Baruch College
The Zicklin School of Business
Department of Economics and Finance

Corporate Finance Theory
Fall 2018
Prof. J. Wang

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Meeting Time: Mondays 2pm-4pm Room 10-215 VC

Course Description

This course covers theoretical works in the major areas of corporate finance including capital structure, payout policy, mergers and corporate control, financial intermediation, and capital acquisition process. In addition to providing a framework to analyze issues in corporate finance, this course also introduces the basic analytical tools and modeling skills needed to generate theoretical research in applicable areas of financial economics.

Prerequisites

PhD level Microeconomics Theory.

Course Contents

1. Introduction to Game Theory (lecture)
   • Static game
   • Equilibrium concept
   • Dynamic game
   • Asymmetric information

2. Classical Corporate Finance Theory (lecture)
   • Perfect market
   • Taxes
   • Agency
   • Asymmetric information
   • Corporate control
   • Imperfect market
   • Security design

3. New Development in Corporate Finance Theory (lecture, student presentation, guest speaker.)

Grading Policy
Course requirements include class participation, presentation, one final exam, one critique report and one term paper. The final grade will be based on the overall performance of the students. The distribution is as follows:

\[
\text{Final grade} = \text{class participation (10\%)} + \text{presentation (15\%)} \\
+ \text{critique report (10\%)} + \text{final exam (40\%)} + \text{Term paper (25\%)}
\]

**Participation:**
Given that this is a PhD level seminar class, it is essential that everyone participates in the class discussion actively. While there is no formal assignment, I will leave discussion questions at the end of classes.

**Presentation:**
Each presentation must adhere strictly to the following format (1) Statement of the problem studied; (2) Brief survey of the literature; (3) Concise, intuitive, explanation of the argument producing the major results (for theory papers) or empirical methodology; (4) Summary of main results; (5) Critical examination of the paper; (6) Sketch of major extensions to the paper with specific suggestions about possible solution techniques. Most important, each presentation must be both informative and entertaining.

**Critique report:**
The format of the referee report should be roughly along the following lines: (1) Statement of the problem studied; (2) brief survey of literature; (3) Concise, intuitive explanation of the argument producing the major results; (4) Summary of results; (5) Critical examination of the paper.

**Term paper:**
You are required to turn in a term paper before the end of the semester. This paper may be either theoretical or survey. If it is theoretical, its idea should be original. You should provide sketches to solve your model. If it is a survey, it must cover one small area of corporate finance and discuss all the most recent papers on the topic, and outline a few ideas that can be pursued in future research.

**Final Exam:**
The final exam will contain problems related to the topics we cover in the class.

**READING LIST** (tentative)

**Game Theory** (suggested background reading)


**Classical Corporate Finance Theory**

**Perfect Markets**


**Taxes:**


**Agency:**


**Asymmetric Information:**


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, 187-221.


**Corporate Control:**


**Survey Paper:**

**Imperfect Markets**


**IPO**


**Mergers and the Boundaries of the Firm**


**Corporate Governance**


Security Design


New Development in Corporate Finance Theory


Thomas Noe, Michael Rebello, 2009. To each according to her luck and power: Optimal corporate governance and compensation policy in a dynamic world, working paper, Oxford Univ.


Papers to be presented by students (tentative)


Gande, Amar and John, Kose and Nair, Vinay B. and Senbet, Lemma W., Institutions and Innovation (August 1, 2018). Available at SSRN: https://ssrn.com/abstract=3224695 or http://dx.doi.org/10.2139/ssrn.3224695
