

Corporate Finance 3

Bocconi University

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Abstract

Professor:

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Office hours:

Monday, 18.00-19.00

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Summary and aims: How are firm financing and investment decisions affected by moral hazard and adverse selection? How can capital structure or regulations mitigate the associated agency costs? The aim of the class will be to explore these questions and understand the link between theory, data, and identification. The course will critically discuss influential debates in the corporate finance literature such as the debate on financing constraints, or the discussion of the bank lending channel. In doing so, we will also explore the latest advances in empirical toolkits that are especially relevant to study firm dynamics.

Pre-requisite: Basic Optimization.

Assesment: Presentation of a paper in class, and research project.

Material:

The first classes will be based on J. Tirole, “The Theory of Corporate Finance”. Then we will follow the papers to be discussed in class and which are in the reading list.

Course Secretary: Angela Baldassari.

Overview of Topics

Topic 1 Back to Basics: Capital Structure 101.

- Perfect capital markets: the Modigliani-Miller propositions
- Adverse Selection.
- Moral Hazard.

Material: slides, [Tirole, 2010](#) (Chapters 3 to 6), and [Modigliani and Miller, 1958](#).

Topic 2 Financial Constraints and its Discontents.

- Introducing cash flow into Q!
- Theoretical critique.
- Empirical critique.

Material: slides and papers ([Fazzari et al., 1987](#); [Kaplan and Zingales, 2000](#); [Fazzari et al., 2000](#)).

Topic 3 The Bank Lending Channel and its Discontents.

- A simple model of the bank lending channel and bank shocks!
- Identification: fixed effects everywhere!
- The problem of footnote 9!
- Specialization and assortative matching.

Material: slides and papers ([Khwaja and Mian, 2008](#); [Jiménez et al., 2014](#); [Amiti and Weinstein, 2018](#); [Paravisini et al., 2015](#)).

Topic 4 Bankruptcy Law, Default, and Renegotiation.

- A simple theory of cash diversion, debt and bankruptcy.
- Identification: exploiting judge heterogeneity!
- Estimating preferences and broader applications (patent evaluators, privatizers, etc.).

Material: slides and papers ([Hart and Moore, 1998](#); [Dobbie and Song, 2015](#); [Sampat and Williams, 2019](#); [Bernstein et al., 2019](#); [Farre-Mensa et al., 2020](#); [Bhuller et al., 2020](#))

Topic 5 All About Bunching.

- Basic Bunching: Reject Modernity Embrace Endogeneity!
- Bunching Estimation!
- Bunching Results - What Next? Structural Interpretation.
- An Application!

Material: slides and papers ([Kleven, 2016](#); [Chetty et al., 2011](#); [Garicano et al., 2016](#)).

Topic 6 Bartik Instruments (If Time Allows).

- Work in Progress!

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