



# *The Hebrew University of Jerusalem*

## *Syllabus*

### *Corporate Finance - 55942*

*Last update 17-10-2018*

*HU Credits: 1*

*Degree/Cycle: 2nd degree (Master)*

*Responsible Department: Business Administration*

*Academic year: 0*

*Semester: 1st Semester*

*Teaching Languages: English*

*Campus: Mt. Scopus*

*Course/Module Coordinator: Prof Effie Benmelech*

*Coordinator Email: [e-benmelech@kellogg.northwestern.edu](mailto:e-benmelech@kellogg.northwestern.edu)*

*Coordinator Office Hours: By appointment*

*Teaching Staff:*

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Prof Effie Benmelech

Course/Module description:

*This course provides an empirical treatment of major topics in corporate finance, including: capital structure and financial contracting; real investment behavior; financial intermediation; financial distress; internal capital markets and household debt.*

Course/Module aims:

Learning outcomes - On successful completion of this module, students should be able to:

*This course provides a theoretical and empirical treatment of major topics in information economics, securitization, regulation and household finance*

Attendance requirements(%):

100%

Teaching arrangement and method of instruction:

Course/Module Content:

Topic Schedule:

*Date Time Topic*

*Class 1*

*12-13*

*14:30-17:15*

*Liquidity Constraints*

*Class 2*

*12-16*

*14:30-17:15*

*Liquidation Values and Contracting*

*Class 3*

*12-17*

*14:30-17:15*

*Financial Distress*

*Class 4*

*12-18*

*14:30-17:15*

*Internal Capital Markets*

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Class 5

12-20

14:30-17:15

*The Macro Effects of Household Debt*

Required Reading:

1. Liquidity Constraints

Blanchard, O. J., Lopez-de-Silanes, F., and A., Shliefer (1994), "What Do Firms Do with

Cash Windfalls?" *Journal of Financial Economics* 36: 337-360.

\* Fazzari, S.M., R.G. Hubbard and B.C. Petersen (1988), "Financing Constraints and Corporate Investment," *Brookings Papers on Economic Activity*, 141-195.

\* Kaplan, Steven N. and Luigi Zingales (1997), "Do Investment-Cash Flow Sensitivities

Provide Useful Measures of Financing Constraints?," *Quarterly Journal of Economics* 112: 169-216.

\* Kashyap, Anil, Takeo Hoshi, and David Scharfstein (1991), "Corporate Strcuture, Liquidity and Investment: Evidence from Japanese Industrial Groups," *Quarterly Journal of*

*Economics* 106: 33-60.

Stein, Jeremy C. (2003), "Agency, Information and Corporate Investment," chapter 2 in

the *Handbook of the Economics of Finance*, edited by George Constantinides, Milton Harris and

Rene Stulz. Amsterdam: North-Holland. (READ PART A).

\* Rauh, Joshua, (2006), "Investment and Financing Constraints: Evidence from the Funding of Corporate Pension Plans," *Journal of Finance* 61: 33-71.

2. Liquidation Values

\* Benmelech, Efraim (2009), "Asset Salability and Debt Maturity: Evidence from 19th

Century American Railroads," *Review of Financial Studies* 22: 1545-1583.

\* Benmelech, Efraim, Mark Garmaise and Toby Moskowitz (2005), "Do Liquidation Values Affect Financial Contracts? Evidence from Commercial Loan Contracts and Zoning

Regulation," *Quarterly Journal of Economics* 120: 1121-1154.

\* Benmelech, Efraim and Nittai Bergman (2008), "Liquidation Values and the Credibility

of Financial Contract Renegotiation: Evidence from U.S. Airlines," *Quarterly Journal of*

*Economics* 123: 1635:1677.

Benmelech, Efraim and Nittai Bergman (2009), "Collateral Pricing," *Journal of Financial*

*Economics* 91 (2009) 339-360.

\* Shleifer, Andrei, and Robert Vishny (1992), "Liquidation Values and Debt Capacity:

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A

*Market Equilibrium Approach*, *Journal of Finance* 47: 1343-1366.

