1 Contact Information

- Office Hours: 812 Uris Hall; open-door or by email
- Email: neng.wang@columbia.edu
- TA: Daheng Yang, DYang22@gsb.columbia.edu
- Course materials: I will distribute course materials in class as we move forward. Please email Leticia Jerman at lj2192@columbia.edu. She is super nice and will be extremely helpful.
- Class-room and Time: URIS 329, Thursday 9:00AM-12:15PM. 
  But we need to reschedule several sessions to Fridays.

2 Course Description

This course covers a selection of important topics in corporate finance theory. It provides an in-depth literature background for students interested in Corporate Finance Theory and prepares students interested in conducting research related to Corporate Finance Theory. Students are expected to be familiar with core concepts and working knowledge from first-year micro, finance, contract theory, and game theory. We will cover classic Corporate Finance papers and recent contributions/research questions, particularly financial contracting, incomplete contracts, control and corporate governance, financial intermediation, bankruptcy, and Dynamic Corporate Finance. If time permits, we may also invite some scholar(s) to give guest lecture(s) about their fields/topics of research.

3 Readings and References

The lectures will be based primarily on notes and research articles. We will have a tentative course schedule. The exact progression of the course will depend on you. We will adapt our speed and coverage (to some extent) as we move forward.

We will also use some textbooks for references (depending on topics).

The following graduate textbook is a valuable background reading:
• **The Theory of Corporate Finance** (2005), by Jean Tirole, Princeton University Press,

We will not follow this book, but rather use it as a reference.

Other valuable reference books include

• **Contract Theory**, by Patrick Bolton and Mathias Dewatripont (2005), MIT Press is a very useful background reading. If you decide to pursue research on Corporate Finance Theory, this is an essential reference.

• **Handbook of the Economics of Finance**, Volume 1A, Corporate Finance (eds.) Constantinides, Harris and Stultz, (2003), North-Holland.


While Corporate Finance is traditionally treated as a separate subfield of Finance from Asset Pricing, increasing amount of new recent work lies at the intersection of these two subfields of Finance. Finally, I think that a potentially fruitful field of work is the macro perspective/implication of Corporate Finance (partly in response to the recent crisis.) For all these reasons, I also recommend the following books for your references, especially if you are interested in working on the intersections of asset pricing, macro, and corporate finance.

• Darrell Duffies **Dynamic Asset Pricing Theory**

• John Cochrane’s **Asset Pricing**

• Lars Ljungqvist and Thomas Sargent’s **Recursive Macroeconomic Theory**

### 4 Course Requirements and Grading

Course requirements include (1) individual homework assignments, (2) a final exam, and (3) a referee report. It is possible that I may decide to do away with either (2) or (3), depending on how the course evolves. If I ask you to write a referee report, you will choose a paper within a subset of papers related to the course theme and approved by me. Writing high-quality referee reports is an important academic skill. Of course, class participation (broadly interpreted) is also part of your course evaluation.

Grading will be based on your overall performance on individual homework assignments, the final exam and the referee report.

I’ve intentionally chosen to provide a flexible course requirement. This is one of the few occasions in teaching that the value of ex post flexibility is greater than the value of ex ante commitment.

### 5 Course Outline and Readings (Tentative)

Below is a tentative schedule of topics and readings.
5.1 The Modigliani-Miller (MM) Paradigm
- Berk and Demarzo’s Corporate Finance (an MBA level background materials)

5.2 The Modigliani-Miller Tradeoff Theory: Taxes and Financial Distress

5.3 Capital Structure: Incentives and Information

5.4 Theories of Debt
5.5 Financial Contracting and Control Theories


5.6 The Structure of Financial Contracting


- Hart, Oliver (2001), Financial Contracting, Journal of Economic Literature, 1079-1100


5.7 Theories of Equity, Dividend Policy, and Shareholder Control


5.8 Real Options and the $q$ Theory of Investment


5.9 Dynamic Capital Structure


5.10 Investment, Financing, and Risk Management: Marginal Value of Liquidity


5.11 Dynamic Financial Contracting


• Biais, Bruno, Thomas Mariotti, Jean-Charles Rochet, and Stephane Villeneuve, 2010, Large risks, limited liability, and dynamic moral hazard, Econometrica 78, 73–118.

• DeMarzo, Peter, and Michael Fishman (2007a), Optimal Long-Term Financial Contracting, Review of Financial Studies 20, 2079-2128

• DeMarzo, Peter, and Michael Fishman (2007b), Review of Financial Studies 20, 2079-2128

• DeMarzo, Peter, Michael Fishman, Zhiguo He, and Neng Wang (2012), Dynamic Agency And The Q Theory Of Investment, Journal of Finance

5.12 Human Capital and Corporate Finance

5.13 Dynamic Financial Intermediation