

## Corporate Finance and Financial Intermediation 1

Course title - Intitulé du cours	Corporate Finance and Financial Intermediation 1
Level / Semester - Niveau /semestre	M2 / S2
School - Composante	Ecole d'Economie de Toulouse
Teacher - Enseignant responsable	Alexander Guembel
Other teacher(s) - Autre(s) enseignant(s)	
Lecture Hours - Volume Horaire CM	30
TA Hours - Volume horaire TD	
TP Hours - Volume horaire TP	0
Course Language - Langue du cours	Anglais
TA and/or TP Language - Langue des TD et/ou TP	

### **Teaching staff contacts - Coordonnées de l'équipe pédagogique :**

e-mail address: [alexander.guembel@tse-fr.eu](mailto:alexander.guembel@tse-fr.eu)

Please send me an e-mail if you wish to meet outside the class hours. I am also happy to discuss any issues or questions arising from the course after each session.

### **Course Objectives - Objectifs du cours :**

The course will cover the big topics in corporate finance (see course outline), both from a theoretical and an empirical perspective. It provides a treatment of the milestones of research in corporate finance and aims to give students an understanding of the frontier of current research.

The intended learning outcomes are

- Explain how key frictions (moral hazard, asymmetric information) can be captured in an economic model.
- Assess how such frictions affect financial arrangements of a corporation.
- Describe how selected empirical evidence relates to model predictions.
- Build on existing models so as to capture new effects, with a view to being able to develop one's own research.

### **COURSE OUTLINE:**

- Capital structure & security design
- Liquidity demand, fire sales, financial crisis
- Corporate governance (agency problems, monitoring, short-termism, executive compensation, takeovers and shareholder activism)
- Bankruptcy & control rights

### **Prerequisites - Pré requis :**

Good knowledge of intermediate microeconomics. Knowledge of corporate finance at M1 level is an advantage but not a requirement.

### **Practical information about the sessions - Modalités pratiques de gestion du cours :**

The course starts from the basics, but moves on pretty fast. It is therefore important that you review the material carefully after each class so as not to fall behind. I expect students to participate in class. Laptops are allowed during the class, but you will probably not find it helpful to bring one.

### **Grading system - Modalités d'évaluation :**

The course grade is made up of a paper discussion (40%), and a final exam (60%). The exam will cover students' knowledge of the literature and ability to analyze specific problems. It is a 2h closed-book exam. The paper discussion requires the presentation of a research paper.

The reading list below suggests a number of papers, but students can present other papers (these require my approval, so please discuss with me before choosing a paper).

The presentation should last 30 minutes and highlight, the paper's objectives, methodology, and main results as well as an evaluation of the paper's contribution (limitations of the paper, ideas of how to extend the paper in future research).

### **Bibliography/references - Bibliographie/références :**

Tirole, 2006, The Theory of Corporate Finance, Princeton University Press.

Some further reading as indicated below and during class.

### **Session planning - Planification des séances :**

#### Week 1

Introduction; Modigliani-Miller Theorem; Basic agency problem.

Reading: Tirole, ch. 2, 3.1-3.3

#### Week 2

Debt overhang; risk shifting; Collateralization;

Reading: Tirole, ch. 4

#### Week 3

Non-verifiable income & the role of collateral; Holdup by borrower (Hart-Moore); semi-verifiable income; diversification and agency cost; model with continuous investment (Tirole, ch. 3.4, 3.7, 3.8);

#### Week 4

Corporate liquidity demand.

Reading: Tirole, ch. 5

#### Week 5

Fire sales externalities.

Reading: Tirole, ch. 14, 15

Empirical paper for presentation:

- Ellul et.al., 2011, "Regulatory pressure and fire sales in the corporate bond market," Journal of Financial Economics.

#### Week 6

Credit constraints and cycles (Kiyotaki and Moore)

Reading: Tirole, ch. 14.3

#### Week 7

Asymmetric Information (Myers & Majluf, Stiglitz & Weiss)

Reading: Tirole, ch. 6

Empirical papers for presentation:

- Sufi, 2007, "Information Asymmetry and Financing Arrangements: Evidence from Syndicated Loans," Journal of Finance, 62(2), 629-668.

#### Week 8

Monitoring, investor activism, short-termism

Reading: Tirole, ch. 8, 9, 11

Empirical papers for presentation:

- Becht, et.al., 2017, "The Returns to Hedge Fund Activism: An international Study," working paper.
- Custodio, C., 2014, "Mergers and Acquisitions Accounting and the Diversification Discount," Journal of Finance, vol 69, 219 – 240.
- Boyson, N.M., N. Gantchev and A. Shivdasani (2017) "Activism Mergers," Journal of Financial Economics 126, 54 – 73.

#### Week 9

Control Rights

Reading: Tirole, ch. 10

Empirical papers for presentation:

- Davydenko and Franks, 2008, "Do Bankruptcy Codes Matter: A study of Defaults in France, Germany and the UK," Journal of Finance.
- Kaplan & Stromberg, 2002, "Financial Contracting Theory Meets the Real World: An Empirical Analysis of Venture Capital Contracts," Review of Economic Studies.
- Becht, Polo and Rossi, 2017, "Does shareholder voting prevent bad acquisitions?" Review of Financial Studies.

#### Week 10

Revision & presentations.