Theoretical Foundations of Corporate Finance
Course number: 55739

Fall – 2012

Prof. Yaniv Grinstein (Yg33@cornell.edu)
Teaching Assistant: Mr. Avner Langut

Office / Tel TBD
Office hours: Wednesday afternoon by appointment

Course Objectives:

Corporate finance deals with the financial decisions of corporations. Research in this area has focused on investment decisions, raising capital, distributing capital, structuring financial securities, hedging, and others. As the area became more developed, research has expanded to include topics such as organizational design, ownership and control structure, and compensation contracts.

The purpose of this course is to introduce students to the theory of corporate finance. We will cover fundamental theoretical articles that have contributed to our understanding of corporate decisions. We will usually present simplified versions of the models in class and solve them. We will then discuss the merits of the models and the intuition behind them.

This course will be followed by a course by Prof. Eugene Kandel: “Financial Economics of the Firm”. The two courses are closely related so the knowledge you gain in this course will serve to deepen your understanding in Prof. Kandel’s course.

Course Material:

The list of articles for the course appears in the course schedule below. Students can get these articles online (through e.g., SSRN, JSTOR NBER etc.), or can obtain hard copies from the library. We will go over some of these articles in detail in class.

Class Schedule:

See schedule below. We will meet on Tuesdays between 6:30 pm and 9:00 pm in room 3304

Evaluation:

Assignments 35%
Final exam 65%
I will provide a few Assignments throughout the course. They will be handed out in class and are due two weeks later at the beginning of class. Assignments will typically include some variations of the models that be solve in class and should be solved individually.

The exam will cover the entire material. The exam is open books and open notes. Exam date TBD.

**Schedule (preliminary)**

(* indicates models that we will cover in class)

**Week 1 (October 23) Corporate Objective, Investment policy, Valuation.**


**Week 2 (October 30) Capital structure and payout policy, MM, Taxes.**


**Week 3 (November 6) Traditional Models: Asymmetric Information.**


**Week 4 (November 13th) Traditional Models: Agency Conflicts.**


**Week 5 (November 27th) Financial Contracting – Complete Contracts**


**Week 6 (Dec. 4th) : Financial Contracting - Incomplete Contracts**


**REFERENCE BOOKS / SURVEYS**

Tirole – Theory of Corporate Finance

Bolton and Dewatripont – Contract Theory

De Matos – Theoretical Foundations of Corporate Finance

Hart – Firms, Contracts, and Financial Structure


North Holland Handbooks of Economics, Constantinides, M. Harris and R. Stulz (Editors)


More basic books are: S. Ross R. Westerfield and J. Jaffe Corporate Finance, Irwin, or Brealey and Myers, Principles of Corporate Finance, McGraw Hill, Irwin, 2000.