



Graduate School of Finance

**Theoretical Corporate Finance, Part I: Agency Problems and Capital Structure
Spring 2018**

Reading list (*subject to minor changes/updates during the course*)

Time: January 16 – February 21, 2018.

Place: Aalto University, School of Business

Lectures: Dr. Mikko Leppämäki (Aalto University)

Exercises: Mr. Ellapulli Vasudevan (Aalto University)

0. A Brief Introduction to Noncooperative Game Theory

- Lecture notes
- Mas-Colell, Andreu, Michael D. Whinston and Jerry R. Green 1995: *Microeconomic Theory*. Chapter 7: "Basic Elements of Noncooperative Game Theory", chapter 8: "Simultaneous-Move Games", chapter 9: "Dynamic Games", pages 217-306. (Alternatively, any advanced level game theory book covering the same topics.)

1. Corporate Financing under Moral Hazard

- Lecture notes
- Tirole, Jean 2006: *The Theory of Corporate Finance*. Princeton University Press. Chapter 2 "Corporate Financing: Some Stylized Facts" pp. 75-109.
- Myers, Stewart 2003: "Financing of Corporations" in eds. *Handbook of the Economics of Finance*. Volume 1 A, Corporate Finance. Eds. George M. Constantinides, Milton Harris, and Rene M. Stulz, Elsevier, Amsterdam.
- Tirole, Jean 2006: *The Theory of Corporate Finance*. Princeton University Press, chapter 3: "Outside Financing Capacity", pages 113 – 156 and chapter 4 "Some Determinants of Borrowing Capacity", pages 157 – 197.
- Jensen, Michael and William Meckling 1976: "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure", *Journal of Financial Economics*, 3:305-360. Available at [Science Direct](#) database
- Myers, Stewart 1977: "The Determinants of Corporate Borrowing", *Journal of Financial Economics*, 5: 147-175. Available at [Science Direct](#) database
- Innes, Robert D. 1990: "Limited Liability and Incentive Contracting with Ex-Ante Action Choices", *Journal of Economic Theory*, 52(1):45-67. Available at [Science Direct](#) database.
- Bhattacharya, Suddipto and Antoine Faure-Grimaud 2001: "The Debt Hangover. Renegotiation with noncontractible investment", *Economics Letters* 70. 413-419. Available at [Science Direct](#) database.

- Campello , M. and Rafael, M. 2012: "Credit default swaps and risk-shifting", *Economics Letters* 117. 639-641. Available at [Science Direct](#) database.
- Bolton, P. and Scharfstein, D. 1990: "A Theory of Predation Based on Agency Problems in Financial Contracting", *American Economic Review* 80, 93-106. Available at [JSTOR](#) database.
- Hart, O. and John Moore 1984: "A Theory of Debt Based on The Inalienability of Human Capital", *Quarterly Journal of Economics* 109. 841 – 880. Available at [JSTOR](#) database.
- Thanassaolis, J. 2013: "Industry Structure, Executive Pay, and Short-Termism", *Management Science* 59, 402-419. Available at <http://pubsonline.informs.org/doi/pdf/10.1287/mnsc.1120.1601>

2. Corporate Financing under Asymmetric Information

- Lecture notes
- Tirole, Jean 2006: *The Theory of Corporate Finance*. Princeton University Press, chapter 6: "Corporate Financing under Asymmetric Information", pages 237-282.
- Myers, Stewart C. and Nicholas Majluf 1984: "Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have," *Journal of Financial Economics*, 13:187-221. Available at [Science Direct](#) database
- Bolton, Patrick and Mathias Dewatripoint 2005: *Contract Theory*. MIT Press, Chapter 5: "Disclosure of Private Certifiable Information", pages 171-198.
- Murray, Frank Z. and Vidhan K. Goyal (2008): Trade-off and pecking order theories of debt. Espen Eckbo (editor) *The Handbook of Empirical Corporate Finance*, Elsevier Science. Chapter 12, 135-197.
- Landier, A. and David Thesmar 2008: "Financial Contracting with Optimistic Entrepreneurs", *Review of Financial Studies* 22. 116 – 150. Available at [EBSCO](#) database.

3. Signaling in Corporate Finance

- Lecture notes
- Spence, Michael 1973: "Job Market Signaling" *Quarterly Journal of Economics*, 87. 355-74. Available at [JSTOR](#) database
- Riley, J. 2001: "Silver Signals: Twenty-Five Years of Screening and Signaling". *Journal of Economic Literature*, 39:432- 478. Available at [JSTOR](#) database
- Ross, Steven 1977: "The Determination of Financial Structure: The Incentive Signaling Approach", *Bell Journal of Economics*, 8:23-40. Available at [JSTOR](#) database
- Leland, Hayne and David Pyle 1977: "Information Asymmetries, Financial Structure and Financial Intermediation", *Journal of Finance*, 32(2):371-388. Available at [JSTOR](#) database
- Tirole, Jean (2006) *The Theory of Corporate Finance*. Princeton University Press, pages 249-264.
- Gertner R., Gibbons R., Scharfstein D. 1988: "Simultaneous signaling to the capital and product markets", *Rand Journal of Economics* 19: 173-190. Available at [JSTOR](#) database.
- Allen, F. and Fauhlhaber, G.R. 1989: "Signalling by underpricing in the IPO market", *Journal of Financial Economics* 23: 303-323. Available at [Science Direct](#).

- Leppämäki, M. and M. Mustonen 2009: "Skill Signaling with Product Market Externality", *Economic Journal*, 119:1130-1142. Available at <http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0297.2009.02258.x/epdf>

4. Debt, Managerial Incentives and Entrenchment

- Lecture notes
- Hart, Oliver D., and John Moore (1995), "Debt and Seniority: An Analysis of the Role of Hard Claims in Constraining Management," *American Economic Review*, 85: 567-585. Available at [JSTOR](#)
- Jensen, Michael C. (1986), "Agency Costs of Free Cash Flow, Corporate Finance and Takeovers", *American Economic Review*, 76:323-329. Available at [JSTOR](#) database.
- Zwiebel, Jeffrey (1996), "Dynamic Capital Structure Under Managerial Entrenchment," *American Economic Review*, 86: 1197-1215. Available at [JSTOR](#) database.
- Benmelech, Efraim "Managerial Entrenchment and Debt Maturity: Theory and Evidence" Harvard University and NBER. Available at: <http://scholar.harvard.edu/files/benmelech/files/entrenchment.pdf>

Access to the articles is subject to your home institutions' subscriptions to the databases. Hard copies of all readings are available for consultation at the GSF office/GSF secretary, Chydenia building, room G2.15.