FIN 395.5 – CORPORATE FINANCE THEORY
Fall 2018

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Office Hours: Wednesdays 1:00 pm to 2:00 pm

Course Description and Requirements

FIN 395 will review fundamental models/tools of Information Economics and Contract Theory and their applications in Corporate Finance. The class material will be divided in three main parts: Review of Contract Theory, Corporate Finance, and Information in Financial Markets (the last part is not exactly corporate finance, but is useful for research in all areas of finance).

There will be a midterm exam (40% of the grade) and a comprehensive final exam (60% of the grade) at the end of the semester. Several problem sets will be distributed. Problem sets are required work.

Lecture notes and required readings (denoted by an asterisk) are essential parts of the course. Other readings are not required, but are important for students who wish to do research in the corresponding area.

PART I: REVIEW OF CONTRACT THEORY


1. Moral Hazard and Incentives Contracts


2. Mechanism Design and Self-selection Contracts (Adverse Selection)


3. Incomplete Contracting and the Theory of the Firm


PART II: CORPORATE FINANCE


2. The Effects of Asymmetric Information on Financial Policy


3. An Agency Perspective on Corporate Finance


*Tirole (2006), The Theory of Corporate Finance, Chapters 3, 4 and 5.

**4. Security Design Approach to Capital Structure**


5. Financial Intermediation


6. Debt Policy


PART III: INFORMATION IN FINANCIAL MARKETS


1. The Informational Role of Asset Prices


2. Information Asymmetry and Market Microstructure