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### 3. Financial Distress + Bankruptcy

\* Asquith, Paul, Robert Gertner and David Scharfstein (1994), "Anatomy of Financial

Distress: An Examination of Junk-Bond Issuers," *Quarterly Journal of Economics* 109: 625-658.

\* Andrade Gregor, and Steven N. Kaplan (1998), "How Costly is Financial (not Economic) Distress? Evidence from Highly Leveraged Transactions that Become Distressed,"

*Journal of Finance* 53: 1443-1493.

\* Stromberg, Per (2000), "Conflicts of Interest and Market Illiquidity in Bankruptcy Auctions: Theory and Tests," *Journal of Finance* 55: 2641-2692

Almeida, Heitor and Thomas Philippon, (2007), "The Risk-Adjusted Cost of Financial Distress," *Journal of Finance* 62: 2557-2586.

Baird, Douglas G., and Robert K. Rasmussen, (2002) "The End of Bankruptcy", *Stanford Law Review*, 751-789.

Benmelech, Efraim and Nittai Bergman (2011), "Bankruptcy and the Collateral Channel," *Journal of Finance* 66: 308-332.

Gertner, Robert and David Scharfstein (1991), "A Theory of Workouts and the Effects of

Reorganization Law," *Journal of Finance* 46: 1189-1222.

Warner, Jerold, (1977) "Bankruptcy Cost: Some Evidence," *Journal of Finance* 32: 337-

348

### 4. Internal Capital Markets

Background articles:

Stein, Jeremy C. (1997), "Internal Capital Markets and the Competition for Corporate

Resources," *Journal of Finance* 52: 111-133.

Scharfstein, David S. and Jeremy C. Stein (2000), "The Dark Side of Internal Capital Markets: Divisional Rent-Seeking and Inefficient Investment," *Journal of Finance* 55:

2537-

2564.

Investment and internal capital market

Rajan, Raghuram, Henri Servaes and Luigi Zingales (2000), "The Cost of Diversity: The

Diversification Discount and Inefficient Investment," *Journal of Finance* 55: 35-80.

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Additional Reading Material:

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Course/Module evaluation:

End of year written/oral examination 0 %

Presentation 0 %

Participation in Tutorials 0 %

Project work 100 %

Assignments 0 %

Reports 0 %

Research project 0 %

Quizzes 0 %

Other 0 %

Additional information:

*I expect students to prepare for class by reading the required papers and if time permits the suggested papers as well.*

*How to Write: Referee Reports: Some General Guidelines for Referee Reports Structure. While there are no absolute requirements, you should try to cover the following four areas, and keep in mind that simply summarizing the paper is insufficient. Putting in headings is certainly not necessary...if you can integrate it all together, that's fine. But, if there is any doubt, headings aren't a bad idea. In terms of overall length, the report should be no more than about five pages. See the attached sample report for a good example.*

- 1. Summary. The summary need not be more than a quarter of your report. You might briefly state what the authors have set out to do, why it might be important, and what results they claim to find. Save the more specific description of the methodology for the general assessment and specific comments section. That way you can save the detail for what you think is important (or wrong).*
- 2. General Assessment. This is the key part of your referee report. Don't jump into technical econometric issues unless they are central. Instead, take a more critical look at your summary. Are they asking an interesting question? What are the main problems and contributions?*
- 3. Specific Comments. Here is where you deal with econometric and theoretical points. It is perfectly fine to do these bullet point style.*
- 4. Extensions. These can also be bullet points if you like. Try to be as specific as you can about*

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*the extensions. Avoid vague things like “include investor demand variables” in the analysis.*

*Spend a sentence on how you might measure this. Think carefully about why the author hasn’t*

*already extended the paper in this way. Many times they’ve overlooked it.*

*Sometimes, there are*

*good reasons. It’s fine to qualify your idea in this way. I’d say the best extensions are less about*

*fixing papers, and more about building on it, or connecting it to something else.*

*Maybe propose*

*a way to test a further implication of what they have concluded.*