FIN 723A (Finance II): Corporate Finance Theory
Goizueta Business School, Emory University, Spring 2025

Instructor: William Mann
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Location and time: This course runs for the first half of the semester, ending before spring break. We will meet Wednesdays from 9:30 to 12:15 in the Goizueta building, room W521.

Course overview:
This course will give you a working knowledge of some foundational results in the theory of corporate finance. It will also give you experience with writing, solving, and interpreting models of investment decisions and financial contracting, in environments with asymmetric information and moral hazard.

Course grade: Your grade will consist of attendance and participation (10%), an in-class presentation (20%), a report on the paper you present (30%), and a closed-book final exam (40%). See below.

Accommodation: Students who require accommodation for access and participation should make arrangements before the course starts with Emory's Office of Accessibility Services.

Honor code: Any instances that appear to violate the Honor Codes of Emory University or its Goizueta School of Business will be referred to the appropriate Honor Council and handled by that body.

Weekly plan:
- At the start of the semester, I will distribute a PDF of course notes which will serve as our text.
- Before class, carefully read that week's chapter, and understand all derivations and proofs that are presented. Prepare two comments or questions about each paper that is covered in detail (there are typically two to three). Then briefly skim each paper mentioned in the chapter.
- In the first class, you will also be assigned a paper to present to the class in our last session.
  - Your presentation should be about 30 minutes. It should explain how the paper derives its key results, why the results are important, and some critical discussion of the assumptions.
  - Before spring break, you should also turn in a report on your paper. The report should be about 4 pages long (single spaced). In addition to the topics you covered in the presentation, the report should (1) demonstrate a way to change the main result of the paper by modifying a key assumption, and (2) suggest a direction for future work to build on the model.

  If you are unsure of your approach to the presentation or report, ask me for help in advance!

Topic for each week: See the PDF of notes for a detailed list of the papers covered in each topic.
- Week 1 (Jan 15): Benchmark frictionless models of corporate financing and investment.
- Week 2 (Jan 22): Screening models of corporate investment.
- Week 3 (Jan 29): Signaling models and capital structure.
- Week 4 (Feb 5): Hidden action models of effort and project choice.
- Week 5 (Feb 12): Security design with hidden actions.
- Week 6 (Feb 19): Banking theory.
- Week 7 (Feb 26): Student presentations (see next page).

Presentation papers: In week 7, everyone will present one of the papers listed below (by topic). If you have a preference about your paper, email me in the first week of class. If not, I can assign one to you.

Week 2 topic:

- David Besanko and Anjan V Thakor. Collateral and rationing: Sorting equilibria in monopolistic and competitive credit markets. *International Economic Review*, 28(3):671–689, 1987.

Week 3 topic:

- Ronald Giammarino and Tracy Lewis. A Theory of Negotiated Equity Financing. *The Review of Financial Studies*, 1(3):265-288, 1987.
- Stephen A Ross. The determination of financial structure: The incentive-signaling approach. *The Bell Journal of Economics,* 8(1):23-40, 1977.

Week 4 topic:

- Oliver Hart and John Moore. Debt and Seniority: An analysis of the role of hard claims in constraining management. *The American Economic Review,* 85(3):567-585, 1995.

Week 5 topic:

- Chun Chang. Payout Policy, Capital Structure, and Compensation Contracts when Managers Value Control. *The Review of Financial Studies,* 6(4):911-933, 1993.
- Rafael Repullo and Javier Suarez. Monitoring, Liquidation, and Security Design. *The Review of Financial Studies*, 11(1):163-187, 1998.

Week 6 topic:

- Douglas W Diamond and Raghuram G Rajan. Liquidity Risk, Liquidity Creation, and Financial Fragility: A Theory of Banking. *Journal of Political Economy*, 109(2):287-327, 2001.
- Bengt Holmström and Jean Tirole. Financial Intermediation, Loanable Funds, and the Real Sector. *The Quarterly Journal of Economics*, 112(3):663-691, 1997.

Other topics:

- René M Stulz. Managerial discretion and optimal financing policies. *Journal of Financial Economics,* 26(1):3-27, 1990.
- Jeremy C Stein. Internal Capital Markets and the Competition for Corporate Resources. *The Journal of Finance*, 52(1):111:133, 1997.
- Charles Kahn and Andrew Winton. Ownership Structure, Speculation, and Shareholder Intervention. *The Journal of Finance*, 53(1):99-129, 1998.
- Jonathan Berk and Richard Green. Mutual fund flows and performance in rational markets. *Journal of Political Economy,* 112(6):1269-1295, 2004.
- Sanford Grossman and Oliver Hart. Takeover bids, the free-rider problem, and the theory of the corporation. *Bell Journal of Economics*, 11:42-64, 1980.
- Andrei Shleifer and Robert Vishy. Liquidation values and debt capacity: A market equilibrium approach. *Journal of Finance,* 47:1343-1366, 1992.