

Universidad de los Andes
Programa de Economía para Graduados: PEG
Firmas, Contratos y Estructura Financiera
Profesor: Dairo Estrada ¹

1 Objectives

The primary goal of this scheme is to provide an integrated overview of the most important ideas in corporate finance from the point of view of the manager of a non-financial corporation. It also provides an introduction and some experience in standard techniques in corporate finance. The basic literature for the Course is: i. Principles of Corporate Finance, by Brealey and Myers (6th edition) and ii. Lectures Notes on Corporate Finance by Jean Tirole.

2 Program

2.1 Theory of Contracts: Review

2.2 Debt Capacity

Bibliografía básica: Tirole, Chapter 3-4.

Bibliografía complementaria:

1. Bolton, P. and Scharfstein, D. (1990). A Theory of Predation Based on Agency Problems in Financial Contracting. *American Economy Review* 80. pp. 93-106.
2. Diamond D. (1984). Financial Intermediation and Delegated Monitoring *Review of Economics Studies* 51. pp. 393-414.
3. Fudenberg, D. and Tirole, J. (1991). Game Theory *MIT press*.
4. Gale, D. and Hellwig, M. (1985). Incentive-Compatible Debt Contracts: The One-Period Problem. *Review of Economics Studies* 52. pp. 647-663.

¹E-mail: destrada@banrep.gov.co

5. Gale, D. and Hellwig, M. (1989). Repudiation and Renegotiation. *International Economic Review* 30. pp. 3-31.
6. Hart, O. and Moore, J. (1989). Default and Renegotiation: A Dynamic Model of Debt. *LSE FMG DP No. 57*.
7. Holmstrom, B. (1979). Moral Hazard and Observability. *Bell Journal of Economics* 10. pp. 74-91.
8. Holmstrom, B. and Tirole, J. (1994). Financial Intermediation, Loanable Funds and the Real Sector. *IDEI University of Toulouse*. Working Paper.
9. Jensen, M. (1986). Agency Cost of Free Cash Flow, Corporate Finance and Takeovers. *American Economic Review* 76. pp. 323-329.
10. Lacker, J. (1991). Why is there Debt? *Economic Review*. Federal Reserve Bank of Richmond. 77/4. pp. 3-19.
11. Milgrom, P. (1981). Good News and Bad News: Representations Theorems and Applications *Bell Journal of Economics* 12. pp. 380-391.
12. Stiglitz, J. and Weiss, A. (1981). Credit Rationing in Markets with Imperfect Information. *American Economic Review* 71. pp. 393-410.
13. Webb, D. (1992). Two-Period Financial Contracts with Private Information and Costly State Verification. *Quarterly Journal of Economics* 107. pp. 1113-1123.

2.3 Liquidity: Free cash flow and Long Run Financing

Bibliografía Básica: Tirole, Chapter 5.

Bibliografía Complementaria:

1. Jensen, M. and W. Meckling (1976). Theory of the Firm: Managerial Behavior, Agency Costs, and Capital Structure. *Journal of Financial Economics* 3. pp. 305-360.
2. Jensen, M. (1986). Agency Cost of Free Cash Flow, Corporate Finance and Takeovers. *American Economic Review* 76. pp. 323-329.

2.4 Collateral

Bibliografía Básica: Tirole, Chapter 4.

Bibliografía Complementaria:

1. Bolton, P and Scharfstein, D. (1990). A Theory of Predation Based on Agency Problems in Financial Contracting. *American Economic Review*, 80: 93-106.
2. Bolton, P and Scharfstein, D. (1996). Optimal Debt Structure with Multiple Creditors. *Journal of Political Economy*, 104: 1-26.
3. Chiesa, G. (1992). Debt and Warrants: Agency Problems and Mechanism Design. *Journal of Financial Intermediation*, 2: 237-254.
4. Diamond, D. (1984). Financial Intermediation and Delegated Monitoring. *Review of Economic Studies*, 51: 393-414.
5. Gale, D. and Hellwig, M. (1985). Incentive-Compatible Debt Contracts: The One Period Problem. *Review of Economic Studies*, 52: 647-663.
6. Gromb, D.(1994). Renegotiation in Debt Contracts. PhD thesis.
7. Hart, O. and Moore, J. (1989). Default and Reegotiation: A Dynamic Model of Debt. LSE, FMG DP No. 57.
8. Innes, R. (1990). Limited Liability and Incentive Contracting with Ex ante Action Choices. *Journal of Economic Theory*, 52: 45-67.
9. Mookherjee, D. and P'ng, I. (1989). Optimal Auditing, Insurance and Redistribution. *Quarterly Journal of Economics*, 104: 399-415.
10. Shleifer, A. and Vishny, R. (1992). Liquidation Values and Debt Capacity: A Market Equilibrium Approach. *Journal of Finance*, 47:1343-1366.
11. Townsend, R. (1979). Optimal Contracts and Competitive Markets with Costly State Verification, *Journal of Economic Theory*, 21: 417-425.

