



UNIVERSITY OF OREGON  
Lundquist College of Business

**PhD Finance Seminar**  
**Corporate Finance Theory**  
**Prof. Brandon Julio**  
**July 2019**

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COURSE SYLLABUS

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## Aims and Objectives

FIN 607 is a doctoral level research seminar in finance. This particular seminar will focus on introducing doctoral students to theoretical research in corporate finance. There are several goals in this seminar:

- Give students a grounding in corporate finance theory, balancing exposure to the classic papers in the field with an introduction to modern contributions to corporate finance theory.
- Develop the ability to read and digest theory papers in the broad field of corporate finance.
- Help you generate research ideas.
- The ultimate goal is to enhance your skills in writing empirical papers by developing your theoretical intuition and placing your empirical work on a solid footing.

## Prerequisites

This is a PhD level class and it requires some knowledge of PhD level microeconomic theory and an understanding of financial markets. Most of the course will be devoted to formal models. We will put more focus on the economic intuition and empirical implications of the models. It will help to have a solid grounding in microeconomic theory.

## Course Materials

The main focus of the course is on published research papers. There is no textbook for the seminar. One important thing you will learn in the seminar is that there is a great deal of

heterogeneity in the way theorists approach problems in corporate finance. As such, there is no such thing as a ‘typical’ model in corporate finance. While this is good in the sense that the field allows for many different approaches to various questions, it makes it very difficult to create a textbook that covers corporate finance theory. There are two very good texts that cover various corporate finance topics at the Phd level. First is Jean Tirole’s *The Theory of Corporate Finance*, which was published by Princeton University Press in 2006. Another is Oliver Hart’s *Firms, Contracts, and Financial Structure*, which was published by Oxford University Press in 1995. I would highly recommend purchasing these two books for your own reference and personal study but we will not work through either textbook in class.

## Grade Assessment

The grade for the course will be determined completely by three criteria:

1. Class participation and contribution (50%): Doctoral seminars are much less formal than classes in a masters or undergraduate program. Rather than have lectures, we will discuss papers in class. I will prepare and distribute some slides with my views on the papers, but most of the seminar time will be focused on class discussion. Therefore, I expect that everyone will come to class prepared to discuss the required readings for a given session.
2. Research Proposal and Presentation (50%): I will require the submission of a written research proposal. The topic is not restricted to those covered in class. What I am looking for is a proposal for a paper that has a solid theoretical motivation. This could be a new idea for a paper or a theoretical motivation for an existing project. The research proposal must include a brief literature review of the theoretical papers that are relevant for the idea. The research proposal should be around six pages in length.

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## Course Schedule & Readings<sup>1</sup>

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### 1 Introduction/Modigliani-Miller Propositions

19:00-21:00, July 3, Wednesday

- Why study theory?
- ⊙ Modigliani, Franco and Merton H. Miller, (1958), The Cost of Capital, Corporation Finance, and the Theory of Investment, *American Economic Review*, 48, 261-297.
- ⊙ Miller, M.H., (1977), Debt and Taxes, *Journal of Finance* 32, 261-273.
- Miller, M. and F. Modigliani, (1961), Dividend Policy, Growth, and the Valuation of Shares, *Journal of Business*, 34, 411-433.
- Stiglitz, J. (1974), On the Irrelevance of Corporate Financial Policy, *American Economic Review* 66, 851-866.

### 2 Separation of Ownership and Control/Agency Costs

19:00-21:00, July 4, Thursday

- ⊙ Jensen, Michael C. and William H. Meckling, (1976), Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure, *Journal of Financial Economics* 3: 305-360.
- ⊙ Myers, S., (1977) Determinants of Corporate Borrowing, *Journal of Financial Economics*, 5, 147-175.
- ⊙ Jensen, Michael C., (1986) Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers, *American Economic Review*, 76, 323-329.
- Hart, Oliver and John Moore (1995) Debt and Seniority: An Analysis of the Role of Hard Claims in Constraining Management, *American Economic Review*, 85, 567-585.
- Holmstrom, B. and J. Tirole, (1997), Financial Intermediation, Loanable Funds, and the Real Sector.

