SEMINAR IN CORPORATE FINANCE

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Unfortunately, there are no good text books as yet for a Corporate Finance
course at this level. As a result, we will depend mostly on journal articles. In the interest of time, I will often present simplified versions of the models in the articles we cover.

Some of the material discussed will be found in **Oliver Hart**'s text book

"*Firms Contracts and Financial Structure* ", Clarendon Press, Oxford, 1995.

Another useful survey, mostly of capital structure issues, is:

M. Harris and A. Raviv , 1991, The Theory of Capital Structure, JF, 297-355.

The following list is fairly comprehensive. Students are not expected to read all the papers in this list, nor will all the papers be discussed in class in detail. Articles marked with (*) will be discussed in more detail in class and represent the minimal reading that the students are expected to do by the time of the qualifying examination. More references will be added on the empirical literature at the end of the course.

Abbreviations for Journals:

JF: Journal of Finance
JFE: Journal of Financial Economics
RFS: Review of Financial Studies
QJE: Quarterly Journal of Economics
RES: Review of Economic Studies
JET: Journal of Economic Theory
JPE: Journal of Political Economy
AER: American Economic Review
IER: International Economic Review
JFQA: Journal of Financial and Quantitative Analysis
Rand: Rand Journal of Economics

Topic 1. Financial structure as an optimal contract

a) Gale, D. and M. Hellwig, 1985, Incentive-compatible debt contracts: the one period problem, RES, pp 647-663. (*)
b) Innes, R., 1990, Limited liability and incentive contracting with ex-ante action choices, JET, 45-67. (*)
c) Aghion, P. and P. Bolton, 1992, An incomplete contracts approach to financial contracting, RES, pp 473-494. (*?)
d) Dewatripont, M. and J. Tirole, 1992, A theory of debt and equity: diversity of securities and manager-shareholder congruence, QJE 109, 1027-54.
e) Nachman, D. and T. Noe, The optimal design of securities under asymmetric information, RFS 7, 1-44.
f) Hart, O. and J. Moore, 1991, A theory of debt based on the inalienability of human capital, QJE 109, 841-79.
g) Bolton, P. and D. Scharfstein, 1996, Optimal debt structure and the number of creditors, JPE 104, 1-25.
h) Hart, O. and J. Moore, 1998, Default and renegotiation: a dynamic model of debt, QJE 103, 1-41.
i) Fluck, Z., 1998, Optimal financial contracting: debt versus outside equity, RFS.
j) Myers, S., 1998, Outside equity financing, NBER working paper W6561.
k) Duffie, D. and P. Demarzo, 1999, A liquidity based model of security design, Econometrica, 67, 65-99.

Venture capital contracts

a) Admati, A. and Pfleiderer, 1994, Robust financial contracting and the role of venture capitalists, JF 49, 371-402.
b) Berglof, E., 1994, A control theory of venture capital, JLEO 10, 247-267.
c) Gompers, P., 1995, Optimal investment, monitoring and the staging of venture capital, JF 50, 1461-1490.
d) Hellman, T., 1998, The allocation of control rights in venture capital contracts, Rand, 29, 57-76.
e) Repullo, R. and J. Suarez, 1999, Venture capital finance: a security design approach, working paper, CEMFI.

Topic 2. Why do companies go public?

a) Leland, H. and D. Pyle, 1977, Information asymmetries, financial structure and financial intermediation, JF 32, 371-387. (*)
b) Chemmanur, T. and P. Fulghieri, 1999, A theory of the going public decision, RFS.

c) Pagano M., F. Panetta and L. Zingales, 1998, Why do companies go public : an empirical analysis, JF. (*)
c) Zingales, Luigi, 1995, Insider ownership and the decision to go public, RES 62, 425-48. (*)
d) Pagano, Marco and Ailsa Roell, 1997, The choice of stock ownership structure: agency costs, monitoring and the decision to go public, mimeo. (*)
e) Burkart, Mike, D. Gromb, and F. Panunzi, 1997, Large shareholders, monitoring, and the value of the firm, QJE, August, 693-727. (*)
f) Subrahmanyam, A. and S. Titman, 1998, The going public decision and the development of financial markets, working paper.

