aggregate economic activity, *Econometrica* 54, 23-45.

Carlstrom, C., and T. Fuerst, 1997, Agency costs, net worth, and business fluctuations: a computable general equilibrium analysis, *American Economic Review* 87, 893-910.

12. Collateral and Asset Prices

Kiyotaki, N., and J. Moore, 1997, Credit cycles, *Journal of Political Economy* 105, 211-48.

Kiyotaki, N., 1998, Credit and business cycles, *Japanese Economic Review* 49, 18-35.

Kehoe, T., and D. Levine, 1993, Debt-constrained asset markets, *Review of Economic Studies* 60, 865-888.

Rampini, A., and S. Viswanathan, 2009, Collateral, risk management, and the distribution of debt capacity, working paper.

13. Finance and Growth

TBD.