The Hebrew University of Jerusalem

Syllabus

FINANCIAL ECONOMICS OF THE FIRM - 57871

Last update 24-10-2017

HU Credits: *3*

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

Responsible Department: *economics*

Academic year: *0*

Semester: *Yearly*

Teaching Languages: *Hebrew*

Campus: *Mt. Scopus*

Course/Module Coordinator: *Professor Eugene Kandel*

Coordinator Email: *mskandel@mscc.huji.ac.il*

Coordinator Office Hours: *By appointment*

Teaching Staff:

Prof Eugene Kandel

<u>Course/Module description:</u>
This course exposes the students to Corporate Finance from the Economics perspective. We will mix the basic theory with applied models to explain various phenomena in Corporate Finance. Finally, we will discuss the empirical findings and try to agglomerate what we have learned into a coherent view.

<u>Course/Module aims:</u>
To introduce the student to key concepts in corporate finance from the economics perspective

<u>Learning outcomes - On successful completion of this module, students should be able to:</u>
Think coherently about corporate finance.

<u>Attendance requirements(%):</u>
none

Teaching arrangement and method of instruction: Lectures

<u>Course/Module Content:</u>
- *Overview*
- *Canonical Theory of Capital Structure*
- *Principal-Agent: Separation of Ownership and Control.*
- *Information asymmetry and its effects*
- *Raising and Distributing Capital*
- *Financial Intermediation: Banks and Stock Markets*

<u>Required Reading:</u>
(*) P. Milgrom and J. Roberts, Economics, Organization and Management, Prentice Hall, 1992, Chapters 1,2.

(*) M. Miller, 1977, Debt and Taxes, Journal of Finance.
(*) M. Jensen and W. Meckling (1976), “Theory of the Firm, Managerial Behavior, Agency Costs and Ownership Structure”, Journal of Financial Economics, Vol. 3.
(*) A. Shleifer and R. Vishny (1997), “A Survey of Corporate Governance”, Journal of Finance, Vol. 52.

(*) Murphy, Kevin J., "Executive Compensation" (1999). Available at SSRN: http://ssrn.com/abstract&eq;163914
(*) Kandel, E., In Search of Reasonable Executive Compensation, CESIfo Economic Papers.
(*) S. Myers and N. Majluf, 1984, Corporate financing and investment decisions when firms have information investors do not have, Journal of Financial Economics, pp.197-221.
(*) Ross S., The Determination of Financial Structure: The Incentive Signaling Approach, Bell Journal of Economics 23-40.
(*) M. Miller and K. Rock, 1985, Dividend policy under asymmetric information, Journal of Finance.
(*) Jay Ritter and Ivo Welch. A Review of IPO Activity, Pricing and Allocations. Journal of Finance, July 2002, forthcoming (at http://welch.som.yale.edu/vitae.html).
(*) M. Pagano, F. Panetta and L. Zingales (1998), "Why Do Companies Go Public? An Empirical Analysis", Journal of Finance, Vol. 53.
(*) Brav A., and P. Gompers, 1997, Myth or Reality? The Long-Run Performance of Initial Public Offerings: Evidence From Venture and Non Venture Capital Backed Companies, Journal of Finance 52, 1791-1821.
(*) F. Black, 1976, The Dividend Puzzle, Journal of Portfolio Management.
(*) Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, Robert W. Vishny (2000) Agency Problems and Dividend Policies around the World, The Journal of Finance 55 (1)
(*) Diamond D., 1984, Financial Intermediation and Delegated Monitoring, Review of Economic Studies 51, 393-414.
(*) Ber H, Yafeh Y, Yosha O, Conflict of interest in universal banking: Bank lending, stock underwriting, and fund management, Journal of Monetary Economics 47 (1): 189-218 FEB 2001
(*)R Levine, (2002) Bank-Based or Market-Based Financial Systems: Which Is Better? , Journal of Financial Intermediation, 2002

Additional Reading Material:

O. Hart, 1995, Firms, Contracts and Financial Structure, Calendron Lectures in Economics; Chapters 1,2.
J. Hirshleifer and J. Riley, The Analytics of Uncertainty and Information, Cambridge University Press, 1992.

Ivo Welch, Primer on Capital Structure.
B. Holmstrom, Moral Hazard in Teams, Bell Journal of Economics, 1982.
(RR1) Jensen, M. and K. Murphy, Performance Pay and Top Management Incentives, Journal of Political Economy, 1990.
(RR2) Morck, R., A. Shleifer and R. Vishny (1988), "Management Ownership and Market Valuation: An Empirical Analysis," Journal of Financial Economics, 20, 293-316.

