

*PhD course*  
*Corporate Finance*  
*Fall 2011*

**Tentative Program**

**Course organizer:**

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**Purpose:**

To provide students that are in the early stages of their PhD studies with a firm knowledge and understanding of core topics in corporate finance. The course will be focusing on classical papers as well as more recent contributions (theoretical and empirical).

**Learning objectives:**

At the end of the course, students are expected to be able to:

- Understand when and how taxes, agency problems, and asymmetric information affect the optimal capital structure, payout policy, and firm values
- Explain the likely implications of agency problems and asymmetric information for other issues including IPOs, lending, equity issuance, ownership structure, investment decisions, risk management, and informationally efficient financial markets
- Provide examples of models examining issues like payout policy and capital structure in a dynamic setup.

**Structure:**

The compulsory part of the course will consist of eight full-day lectures and exercises generally starting at 10.00 and ending at 17.00 on selected Wednesdays at CBS. Some of the lectures will be held jointly with the Corporate Finance course at the elite master program in Advanced Economics and Finance also at CBS. These selected joint lectures are an integrated part of the following schedule. As also seen from the schedule, the PhD course will consist of two parts.

Part 1 (lectures 1-5): Basic corporate finance (“need to know!”) based on the world famous text book on corporate finance: Brealey/Myers/Allen (BMA): “Principles of Corporate Finance”. This part also contains an introduction to later selected topics. This part is open for PhD students but will not be compulsory. However, this part is strongly recommended for PhD students with limited training in basic corporate finance and/or accounting.

Part 2 (lectures 6-13): Covers different core topics in corporate finance based on classical articles and more recent papers. During the full-day lectures there will be additional lectures from 10.00 to 12.35 and from 16:15 to 17:00 offered only to PhD students. These lectures will contain a deeper analysis and discussions research in the different topics (theoretical as well as empirical).

All lectures in part 2 will be based on articles. All material will be handed out electronically except for the suggested chapters in the textbook “Theoretical Foundations of Corporate Finance” by João Amaro de Matos (Oxford University Press, 2001) which is supplementary reading.

**Exams:**

Students are required to participate actively during the course. There will be student presentation assignments and five mandatory exercises. The exercises have to be handed in and approved in order to pass the course. The course will end with an oral exam. It is expected that the students participate in all eight compulsory days. If a student fails to participate in one day (and only one day), the student can still take the final exam if the student hands in an essay discussing main issues covered during this day (details will follow if relevant).

**Prerequisites:**

Participants are supposed to have a basic knowledge of finance theory at the level of a Master's degree in Finance. A basic knowledge in Corporate Finance corresponding to the readings assigned for the first five non-compulsory lectures (part 1) will also be taken as given in the compulsory part (part 2) of the course. As mentioned, students without this knowledge are strongly recommended to follow part 1.

**Enrollment:**

Please indicate your interest in this course by e-mailing to: [kb.fi@cbs.dk](mailto:kb.fi@cbs.dk) (Ken L. Bechmann) as soon as possible and no later than September 30.

## **Tentative overview of the course:**

Lecture (date)	Topics	Exercises	Main literature
1 (7/9)	Introduction part I; What is corporate finance; Basic valuation tools		BMA 1, 2, 4 and 5
2 (14/9)	Cash flows; Risk and return; Cost of capital; Capital asset pricing model (CAPM)	BMA 2.16, 2.32, 4.16, 4.23	BMA 6, 7, 8
3 (22/9)**	Capital budgeting and risk; Best practices in capital budgeting	BMA 6.19	BMA 9, 10, 12 Notes to Excel
4 (28/9)	Payout policy; Capital structure	ValuationCase	BMA 16, 17, 18
5 (5/10)	Financing and valuation; Real options; Risk management; Concluding part I	BMA 16.19, 17.21	BMA 19, 22, 26
6 (19/10)	Introduction; Writing research papers in Corporate Finance; Classical Modigliani-Miller propositions and the effect of taxation – I		1-3
7 (26/10)	Classical Modigliani-Miller propositions and the effect of taxation – II	Stiglitz*	4-7
8 (2/11)	Agency problems and asymmetric information – I		8-11
9 (16/11)***	Agency problems and asymmetric information – II	Ross*	12-14
10 (23/11)	Other implications of asymmetric information	MyersMajluf*	15-18
11 (30/11)	Conflicts of interest and payout policy	Bechmann1*	19-22
12 (7/12)	Empirical evidence on payout policy	Bechmann2*	23-27
13 (14/12)	Dynamic capital structure; Real options; concluding remarks		28-29

Notes: Named exercises will be distributed later. Exercises with a \* will be mandatory exercises to be handed in two days before the lecture.

\*\* : The lecture takes place Thursday, time TBA.

\*\*\* : This day, we will have to start at 8:55.

## **Tentative list of readings:**

### **Books:**

Brealey, Richard A, Stewart C. Myers and Franklin Allen (2011), Principles of Corporate Finance, 10<sup>th</sup> edition, McGraw-Hill.