Topic 3: Initial Public Offerings

a) Rock, Kevin, 1986, Why new issues are underpriced, JFE 15, 187-212. (*)
b) Benveniste, L. and W. J. Wilhelm, 1990, A comparative analysis of IPO proceeds under alternative regulatory regimes, JFE 28, 173-207. (*)
c) Grinblatt, M. and C-Y Hwang, 1989, Signalling and the pricing of new issues, JF 44, 393-420. (*)
d) Allen, F. and G . R. Faulhaber, 1989, Signalling by underpricing in the ipo market, JFE 23, 303-23.
e) Welch, I., 1996, Equity offerings following the IPO: theory and evidence, Journal of Corporate Finance 2, 227-59.
f) Chowdhry, B. and V. Nanda, 1996, Stabilization, syndication, and pricing of IPOs, JFQA, 25-42.
g) Baron, D., (to be completed)
h) Welch, I., 1991, An empirical examination of models of contract choice in initial public offerings, JFQA 26, 497-518. (empirical)

N.B.: Some empirical issues associated with with underpricing of IPOs and long-term underperformance of IPOs will also be discussed, time permitting.

Topic 4: Adverse selection and equity issuance

a) Myers, S. and N. Majluf ,1984, Corporate financing and investment decisions when firms have information that investors do not have, JFE, pp 187-221. (*)
b) Daniel, K. and S. Titman, 1994, Financing investment under asymmetric information, (a survey), in Handbook of Finance. (*)
c) Noe, T. (1988), Capital structure and signaling game equilibria, RFS, 331-355.
d) Brennan, M. and A. Kraus ,1987, Efficient financing under asymmetric information, JF, 1225-1243. (*)
e) Giammarino, R. and T. Lewis, 1989, A theory of negotiated equity offerings, RFS, 265-288.
f) Stein, J, 1992, Convertible bonds as backdoor equity financing, JFE 32, 3-21. (*)
g) Noe, T. and M. Rebello, 1996, Asymmetric information, managerial opportunism, financing, and payout policies, JF 51(2), 637-60.

h) Goswami, G., Noe, T. and M. Rebello, 1995, Debt financing under asymmetric information, JF 50(2), 633-59.

Topic 5: (Agency problems and conflict of interest in finance)

Manager-investor conflict:

a) Jensen, M. and W. Meckling 1976, Theory of the firm: managerial behavior, agency cost, and capital structure, JFE, pp 305-360. (*)
b) Jensen, M., 1986, Agency cost of free cash flow, corporate finance and takeovers, AER, pp 323-339. (*)

Examples of managerial benefits of control documented in empirical work:

a) Bidder returns in takeovers
b) Do bad bidders make good targets ?
c) Other evidence about managerial benefits of control
d) Diversification and excess value

Theories about the role of debt in resolving conflict of interest :

1. Grossman, S. and O. Hart,1982, Corporate financial structure and managerial incentives, in J. McCall (ed.): *The Economics of Information and Uncertainty*, Univ. of Chicago Press. (*)
2. Titman, S., 1984, The effect of capital structure on a firm's liquidation decision, JFE 13, 137-152. (*)
3. Stulz, R.,1990, Managerial discretion and optimal financial policies, JFE, pp 3-27.
4. Hart, O.,1991, Theories of optimal capital structure: a managerial discretion perspective, in *The Deal Decade: What Takeovers and Leveraged Buyouts Meant for Corporate Governance*. Washington: Brookings Institute. (*)
5. Li, Shan, 1992, A theory of corporate scope and financial structure, JF.
6. Hart, O. and J. Moore, 1995, Debt and seniority: an analysis of the role of hard claims in constraining management, AER 85, 567-85 (*)
7. Zwiebel, J., 1996, Dynamic capital structure under managerial entrenchment, AER, December , 1197-1215. (*)
8. Harris, M. and A. Raviv, 1990, Capital structure and the informational role of debt, JF 45, 321-49. (*)

Stockholder-bondholder conflict:

Empirical evidence: the role of debt covenants
Empirical evidence : how is firm value affected when lenders are also major shareholders – evidence from Japan.

a) Jensen and Meckling (1976, see above)
b) Myers, S.,1977, The determinants of corporate borrowing, JFE 5, 147-175. (*)
c) Green, R., 1984, Invetsment incentives, debt and warrants, JFE 13, 115-136. (*)
d) Berlin, M. and L. Mester, 1992, Debt covenants and renegotiation, Journal of Financial Intermediation 2, 95-133.

