

FINANCIAL CONTRACTING

Code 6143

A. Y. 2010-11

Fausto Panunzi

The aim of this course is to show how financing decisions are affected by moral hazard and asymmetric information and how different securities can (or cannot) mitigate the associated agency costs. The course analyzes the *theoretical* literature on financial contracting.

Slides and additional material will be distributed on my webpage. As Tirole's book is very advanced, attending the classes is essential.

Four problem sets will be distributed and solved in class. They will not be graded (there is no TA for this course) and they have no weight on the final grade. There will be a midterm and a final exam (both written exams). Elementary calculus will be used in the course.

My office is on the 5th floor of the Roentgen Building, room E1-06. My phone number is 02 58365327 but the easiest way to contact me is by email (fausto.panunzi@unibocconi.it). Office hour is on Thursday, 11-12 am.

Schedule and readings

BD refers to chapters (or sections) in **Berk**, Jonathan and Peter **DeMarzo**, *Corporate Finance*, Pearson International Edition, 2008

T refers to **Tirole**, Jean, *The Theory of Corporate Finance*, Princeton University Press, 2006

1. (February 14): Introduction to the course. Capital structure in a perfect market: the Modigliani-Miller propositions (I) (**BD 14**)
2. (February 16): Capital structure in a perfect market: the Modigliani-Miller propositions (II) (**BD 14**)
3. (February 21): Modigliani-Miller with taxes (**BD 15.1-15.3**)
4. (February 23): Early theories (I): Debt overhang (Slides)
5. (February 28): Early theories (II): Pecking order (Slides)
6. (March 2): **Problem set 1**
7. (March 7): Early theories (III): Dividends as a signaling device (Slides)
8. (March 9): Financing capacity with moral hazard (I) (**T 3.1-3.4**)
9. (March 14): Financing capacity with moral hazard (II) (**T 3.1-3.4**)
10. (March 16): Boosting the ability to borrow (I): diversification and collateral (**T 4.1-4.3**)

11. (March 21): Boosting the ability to borrow (II): group lending and microfinance (**T 4.6**)
12. (March 23): Debt and incentives: Risk shifting and Free cash flow (Slides)
13. (March 28): **Problem set 2**
14. (March 30): Review session

April 11: **Midterm**

15. (April 27): Corporate finance under asymmetric information (I): Cross subsidization and market breakdown (**T 6.2**)
16. (May 2) Corporate finance under asymmetric information (II): The pecking order strikes back (**T 6.3**)
17. (May 4): Control rights (**T 10.2**)
18. (May 9): Monitoring and ownership concentration (**T 9.2**)
19. (May 11): **Problem Set 3**
20. (May 16): The Financial Crisis (I): An Overview (Slides)
21. (May 18): The Financial Crisis (II): From Subprime Losses to Reduced Lending (Slides)
22. (May 23): The Financial Crisis (III): TARP and other legacy asset programs (Slides)
23. (May 25): **Problem Set 4**
24. (May 30): Review session

June 15: **Final Exam**