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<sup>1</sup>⊙ denotes a required reading - go through the paper in detail; • denotes that you should read the introduction carefully.

### 3 Asymmetric Information 19:00-21:00, July 5, Friday

- ⊙ Myers, s. and N. Majluf, (1984), Corporate Financing and Investment Decisions when Firms Have Information That Investors Do Not Have, *Journal of Financial Economics*, 13, 187-222.
- ⊙ Stein, J., (1992), Convertible Bonds as Backdoor Equity Financing, *Journal of Financial Economics* 32, 3-21.
- ⊙ Ross, S., (1977), The Determination of Financial Structure: The Incentive-Signaling Approach, *Bell Journal of Economics* 8, 23-40.
- Leland, H., and D. Pyle (1977), Informational Asymmetries, Financial Structure, and Financial Intermediation, *Journal of Finance* 32, 371-387.
- Merton H. Miller, M.H. and K. Rock (1985), Dividend Policy under Asymmetric Information, *Journal of Finance* 40, No. 4, 1031-1051.

### 4 The Market for Corporate Control 10:00-12:00, July 6, Saturday

- ⊙ 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.
- ⊙ Shleifer, A. and R. Vishny, (1986), Large Shareholders and Corporate Control, *Journal of Political Economy*, 94, 461-88.
- ⊙ Stein, J, (1988), Takeover Threats and Managerial Myopia
- Grossman, S. and O. Hart, (1988), One Share, One Vote and the Market for Corporate Control, *Journal of Financial Economics*, 20, 175-202.
- Fishman, M. J., (1988), A Theory of Preemptive Takeover Bidding, *Rand Journal of Economics*.

### 5 Corporate Investment 10:00-12:00, July 7, Sunday

- ⊙ Hayashi, F., 1982, Tobin's marginal Q and average Q : A neoclassical interpretation, *Econometrica*, 50, 215-224.
- ⊙ McDonald, R. , and D. Siegel, 1986, The Value of Waiting to Invest, *Quarterly Journal of Economics*, 101, 707-728.

- Bar-Ilan, A., and Strange, W., 1996. Investment lags. *American Economic Review* 86(3): 610-622.

## 6 Other Topics

### – Corporate Governance

- ⊙ Hermalin, B. and M. Weisbach, (1988), Endogenously Chosen Boards of Directors and Their Monitoring of the CEO, *American Economic Review*, Vol. 88, 96-118.
- ⊙ Stein, J., (1989), Efficient Capital Markets, Inefficient Firms: A Model of Myopic Corporate Behavior, *Quarterly Journal of Economics*, 655-669.
- ⊙ Edmans, A. and Q. Liu, Inside Debt, *Review of Finance* 15, 75-102.
- \* Hermalin, B. and M. Weisbach, (2012), Information Disclosure and Corporate Governance, *Journal of Finance*, Vol. 67, 195-233.
- \* Shleifer, A. and R. Vishny (1997), “A Survey of Corporate Governance,” *Journal of Finance*, 737-783.

### – Behavioral Corporate Finance

- ⊙ Shleifer, A. and R. Vishny, (2003), Stock Market Driven Acquisitions, *Journal of Financial Economics* 70, 295-311.
- ⊙ Baker, M. and J. Wurgler, (2004), A Catering Theory of Dividends, *Journal of Finance* 59, 1125-1165.
- ⊙ Stein, J., (1996), Rational Capital Budgeting in an Irrational World, *Journal of Business*, vol. 69(4), 429-55.

### – Dynamic Corporate Finance

- ⊙ Leland, Hayne E., 1994, Corporate Debt Value, Bond Covenants, and Optimal Capital Structure, *Journal of Finance*, 49, 1213-1252.
- ⊙ Hennessy, Christopher A., and Toni M. Whited, 2005, Debt dynamics, *Journal of Finance* 60, 1129-1165.
- \* Hennessy, Christopher A., and Toni M. Whited, 2007, How Costly Is External Financing? Evidence from a Structural Estimation, *Journal of Finance*, 62, 1705-1745.
- \* Strebulaev, Ilya A., (2007), Do Tests of Capital Structure Theory Mean What They Say?, *Journal of Finance* 62, 1747–1787.