Product and factor market effects of debt:

a) Brander, J. and T. Lewis, 1986, Oligopoly and financial structure: the limited liability effect, AER, pp 956-970. (*)
b) Dasgupta, S. and K. Sengupta, 1993 , Sunk investment, bargaining and choice of capital structure, IER, 203-220.
c) Dasgupta, S. and Titman, S., 1998, Pricing strategy and financial policy, RFS 11, 705-737. (*)
d) Maksimovic, V. and S. Titman, 1991, Financial reputation and reputation for product quality, RFS 2, 175-200.
e) Dasgupta, S., How firms' financial decisions impact product markets: a selective survey, forthcoming in *Essays in Honour of M.K. Rakshit*, Oxford University Press.

N.B.: For empirical evidence on (i) the effect of (a) capital structure changes (b) security issuance decisions on firm value (ii) determinants of capital structure , see :

1. M. Harris and A. Raviv , 1991, The Theory of Capital Structure, JF, 297-355.

2. R. Rajan and L. Zingales, 1995, What do we know about capital structure: some evidence from international data, JF 50,1421-60.

The first article is also an excellent survey of theories of capital structure.

For evidence on the effect of capital structure changes on product markets, see

1. Chevalier, J., 1995, Do LBO Supermarkets Charge More? An Empirical Analysis of the Effects of LBOs on Supermarket Pricing, JF 50, 1095-1112.
2. Chevalier, J., 1995, Capital Structure and Product-Market Competition: Empirical Evidence from the Supermarket Industry, AER 85, 415-35.
3. Phillips, G., 1995, Increased Debt and Industry Product Markets: An Empirical Analysis, JFE 37, 189-238.

Voting and non-voting shares

a) Grossman, S. and O. Hart, 1988, One Share-One Vote and the Market for Corporate Control, JF.

Topic 6: Large Shareholder Monitoring

a) Shleifer , A. and R. Vishny, 1986, Large shareholders and corporate control, JPE 94, 461-486. (*)
b) Burkart, Mike, D. Gromb, and F. Panunzi, 1997, Large shareholders, monitoring, and the value of the firm, QJE, August, 693-727. (*)
c) Maug Ernst, 1998, Large shareholders as monitors: is there a trade off between liquidity and control ? JF 53, 65-98. (*)

Topic 7: Role of Board of Directors

a) Hermalin, B.E and M.S. Weisbach, 1995, Endogenously chosen boards of directors and their monitoring of the CEO, mimeo. (*)
b) Maug, Ernst , 1994, Boards of directors and capital structure: alternative forms of corporate restructuring, IFA working paper 184.
c) Noe, T. and M. J. Rebello, 1996, Design of corporate boards: composition, compensation, factions, and turnover, working paper # 96-01, Georgia state University.

N.B.: The empirical literature looks for evidence on the relationship between board composition, firm performance and managerial turnover. There is also an empirical literature on the role of boards in monitoring managers in countries other than the U.S. (esp. Japan and Germany).

Topic 8: Bank lending, bank monitoring, and the choice between private and public debt

a) Rajan, R. G. , 1992, Insiders and outsiders: the choice between informed and arms-length debt, JF 47, 1367-99. (*)
b) Rajan, R. and A.Winton, 1995, Covenants and collataral as incentives to monitor, JF 50, 1113-1146. (*)
c) Chemmanur, T. J. and P. Fulghieri, 1994, Reputation, renegotiation, and the choice between bank loans and publicly traded debt, RFS 7, 475-506.
d) Repullo, R.and J. Suarez, 1998, Monitoring, liquidation, and security design, RFS 11, 163-187. (*)
e) Park, C., 1999, Monitoring and the structure of debt contracts, mimeo, HKUST. (*)
f) Winton, A., 1995, Costly state verification and multiple investors: the role of seniority, RFS 8, 91-123.
g) Welch, I., 1997, Why is bank debt senior: a theory of asymmetry and claim priority based on influence costs, RFS 10, 1203-1236.

N.B.: There is an empirical literature on the uniqueness of bank loans, bank information monopoly, choice between bank debt and public debt.

