PhD Course in Corporate Finance

Fall 2009

Lecturers: Ken Bechmann, Claus Parum, Johannes Raaballe, Christian Riis Flor, Carsten Sørensen.

Purpose: To provide students that are in the early stages of their PhD studies with a firm knowledge and understanding of issues of relevance for optimal capital structure choice and corporate financial policy.

Structure: The course will consist of 8 full-day lectures and exercises (4 two-day meetings). Some of the sessions will be held jointly with the elite master program in Advanced Economics and Finance at Copenhagen Business School.

Exams: Students are required to participate actively in the course. There will be student presentation assignments, and the course will include a final 48 hour take-home exam.

Prerequisites: Participants are supposed to have a basic knowledge of finance theory at the level of a Master's degree in Finance.

Reading list: The lectures will be based on articles and chapters from relevant textbooks/lecture notes. All material will be handed out electronically except the suggested chapters in the textbook "Theoretical Foundations of Corporate Finance" by João Amaro de Matos (Oxford University Press, 2001) which is supplemental reading.

Course plan: The following topics will be covered: Classical Modigliani-Miller propositions and the effect of taxation, optimal capital structure and dividend policy with agency issues and asymmetric information, capital budgeting/real options issues, and capital structure choice in dynamic settings. (A course plan with tentative readings is attached below.)

Time: October 28-29, November 9-10, November 25-26, and December 9-10.

Place: Department of Finance, Copenhagen Business School, Solbjerg Plads 3, Frederiksberg. (Session 4 will be held at Department of Business and Economics, University of Southern Denmark, Campusvej 55, Odense.)

Enrollment: Please indicate your interest in this course by e-mailing to: cs.fi@cbs.dk (Carsten Sørensen) no later than October 8, 2009.

Schedule and tentative reading list:

1. October 28-29, 2009

Classical Modigliani-Miller propositions and the effect of taxation:

> Amaro de Matos, João (2001). *Theoretical Foundations of Corporate Finance*, Oxford University Press, chapter 2, pp. 39-58.
>
> Stiglitz, Joseph (1974). ”On the Irrelevance of Corporate Financial Policy”, *The American Economic Review*, 47, 851-866.
>
> Miller, Merton H. (1977). ”Debt and Taxes”, *Journal of Finance*, 32, 261-275.
>
> DeAngelo, Harry and Ronald W. Masulis (1980). ”Optimal Capital Structure under Corporate and Personal Taxation”, *Journal of Financial Economics*, 8, 3-29.
>
> Berens, James I. and Charles J. Cuny (1995). ”The Capital Structure Puzzle Revisited”, *Review of Financial Studies*, 8, 1185-1208.
>
> Hodder, James E. and Lemma W. Senbet (1990). ”International Capital Structure Equilibrium”, *Journal of Finance*, 45, 1495-1516.
>
> Graham, John R. (2000). ”How Big Are the Tax Benefits of Debt?”, *Journal of Finance*, 55, 1901-1941.

2. November 9-10, 2009

Agency problems and asymmetric information:

> Amaro de Matos, João (2001). *Theoretical Foundations of Corporate Finance*, Oxford University Press, chapter 3, pp. 61-95.
>
> Jensen, Michael and William Meckling (1976). ”Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure”, *Journal of Financial Economics*, 3, 305-360.
>
> Myers, Stewart C. (1977). ”Determinants of Corporate Borrowing”, *Journal of Financial Economics*, 5, 147-175.
>
> Kreps, David M. (1990). ”Adverse selection and market signaling”, A Course in Microeconomic Theory, Princeton, ch. 17, pp. 625-660,
>
> Ross, Stephen (1977). ”The Determination of Financial Structure: The Incentive-Signalling Approach”, *Bell Journal of Economics*, 8, 23-40.

Leland, Hayne and David Pyle (1977). ”Informational Asymmetries, Financial Structure and Financial Intermediation”, *Journal of Finance*, 32, 371-387.

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.

Frank, Murray Z. and Vidhan K. Goyal (2003). ”Testing the pecking order theory of capital structure”, *Journal of Financial Economics*, 67, 217-248.

3. November 25-26, 2009

Conflicts of interest and payout policy:

Amaro de Matos, João (2001). *Theoretical Foundations of Corporate Finance,* Oxford University Press, chapter 4, pp. 97-122.

Brennan, Michael J. and Anjan V. Thakor (1990). “Shareholder Preferences and Dividend Policy”, *Journal of Finance*, 45, 993-1019.

Chowdhry, Bhagwan and Vikram Nanda (1994). “Repurchase Premia as a Reason for Dividends: A Dynamic Model of Corporate Payout Policies*”, Review of Financial Studies*, 7, 321-350.

DeAngelo, Harry, Linda DeAngelo, and Douglas J. Skinner (2002). “Are Dividends Disappearing? Dividend Concentration and the Consilodation of Earnings”, Working Paper, forthcoming *Journal of Financial Economics*.

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.

John, Kose and Joseph Williams (1985). “Dividends, Dilution, and Taxes”, *Journal of Finance*, 40, 1053-1069.

Lucas, Deborah J. and Robert L. McDonald (1998). “Shareholder Heterogeneity, Adverse Selection, and Payout Policy”, *Journal of Financial and Quantitative Analysis*, 33, 233-253.

Miller, Merton H. and Kevin Rock (1985). ”Dividend Policy under Asymmetric Information”, *Journal of Finance*, 40, 1031-1051.

Raaballe, Johannes and Ken L. Bechmann (2004). “Taxable Cash Dividends – A Useful Way of Burning Money”, Working Paper.

4. December 9-10, 2009

Real options and capital structure:

Lecture notes on real option analysis (2009). Christian Riis Flor.

Lecture notes on dynamic capital structure (2009). Christian Riis Flor.

In addition some papers which will be announced later. Examples are:

Christensen, Peter O., Christian Riis Flor, David Lando, and Kristian R. Miltersen (2005). “Dynamic Capital Structure with Callable Debt and Debt Renegotiations”, Working paper, SDU.

Dangl, Thomas and Josef Zechner (2004). Credit Risk and Dynamic Capital Structure Choice, *Journal of Financial Intermediation*, 13, 183-204.

Eom, Y. H., J. Helwege, and J.-Z. Huang (2004). Structural Models of Corporate Bond Pricing: An Empirical Analysis. *The Review of Financial Studies* 17(2), 499–544.

Flor, C. R. and Hansen, S. L. (2009). How do Technological Advances Affect Investment Timing? A Two-sided Story, Working Paper, SDU.

Goldstein, Robert, Nengjiu Ju, and Hayne Leland (2001). An EBIT-Based Model of Dynamic Capital Structure, *Journal of Business*, 74, 483-512.

Lambrecht, B. and S. C. Myers (2007). A Theory of Takeovers and Disinvestment. *Journal of Finance*, 62(2): 809-845.

Leland, Hayne (1998). Agency Costs, Risk Management, and Capital Structure, *Journal of Finance*, 53, 1213-1243.

Mauer, D. C. and S. Sarkar (2005). Real Options, agency conflicts, and optimal capital structure. *Journal of Banking and Finance* 29, 1405–1428.

Morellec, E and Zhdanov, A. (2005). The Dynamics of Mergers and Acquisitions, *Journal of Financial Economics*, 77:649-672.