The course will begin with the classic Modigliani/Miller arguments, and follow the literature in discussing the implications of violations of MM assumptions and capital structure more broadly. There will be classes devoted to areas in which theory has important insights in corporate finance, including the theory of the firm, financial intermediation, financial constraints, and takeover markets.

This is a Ph.D. level class, and will presume knowledge of Ph.D. level microeconomic theory and an understanding of how financial markets work. Most of the course will be devoted to formal models.

The class will cover of 7 main topics, each of which will take up about 2 class sessions. There will be a final exam, which will count for 70% of the course grade. Class participation counts for the remaining 30%. To earn full credit for the participation grade, it is important to read the articles and think about them prior to each session.

Auditors are always welcome to attend, and advanced students who have seen some but not all of this material are encouraged to attend the sessions covering material that they have not seen previously.

Course Materials:

The main focus of the course is on academic articles. I will hand out slides from which the lectures are based. From time to time, I will use material from Tirole’s *The Theory of Corporate Finance*, which was published by Princeton University Press in 2006. I also will use some material from Hart’s *Firms, Contracts, and Financial Structure*, which was published by Oxford University Press in 1995. I would highly recommend purchasing these two books.
Reading List

Note: Readings with a * will be emphasized in the class discussion. Unless noted in class, these articles should be read prior to the class discussing the relevant topic.

Topic 1: MM, Tradeoff Model, Stockholder/Bondholder Conflicts


**Topic 2: Capital Structure and Agency Problems**


**Topic 3: Capital Structure and Asymmetric Information**


**Topic 4: Theory of the Firm, Contracting, Learning Models of Incentives.**


**Topic 5: Financial Intermediation**


**Topic 6: Liquidity Management**

Tirole (2006), Chapter 3.


**Topic 7: Takeover Markets and Free Rider Issues**