Topic 9: Debt Maturity Structure

a) Ravid, A., 1996, Debt maturity: a survey, *Financial Markets, Institutions and Instruments* 5:3.
b) Diamond, D., 1991, Debt maturity structure and liquidity risk, QJE 106, 709-37.
c) Diamond, D., 1993a, Seniority and maturity of debt contracts, JFE 33, 341-368. (*)
d) Diamond, D., 1993b, Bank loan maturity and priority when borrowers can refinance, in C. Mayer and X. Vives, eds.: *Capital Markets and Financial Intermediation*. Cambridge University Press: Cambridge, UK. (*)
e) Flannery, Mark J., 1986, Asymmetric information and risky debt maturity choice, JF 41, 19-37.
f) Guedes, Jose and Tim Opler, 1996, The determinants of the maturity of corporate debt issues, JF 51, 1809-33. (an empirical paper) (*)

Topic 10: Takeovers

The Free-Rider Problem

a) 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. (*)
b) Bagnoli, M. and B. Lipman, 1988, Successful takeovers without exclusion, RFS 1, 89-110.
c) Shleifer, A. and R. Vishny, 1986, Large shareholders and corporate control (see above).
d) Bebchuk, L., 1989, Takeover bids below the expected value of minority shareholders, JFQA 24, 171-184. (*)

Regulatory Issues

a) Bebchuk, L., 1994, Efficient and inefficient sales of corporate control, QJE, 993-957. (*)

Takeovers and Firm Value

a) Shleifer, A. and R. Vishny, 1986, Large shareholders and corporate control (see above).
b) Scharfstein, D., 1988, The disciplinary role of takeovers, RES , 185-199. (*)
c) Stein, J.,1988, Takeover threats and managerial myopia, JPE 96, 61-80. (*)
d) Hirshleifer, D. and S. Titman, 1992, Share tendering strategies and the success of hostile takeover bids, JPE 98(2), 295-324.

Takeover Defense

a) Bhagat, S and R. Jefferis, Jr., 1994, The causes and consequences of takeover defense: evidence from greenmail: Journal-of-Corporate-Finance 1, 201-31. (empirical)
b) Giammarino, R, R. Heinkel and B. Hollifield, 1997, Defensive mechanisms and managerial discretion, JF 52(4), 1467-93.
c) Laffont, J. and J. Tirole, 1988, Repeated auctions of incentive contracts, investment, and bidding parity with an application to takeovers, Rand 19, 516-37.
d) Bagnoli, M. R. Gordon and B. Lipman, 1987, Takeover bids, defensive stock repurchases, and the efficient allocation of corporate control, University of Michigan Center for Research on Economic and Social Theory Working Paper: 88-8.
e) Schleifer, A.and R.Vishny, 1986, Greenmail, white knights, and shareholders' interest, Rand 17, 293-309.
f) Macey, J. and F. McChesney, 1985, A theoretical analysis of corporate greenmail, Yale-Law-Journal 95, 13-61.

N.B.: There is also a big empirical literature on the effect of anti-takeover charter amendments and other takeover defenses adopted by management on shareholder value.

Capital and Ownership Structure and Takeovers

a) Harris, M. and Raviv, A., 1988, Corporate control contests and capital structure, JFE 20, 55-86.
b) Israel, R., 1992, Capital and ownership structures, and the market for corporate control, RFS 5, 181-98.
c) Israel, R. , 1991, Capital structure and the market for corporate control: the defensive role of debt financing, JF 46,1391-1409.
d) Chowdhry, B. and V. Nanda, 1993, The strategic role of debt in takeover contests, JF 48, 731-45.
e) Stulz, Rene, M., 1988, Managerial control of voting rights: financial policies and the market for corporate control, JFE 20, 25-54.

Tender Offers versus Proxy Contests

a) Dasgupta, S. and V. Nanda, 1997, Large shareholder activism, tender offers and proxy contests, Journal of Economics and Management Strategy 6, ??.

Toeholds and Takeovers

a) Chowdhry, B., and N. Jegadeesh, 1994, Pre-tender offer share acquisition strategy in takeovers, Journal-of-Financial-and-Quantitative-Analysis 29, 117-29.