2.5 Active and Passive Monitoring

Bibliografía Básica: Tirole, Chapter 9 y 10.

Bibliografía Complementaria:

1. Aghion, P. and P. Bolton (1992). An Incomplete Contracts Approach to Bankruptcy and the Financial Structure of the Firm. *Review of Economic Studies* 59. pp. 483-494.
2. Dewatripont, M. and J. Tirole (1994). A Theory of Debt and Equity: Diversity of Securities and Manager-Shareholder Congruence. *Quarterly Journal of Economics* 109. pp. 1027-1054.
3. Hart, O. (1995). Firms, Contracts and Financial Structure. Clarendon Lectures. Oxford University Press. Oxford.
4. Holmstrom, B. and Tirole, J. (1993). Market Liquidity and Performance Monitoring *Journal of Political Economy* 101. pp. 678-709.
5. Jensen, M. (1986). Agency Cost of Free Cash Flow, Corporate Finance and Takeovers. *American Economic Review* 76. pp. 323-329.
6. Laffont, J-J and Meleu, M. (1997). Reciprocal Supervision, Collusion and Organizational Design. *Scandinavian Journal of Economics* 99. pp. 519-540.
7. Milgrom, P. and Stokey, N. (1982). Information, Trade and Common Knowledge *Journal of Economic Theory* 26. pp. 177-227.
8. Shavell, S. (1979). Risk Sharing and Incentives in the Principal and Agent Relationship. *Bell Journal of Economics* 10. pp. 55-73.
9. Tirole, J. (1992). Collusion and the theory of Organizations. In J-J Laffont (ed), *Advances in Economic Theory: Proceedings of the Sixth World Congress of the Econometric Society*. Cambridge:Cambridge University Press, Vol. 2: pp. 151-206.

2.6 Financial Structure and Adverse Selection

Bibliografía Básica: Tirole, Chapter 6.

Bibliografía Complementaria:

1. Leland, H. and D. Pyle (1977). Information Asymmetries, Financial Structure, and Financial Intermediation. *Journal of Finance* 32. pp.371-388.
2. Myers, S. and N. Majluf (1984). Corporate Financing and Investment Decisions when Firms Have Information that Investors Do not Have. *Journal of Financial Economics* 13. pp. 187-221.
3. Ross, S. (1977). The Determination of Financial Structure: The Incentive Signalling Approach. *Bell Journal of Economics* 8. pp. 23-40.
4. Bhattacharya, S. (1979). Imperfect Information, dividend policy, and the (bird in the hand) fallacy. *Bell Journal of Economics* 10. pp. 259-70.

2.7 Property Rights

Bibliografía Básica: Tirole, Chapter 11.

Bibliografía Complementaria:

1. Aghion, P. and P. Bolton (1992). An Incomplete Contracts Approach to Bankruptcy and the Financial Structure of the Firm. *Review of Economic Studies* 59. pp. 483-494.
2. Dewatripont, M. and J. Tirole (1994). A Theory of Debt and Equity: Diversity of Securities and Manager-Shareholder Congruence. *Quarterly Journal of Economics* 109. pp. 1027-1054.
3. Hart, O. (1995). Firms, Contracts and Financial Structure. Clarendon Lectures. Oxford University Press. Oxford.
4. Jensen, M. (1986). Agency Cost of Free Cash Flow, Corporate Finance and Takeovers. *American Economic Review* 76. pp. 323-329.

2.8 Corporate Finance and Industrial Organization Relationship

Bibliografía Básica:

1. Cestone, G. (1999). Corporate Financing and Product Market Competition : An Overview”, forthcoming, *Giornale degli Economisti*.

2. Bolton, P. and D.S. Scharfstein (1990). A Theory of Predation Based on Agency Problems in Financial Contracting. *American Economic Review* 80. pp. 93-106.
3. Brander, J.A. and T.R. Lewis (1986). Oligopoly and Financial Structure: the Limited Liability Effect. *American Economic Review* 76. pp. 956-970.
4. Maksimovic, V. (1988). Capital Structure in Repeated Oligopolies. *Rand Journal of Economics* 19. pp. 389-407.
5. Glazer, J. (1994), The Strategic Effects of Long-Term Debt in Imperfect Competition. *Journal of Economic Theory* 62. pp. 428 -443.

3 Evaluation

Two exams, partial and final with value of 30% and a lecture report with value of 30%. Additionally a problem set with value of 10%.