

Course Outline

Session 1: Wednesday Sept. 24, 12:15–16:00 i Karl Borchs auditorium (KRM): Firm Value Based Models/Asset Substitution

1. Black and Cox (1976)
2. Leland (1994)
3. Leland (1998)

Session 2: Friday Sept. 26, 8:15–12:00 i Karl Borchs auditorium (KRM): Firm Value Including Leverage Potential Based Models

1. Kane, Marcus, and McDonald (1984)
2. Kane, Marcus, and McDonald (1985)
3. Fischer, Heinkel, and Zechner (1989a)
4. Fischer, Heinkel, and Zechner (1989b)

Session 3: Thursday Oct. 16, 12:15–16:00 i auditorium 21 (KRM): Debt Maturity Structure/Asymmetric Information

1. Leland and Toft (1996)
2. Flor and Lester (2002)
3. Ericsson (2000)
4. Chen (2003)

Session 4: Friday Oct. 17, 8:15–12:00 i Karl Borchs auditorium (KRM): Strategic Debt Service

1. Anderson and Sundaresan (1996)
2. Mella-Barral and Perraudin (1997)
3. Mella-Barral (1999)
4. Hege and Mella-Barral (1999)

Session 5: Thursday Oct. 23, 12:15–16:00 i Karl Borchs auditorium (KRM): Debt Renegotiations

1. Gibson and Sundaresan (2000)
2. Hackbarth, Hennessy, and Leland (2003)

Session 6: Friday Oct. 24, 8:15–12:00 i auditorium 13 (KRM): EBIT Based Models

1. Goldstein, Ju, and Leland (2001)
2. Pawlina (2003)
3. Christensen, Flor, Lando, and Miltersen (2002)
4. Flor (2002)

Session 7: Thursday Jan. 15, 12:15–16:00 (DL): Intensity Based Models for Default and Credit Spreads

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Session 8: Friday Jan. 16, 8:15–12:00 (DL): Correlation, CDOs, and Credit Default Swaps

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Session 9: Thursday Jan. 22, 12:15–16:00 (DL): Rating Based Models

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Session 10: Friday Jan. 23, 8:15–12:00 (DL): Credit Risk, Interest Rate Swaps, and Estimation

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Syllabus

- Lando book
- Journal papers referenced above
- Class notes to be distributed

Course Approval

Doctoral students who take the class for credit will be assigned one of research articles to present for the class.

Exam

Take home exam.

References

ANDERSON, R. W., AND S. SUNDARESAN (1996): “Design and Valuation of Debt Contracts,” *The Review of Financial Studies*, 9(1), 37–68.

BLACK, F., AND J. COX (1976): “Valuing Corporate Securities: Some effects of Bond Indenture Provisions,” *The Journal of Finance*, XXXI, 351–367.

CHEN, N. (2003): “Chapter 11, Private Workouts, and Corporate Debt Pricing under Asymmetric Information,” Working paper, Graduate School of Business, Columbia University, New York, NY 10027, USA.

- CHRISTENSEN, P. O., C. R. FLOR, D. LANDO, AND K. R. MILTERSEN (2002): “Dynamic Capital Structure with Callable Debt and Debt Renegotiations,” Working paper, University of Southern Denmark, Department of Accounting and Finance, Campusvej 55, DK-5230 Odense M, Denmark.
- ERICSSON, J. (2000): “Asset Substitution, Debt Pricing, Optimal Leverage, and Maturity,” Working paper, McGill University, Faculty of Management, 1001 Sherbrooke Street West, Montreal QC, H3A 1G5 Canada.
- FISCHER, E. O., R. HEINKEL, AND J. ZECHNER (1989a): “Dynamic Capital Structure Choice: Theory and Tests,” *The Journal of Finance*, XLIV(1), 19–40.
- (1989b): “Dynamic Recapitalization Policies and the Role of Call Premia and Issue Discounts,” *Journal of Financial and Quantitative Analysis*, 24, 427–446.
- FLOR, C. R. (2002): “Capital Structure and Real Assets: Effects of an Implicit Collateral to Debt Holders,” Working paper, Department of Accounting, Finance, and Law, University of Southern Denmark, Campusvej 55, DK-5230 Odense M, Denmark.
- FLOR, C. R., AND J. LESTER (2002): “Debt Maturity, Callability, and Dynamic Capital Structure,” Working paper, Department of Accounting, Finance, and Law, University of Southern Denmark, Campusvej 55, DK-5230 Odense M, Denmark.
- GIBSON, R., AND S. M. SUNDARESAN (2000): “A Model of Sovereign Borrowing and Sovereign Yield Spreads,” Working paper, Graduate School of Business, Columbia University, New York, NY 10027, USA.
- GOLDSTEIN, R., N. JU, AND H. LELAND (2001): “An EBIT-Based Model of Dynamic Capital Structure,” *Journal of Business*, 74(4), 483–512.
- HACKBARTH, D., C. A. HENNESSY, AND H. LELAND (2003): “The Optimal Mix of Bank and Market Debt: An Asset Pricing Approach,” Working paper, Walter A. Haas School of Business, University of California at Berkeley, 545 Student Services Bldg. number 1900, Berkeley, California 94720, USA.
- HEGE, U., AND P. MELLA-BARRAL (1999): “Collateral Renegotiation and The Value of Diffusely Held Debt,” Working paper, CentER and Department of Finance, Tilburg University, The Netherlands, P. O. Box 90153, 5000 LE Tilburg, The Netherlands.
- KANE, A., A. J. MARCUS, AND R. L. McDONALD (1984): “How Big is the Tax Advantage to Debt?,” *The Journal of Finance*, XXXIX(3), 841–853.
- (1985): “Debt policy and the rate of return premium to leverage,” *Journal of Financial and Quantitative Analysis*, 20(4), 479–499.
- LELAND, H. E. (1994): “Corporate Debt Value, Bond Covenants, and Optimal Capital Structure,” *The Journal of Finance*, XLIX(4), 1213–1252.
- (1998): “Agency Costs, Risk Management, and Capital Structure,” *The Journal of Finance*, LIII(4), 1213–1243.
- LELAND, H. E., AND K. B. TOFT (1996): “Optimal Capital Structure, Endogenous Bankruptcy, and the Term Structure of Credit Spreads,” *The Journal of Finance*, LI, 987–1019.
- MELLA-BARRAL, P. (1999): “The Dynamics of Default and Debt Reorganization,” *The Review of Financial Studies*, 12(3), 535–578.
- MELLA-BARRAL, P., AND W. R. N. PERRAUDIN (1997): “Strategic Debt Service,” *The Journal of Finance*, LII(2), 531–556.
- PAWLINA, G. (2003): “Underinvestment, Capital Structure, and Strategic Debt Renegotiations,” Working paper, CentER and Department of Econometrics and Operations Research, Tilburg University, The Netherlands, P. O. Box 90153, 5000 LE Tilburg, The Netherlands.