Graduate School of Finance

Theoretical Corporate Finance, Part II: Topics in Theoretical Corporate Finance
Spring 2024

Reading list (subject to minor updates during the course)

Time: 11.3. - 14.3.2024

Place: Aalto University School of Business

Instructor: Professor Martin Ruckes (Karlsruhe Institute of Technology)
Exercises: Mr Sina Ghavamabadi (Aalto University)

Introduction
> **Gilboa, I./A. Postlewaite/L. Samuelson/D. Schmeidler** (2014): Economic Models as Analogies, Economic Journal 124, F513-F533.

Debt Markets
Static Financial Contracting
> **Gale, D./M. Hellwig (1985)**: Incentive-Compatible Debt Contracts: The One-Period Problem, *Review of Economic Studies* 52, 647-663.

The Number of Creditors
> **Bolton, P./D.S. Scharfstein (1996)**: Optimal Debt Structure and the Number of Creditors, *Journal of Political Economy* 104, 1-25.

Direct and Intermediated Debt
> **Holmström, B./J. Tirole (1997):** Financial Intermediation, Loanable Funds, and the Real Sector, *Quarterly Journal of Economics* 112, 663-692

Contracts and Control
> **Aghion, P./P. Bolton (1992)**: An Incomplete Contracts Approach to Financial Contracting, *Review of Economic Studies* 59, 473-494.

Coexistence of Debt and Equity
> **Dewatripont, M./J. Tirole (1994):** A Theory of Debt and Equity: Diversity of Securities and Manager-Shareholder Conguence, *Quarterly Journal of Economics* 109, 1027-1054

Equity Markets: Initial Public Offerings

IPO Underpricing
> **Rock, K. (1986)**: Why New Issues Are Underpriced, *Journal of Financial Economics* 15, 187-212.

IPO Pricing in Hot Markets
> **Khanna, N./T.H. Noe/R. Sonti (2008)**: Good IPOs Draw in Bad: Inelastic Banking Capacity and Hot Markets, *Review of Financial Studies* 21, 1873-1906.

The Market for Corporate Control

Takeovers
> **Grossman, S.J./O.D. Hart (1980)**: Takeover Bids, the Free Rider Problem and the Theory of the Corporation, *Bell Journal of Economics* 11, 42-64.
> **Burkart, M./D. Gromb/F. Panunzi (1998)**: Why Higher Takeover Premia Protect Minority Shareholders, *Journal of Political Economy* 106, 172-204.
> **Burkart, M./F. Panunzi (2007)**: Takeovers, in: Freixas, X./P. Hartmann/C. Mayer (eds), *Handbook of European Financial Markets and Institutions*, Oxford University Press, Oxford, 267-297.
> **Müller, H.M./F. Panunzi (2004)**: Tender Offers and Leverage, *Quarterly Journal of Economics* 119, 1217-1248.

Voting
> **Grossman, S.J./O.D. Hart (1988): One Share – One Vote and the Market for Corporate Control,** *Journal of Financial Economics* 20, 175-202.
> **Burkart, M./S. Lee (2008)**: One Share – One Vote: The Theory, *Review of Finance* 12, 1-49.

Ownership Structure
> **Maug, E. (1998)**: Large Shareholders as Monitors: Is There a Trade-Off between Liquidity and Control?, *Journal of Finance* 53, 65-98.

Internal Capital Markets and Investment

External vs. Internal Capital Markets
> **Gertner, R.H,/D.S. Scharfstein/J.C. Stein (1994)**: Internal Versus External Capital Markets, *Quarterly Journal of Economics* 109, 1211-1230.
> **Stein, J.C. (1997)**: Internal Capital Markets and the Competition for Corporate Resources, *Journal of Finance* 52, 111-133.

Incentive Problems in Multi-Division Firms
> **Stein, J.C. (2003)**: Agency, Information and Corporate Investment, in: Constantinides, G.M./M. Harris/R.M. Stulz: *Handbook of the Economics of Finance*, North-Holland, Amsterdam, 109-163.
> **Brusco, S./F. Panunzi (2005)**: Reallocation of Corporate Resources and Managerial Incentives in Internal Capital Markets, *European Economic Review* 49, 659-681.

Corporate Socialism
> **Rajan, R./H. Servaes/L. Zingales (2000)**: The Cost of Diversity: The Diversification Discount and Inefficient Investment, *Journal of Finance* 55, 35-80.
> **Hoang, D. and M. Ruckes (2015):** Informed Headquarters and Socialistic Internal Capital Markets, *Review of Finance* 19, 1105-1141.

Herd Behavior and Investment
> **Scharfstein, D.S./J.C. Stein (1990):** Herd Behavior and Investment, *American Economic Review* 80, 465-479.

Hard copies of the readings are available for consultation also at GSF office, Aalto University School of Business building, Room T317 (3rd floor)