(RR3) Cremers, M. and Y. Grinstein, Does the Market for CEO Talent Explain Controversial CEO Pay Practices?.
Grossman S. and J. Stiglitz, 1980, On the Impossibility of Informationally Efficient Markets, American Economic Review, 70, 393-408.
(RR4) Fama E. F, and K. R. French, 2002, Testing Trade-Off and Pecking Order Predictions about Dividends and Debt, Review of Financial Studies 151-33.
Rock, K., 1986, Why New Issues are Underpriced, Journal of Financial Economics 15, 187-212
Loughran T., and J. R. Ritter, 1995, The New Issues Puzzle, Journal of Finance 50.
(RR5) Bodnaruk, Andriy, Massa, Massimo, Kandel , Eugene and Simonov, Andrei, "Shareholder Diversification and the Decision to Go Public" Review of Financial Studies
A. Shleifer and R. Vishny (1992), "Liquidation Value and Debt Capacity: A Market Equilibrium Approach", Journal of Finance, Vol. 47.
RG. Rajan, L. Zingales What do we know about capital structure? Some evidence from international data, Journal of finance, 1995.

(RR6) Leary, M. and M. Roberts, (2009) The pecking order, debt capacity, and information asymmetry, Journal of Financial Economics 95 (2010) 332–355

(RR7) Strebulayev, I. (2007), Do Tests of Capital Structure Theory Mean What They Say? 2007, Journal of Finance 62, 4, 1747-1788
Grullon G., and R. Michaely, 2002, Dividends, Share Repurchases, and the Substitution Hypothesis , Journal of Finance v57, n4 (August 2002): 1649-84. (
(RR8) Brav, A., Graham J. R., Harvey C. R., and R. Michaely, 2005, Payout Policy in the 21st Century, Journal of Financial Economics 77, 483-527.
Guttman, I. O. Kadan, and E. Kandel, A Theory of Dividend Smoothing, Review of Financial Studies.
(RR9) Michaely, R., and M. Roberts, Corporate Dividend Policies: Lessons from Private Firms.
R. La Porta, F. Lopez de Silanes, A. Shleifer and R. Vishny (1998), "Law and Finance", Journal of Political Economy. Vol. 106.
(RR10) R. La Porta, F. Lopez de Silanes, and A. Shleifer (2006) "What Works in Securities Laws?", Journal of Finance, February 2006
Diamond D. and P. Dybvig, 1983, Bank Runs, Deposit Insurance and Liquidity, Journal of Political Economy 91, 401-419.
(RR11) T. Hoshi, A. Kashyap and D. Scharfstein (1991), "Corporate Structure, Liquidity and Investment: Evidence from Japanese Industrial Groups", Quarterly Journal of Economics, Vol. 106.
F. Allen and D. Gale (1995), "A Welfare Comparison of the German and US Financial Systems", European Economic Review, Vol. 39.
Rajan, R., Why Banking Has a Future: Towards a New Theory of Banking, Journal of Applied Corporate Finance, 1996.
R. Kroszner and R. Rajan (1994), "Is the Glass-Steagall Act Justified? A Study of the US Experience with Universal Banking Before 1933", American Economic Review,
(RR12) JR Barth, G. Caprio, and R Levine, Bank regulation and supervision: what

works best? , Journal of Financial Intermediation, 2004
Wruck, Karen, Financial Distress, Reorganization, and Organizational Efficiency, Journal of Financial Economics, 1990.
(RR13) Andrade, G. and S. Kaplan, How Costly is Financial (Not Economics) Distress? Evidence from Highly Leveraged Transactions that Became Distressed", Journal of Finance, 1998.
T. Hoshi, A. Kashyap and D. Scharfstein (1990), "The Role of Banks in Reducing the Costs of Financial Distress in Japan", Journal of Financial Economics, Vol. 27.

Course/Module evaluation:

End of year written/oral examination 24 %
Presentation 0 %
Participation in Tutorials 6 %
Project work 35 %
Assignments 35 %
Reports 0 %
Research project 0 %
Quizzes 0 %
Other 0 %

Additional information:

Prerequisites:
Advanced Micro-Economics
Introduction To Finance (There may be exceptions)