Amaro de Matos, João (2001), Theoretical Foundations of Corporate Finance, Oxford University Press.

## Papers:

1. Stiglitz, Joseph (1974), "On the Irrelevance of Corporate Financial Policy", *The American Economic Review*, 47, 851-866.
2. Miller, Merton H. (1977), "Debt and Taxes", *Journal of Finance*, 32, 261-275.
3. Bechmann, Ken L. and Toke Hjortshøj (2009), "Disclosed Values of Option-Based Compensation – Incompetence, Deliberate Underreporting or the Use of Expected Option Life?", *European Accounting Review*, 18, 475-513.
4. DeAngelo, Harry and Ronald Masulis (1980), "Optimal Capital Structure under Corporate and Personal Taxation", *Journal of Financial Economics*, 8, 3-29.
5. Hodder, James E. and Lemma W. Cunny (1995), "International Capital Structure Equilibrium", *Journal of Finance*, 45, 1495-1516.
6. Berens, James I. and Charles J. Cunny (1995), "The Capital Structure Puzzle Revisited", *Review of Financial Studies*, 8, 1185-1208.
7. Graham, John R. (2000), "How Big Are the Tax Benefits of Debt?", *Journal of Finance*, 55, 1901-1941.
8. Frank, Murray Z. and Vidhan K. Goyal (2003), "Testing the pecking order theory of capital structure", *Journal of Financial Economics*, 67, 217-248.
9. Myers, Stewart (1977), "The Determinants of Corporate Borrowing", *Journal of Financial Economics*, 5, 147-175.
10. Jensen, Michael and William Meckling (1976), "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure", *Journal of Financial Economics*, 3, 305-360.
11. Ross, Stephen (1977), "The Determination of Financial Structure: The Incentive-Signalling Approach", *Bell Journal of Economics*, 8, 23-40.
12. Rock, Kevin (1986), "Why new issues are underpriced", *Journal of Financial Economics*, 15, 186-212.
13. Leland, Hayne and David Pyle (1977), "Informational Asymmetries, Financial Structure and Financial Intermediation", *Journal of Finance*, 32, 371-387.
14. Myers, Stewart C. and Nicholas S. Majluf (1984), "Corporate Financing and Investment Decisions when Firms have Information that Investors do not have", *Journal of Financial Economics*, 13, 187-221.
15. Harris, Milton and Arthur Raviv (1996), "The Capital Budgeting Process: Incentives and Information", *Journal of Finance*, 51, 1139-1173.
16. Bechmann, Ken L. and Johannes Raaballe (2007), "The Differences Between Stock Splits and Stock Dividends – Evidence on the Retained Earnings Hypothesis", *Journal of Business, Finance, and Accounting*, 34, 574-604.
17. Stiglitz, Joseph and Andrew Weiss (1981), "Credit Rationing in Markets with Imperfect Information", *The American Economic Review*, 71, 393-410.
18. Grossman, Sanford J. and Joseph Stiglitz (1980), "On the Impossibility of Informationally Efficient Markets", *American Economic Review*, 70, 393-408.

19. Lucas, Deborah J. and Robert L. McDonald (1998), "Shareholder Heterogeneity, Adverse Selection, and Payout Policy", *Journal of Financial and Quantitative Analysis*, 33, 233-253.
20. Allen, Franklin, Antonio E. Bernardo, Ivo Welch (2000), "A Theory of Dividends Based on Tax Clienteles", *Journal of Finance*, 55, 2499-2536.
21. Miller, Merton H. and Kevin Rock (1985), "Dividend Policy under Asymmetric Information", *Journal of Finance*, 40, 1031-1051.
22. Bechmann, Ken L. and Johannes Raaballe (2010), "Taxable Cash Dividends – A Money-Burning Signal", *European Journal of Finance*, 16, 1-26.
23. Fama, Eugene F. and Kenneth R. French (2001), "Disappearing Dividends: Changing Firm Characteristics or Lower Propensity to Pay?", *Journal of Financial Economics* 60, 3-43.
24. Brennan, Michael J. and Anjan V. Thakor (1990), "Shareholder Preferences and Dividend Policy", *Journal of Finance*, 45, 993-1019.
25. Grullon, Gustavo and Roni Michaely (2002), "Dividends, Share Repurchases, and the Substitution Hypothesis", *Journal of Finance*, 57, 1649-1684.
26. Eije, Henk von and William L. Megginson (2008), "Dividends and share repurchases in the European Union", *Journal of Financial Economics*, 89, 347-374.
27. Bechmann, Ken L. and Johannes Raaballe (2011), "Payout to Shareholders – What Do We Mean and How to Measure It?", Working paper.
28. Dixit, Avinash and Robert Pindyck (1994), *Investment under Uncertainty*, Princeton University Press, selected chapters.
29. Leland, Hayne E. (1994), "Corporate Debt Value, Bond Covenants, and Optimal Capital Structure," *Journal of Finance*, 49, 1213-1252.