Method of Payment in Takeovers

The following are some empirical papers on this issue:

a) Ghosh, A., and W. Ruland. 1998, Managerial ownership, the method of payment for acquisitions, and executive job retention, JF 53, 785-98.
b) Martin, K., 1996, The method of payment in corporate acquisitions, investment opportunities, and management ownership, JF 51, 1227-46.
c) Travlos, N., 1987, Corporate Takeover bids, methods of payment, and bidding firms' stock returns, JF 42, 943-63.

Takeover Bidding

a) De, S., M. Fedenia and A Triantis, 1996, Effects of competition on bidder returns, Journal-of-Corporate-Finance 2, 261-82. (empirical)
b) Fishman, M., 1988, A theory of preemptive takeover bidding, Rand 19, 88-101.
c) Burkart, M., 1995, Initial shareholdings and overbidding in takeover contests, JF , 1491-1515.
d) Bulow, J., M. Huang, and P. Klemperer, 1998, Toeholds and takeovers, mimeo.
e) Avery, C., 1998, Strategic jump bidding in English auctions, RES 65, 185-210.
f) Daniel, K. and D. Hirshleifer, ??

Topic 11: Dividend and Payout Policy

a) Easterbrook, F., 1984, Two agency-cost explanations of dividends, AER 74, 650-659. (*)
b) Riley, J. , 1979, Informational equilibrium, Econometrica 47, 331-359. (useful reference for signaling models) (*)
c) Miller, M. and K. Rock, 1985, Dividend policy under asymmetric information, JF, 1031-51. (*)
d) John K. and J. Williams, 1985, Dividends, dilution and taxes: a signalling equilibrium, JF, 1053-70. (*)

N.B.: There is a large empirical literature on the information content of dividend announcements.

N.B.: There is also a large theoretical and empirical literature on share buyback (stock repurchase) and the choice between alternative payout policies.

Topic 12: Bankruptcy and Financial Distress

a) Bulow, J. and J. Shoven, 1978, The bankruptcy decision, Bell Journal of Economics;9(2), 437-56.
b) Detragiache, E., 1994, Public versus private borrowing: a theory with implications for bankruptcy reform, JFI 3, 327-54.
c) Gertner, R. and D. Scharfstein, 1991, A theory of workouts and the effects of reorganization law, JF 46, 1189-1222.
d) Giammarino, R. and E. Nosal, 1993, The efficiency of judicial discretion in bankruptcy law, mimeo.
e) Green, R. C. and A. Juster, 1995, Financial structure, distress and restructuring, mimeo.
f) Harris, M. and A. Raviv, 1995, The role of games in security design, RFS, 8(2), 327-67.
g) Li, David D., and Shan Li, 1994, Resolving financial distress—workouts versus bankruptcy, mimeo.
h) Novaes, W. and L. Zingales, 1994, Financial distress as a collapse of incentives, mimeo.
i) Webb, D., 1987, The importance of incomplete information in explaining the existence of costly bankruptcy, Economica 54, 279-88.
j) Aghion P., O. Hart and J. Moore, 1994, The economics of bankruptcy reform, in Blanchard, O., K. Froot and J. Sachs eds., *The transition in Eastern Europe,* Volume 2. University of Chicago Press.
k) Hart, O., et-al, 1997, A new bankruptcy procedure that uses multiple auctions, European Economic Review 41, 461-73.

N.B.: Some of the references are a little out of date as most have come out in print now.

N.B. : There is a very large empirical literature on how firms respond to financial distress.

Topic 12: Diversified Firms, Resource Allocation, and Internal versus External Capital Markets

a) Gertner, R., D. Scharfstein and J. Stein, 1994, Internal versus external capital markets, QJE , 1211-1230.(*)
b) Scharfstein, D. and J. Stein, 1997, The dark side of internal capital markets: divisional rent-seeking and inefficient investment, mimeo.
c) Stein, J. 1997, Internal capital markets and the competition for corporate resources, JF , 111-133. (*)
d) Rajan, R. and L. Zingales, 1997, The cost of diversity: the diversification discount and inefficient investment, mimeo.
e) Dasgupta, S., V. Goyal and G. Tan, 1999, Active asset markets, divestitures and divisional cross-subsidization, mimeo.

N.B.: There is a growing literature on internal capital markets and firms' dependence on internal funds as opposed to costly external finance. There is also an empirical literature examining the question of whether internal capital markets are beneficial or whether they allow firms to distort investment and resource allocation.

Topic 13: Managerial compensation schemes

(To be added)