NEW YORK UNIVERSITY
Stern School of Business: Graduate Division

FINC-GB.2332.01
Financial Theory II: Part 1
Class Room KMC 3-80

Office: KMEC 9-50
Fall 2018
Monday 1:30 PM to 4:20 PM
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There will be 3 extra classes, time and venue to be finalized in the first class.

Objectives: The main objective of the course is to provide students a strong background in the mainstream areas of modern corporate finance and related areas of banking at an advanced level. Providing the students an opportunity to develop modeling skills for doing research in corporate finance/banking is another important purpose of the course. Another objective is to train the students to recognize and use recurring model structures to read and understand corporate finance. Importantly, training to do good corporate finance is recognizing the interesting/important problems and embedding them in the “right” institutional structure. In addition to discussing the theoretical papers, we will refer to a large number of empirical papers as relevant.

For topics, see Reading List attached.

Pre-requisites: All participants should have taken an advanced course in microeconomics. This is a second year doctoral class.

Administrative Matters:

1. Since the objective of the course is to read and understand the major articles in corporate financial theory, participants are expected to spend adequate time preparing the assigned readings before coming to class, and working through assigned problems sets. In the first part, there will be three Problem Sets assigned.

2. The grade in the course will be based on an in-class final examination, problem sets and class participation.

Although several books containing material in corporate finance are listed below the primary course material will be journal articles. The books and the relevant material from them will be discussed in class. Many of the articles on the reading list will be handed out in class. Many of the others can be downloaded from JSTOR and other websites.

Recommended Texts:
For most of the material we shall rely on research papers (published or Working Papers) that will be handed out. The following books will be useful for certain material and will be referred to in class. Several chapters of the Tirole book will be recommended. For a very nice set of recent surveys of empirical work in many mainstream areas of corporate finance, I also recommend the two volumes of the Eckbo book.


Reading List:

In Part 1 of the course, the following topics will be covered: M&M theorems on capital structure in complete/perfect capital markets, tax equilibriums, principal agent models (background), agency models in corporate finance, asymmetric information and models of signaling and reputation. We will also introduce issues of corporate governance and security design. The relevant empirical research in each area would also be discussed.

The following reading list will be organized around the topics of perfect markets, taxes (corporate/personal), agency theory and contracting, corporate governance, incomplete information games/signaling, design of securities and institutions, and models of reputation. In each area some background material, some of the relevant empirical papers and recent surveys (when available) are also listed. The articles marked with an asterisk (*) will be discussed in detail in class.

I. M&M Theorems in Complete/Perfect Capital Markets


Background: Tirole, Chapter 2, 2.1 and 2.2.

II. Equilibria with Taxes (Corporate/Personal)


III. Agency Theory, Incomplete Contracting, and Corporate Governance

IIIA. Overview of Principal-Agent Models (A Review).


IIIB. Agency Models in Corporate Finance


**Background:** Mas-Colell, Whinston and Green, Chapter 14.

**Background:** Freixas,X. and J-C. Rochet, Chapter 4.
**Background:** Laffont and Mortimort, Chapters 1 to 4.

**Survey:** Lambrecht and Myers, Agency Dynamics in Corporate Finance, Annual Reviews in Financial Economics, Vol 8, 2016, 53-80


**Survey:** D. Yermack, “Corporate Governance and Blockchains,” Review of Finance 21, March 2017, 7-31


**E5.** Berger, Philip G. and Eli Ofek, "Diversification's Effect on Firm Value," Journal of


IV. Incomplete Information Games/Signalling and Efficiency Issues


Background: Mas-Colell, Whinston and Green, Chapter 13.


V. Reputation in Financial Markets


VI. Corporate Finance and Asset Pricing


VII. Design of Securities (To be covered in Part 2)


VIII Behavioral Corporate Finance (FYI)


IX. Corporate Takeovers (FYI)


X. Corporate Bankruptcy (FYI)