

Corporate Finance II: Corporate Finance Theory / Advanced Microeconomics (Master, 6 ECTS)

Summer term 2014

Fridays, 9am-12.15am, Room RW 5

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 (if time permits) incomplete contracting in finance. The course will consider both the microeconomic foundations of these problems 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 (60%) and a take-home exam (40%).

Course Outline:

Session 1: 25.04.2014	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 financing
Session 5: 06.06.2014	Moral hazard in financial decisions: Credit rationing
Session 6: 13.06.2014	Adverse selection in financial decisions: Market for lemons
Session 7: 27.06.2014	Adverse selection in financial decisions: Pecking-order capital structure
Session 8: 04.07.2014	Presentation sessions #1
Session 9: 11.07.2014	Presentation sessions #2
Session 10: 18.07.2014	Presentation sessions #3