

Corporate Finance II: Corporate Finance Theory / Advanced Microeconomics (Master)

Fridays, 9-12, Room P3

Course Description:

The purpose of this course is to introduce the theoretical foundations of corporate finance. The course employs advanced microeconomic concepts, mainly derived from game theory and contract theory. The main topics covered include game-theoretic equilibrium concepts, moral hazard and adverse selection problems in financial contracting and incomplete contracting in finance. The course will consider both the microeconomic foundations of these problems in-depth and their methodical applications on real-life questions in corporate finance (related predominantly to the design of debt contracts, the monitoring and governance of corporate decision making).

Course Material:

- Textbooks:
 - Tirole, Jean (2006) *The Theory of Corporate Finance*
 - Bolton, Patrick and Dewatripont, Mathias (2005) *Contract Theory*
- Supporting literature:
 - Macho-Stadler, Ines and Perez-Castrillo, J.David (2001) *An Introduction to the Economics of Information*
 - Rasmusen, Eric (2006) *Games and Information*
 - Bannier, Christina (2005) *Vertragstheorie – Eine Einführung mit finanzökonomischen Beispielen und Anwendungen*

General information:

There will be a colloquium complementing the course in the last weeks of the semester. The colloquium sessions will study the recent literature in the field of theoretical corporate finance. Students will be asked to present assigned theoretical papers in a group of 3-4 participants and to discuss the theoretical contribution of the respective models in class. The colloquium sessions will take place on Fridays as well, but with a slightly varying time frame (approx. 8 am to 4 pm).

The grade will consist of the group presentation (50%) and an exam (50%).

Course Outline (tbc):

Session 1: 25.04.2014	Overview of class Introduction Game-theoretic preliminaries
Session 2: 09.05.2014	Introduction to contract theory: Hidden action, hidden information, screening and signalling
Session 3: 16.05.2014	Moral hazard in financial decisions Incentive schemes
Session 4: 23.05.2014	Moral hazard in financial decisions: Debt contracts
Session 5: 06.06.2014	Adverse selection in financial decisions: Corporate financing under asymmetric information
Session 6: 13.06.2014	Adverse selection in financial decisions: Costly state verification
Session 7: 27.06.2014	Incomplete contracts: Hold-up problems Financial structure and control
Session 8: tba	Presentation sessions #1
Session 9: tba	Presentation sessions #2
Session 10: tba	Presentation sessions #3