

Advanced Financial Economics (Part II)

Course Syllabus

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Course Description

The course will cover theory and practice of financial decision-making within the corporation. Topics include capital structure choices, valuation of assets and liabilities, investment decisions.

Grading

Your course grade will be determined by your class participation (10%), performance on two problem sets (20%), and a final exam (70%). The problem sets that you are required to submit for grading are marked with an * in the course schedule below.

- Final Exam Date: January, 14th (?) 2026

Problem Sets

In addition to the graded problem sets, a number of problem sets will be assigned throughout the term. These problems are structured to reinforce the major themes in the course material and to provide a flavor for what might be encountered on the exams. Write-ups for these problem sets will not be collected or graded.

Course Schedule

The following schedule shows the topics that will be covered in lectures. This schedule should be considered tentative, as it is likely to change during the course, depending on various factors. Should changes be made, they will be announced in class. Lecture slides, problem sets and additional material can be found in the Dropbox folder:

<https://www.dropbox.com/scl/fo/w3ktp9n33akpfhwxg5h78/AE1BA-k-QL0TQmmLeKSKsws?rlkey=ng5gjor2fatxkyjwzy0tua1s3&st=mtd17c6c&dl=0>

Lecture 1

Accounting and Financial Statements Review

- Lecture Slides

Lecture 2

Theories of Capital Structure: Modigliani-Miller Irrelevance. Corporate Taxes and personal taxes.

- Lecture Slides
- Problem Set 1 (M-M)
- Modigliani and Miller [1958]
- Miller [1977]

Lecture 3

Preliminary Empirical Evidence on Capital Structure

- Lecture Slides
- Rajan and Zingales [1995]
- Cole [2013]
- Robb and Robinson [2014]

Lecture 4

Agency Costs and the Trade-Off Theory of Capital Structure

- Lecture Slides
- Myers [1977]
- Jensen and Meckling [1976]

Lecture 5

Asymmetric Information and the Pecking Order Theory of Capital Structure

- Lecture Slides
- Problem Set 2 (Agency Costs and Info Asymmetry)
- Myers and Majluf [1984]

Lecture 6

Market Timing Theory of Capital Structure

- Lecture Slides
- Baker and Wurgler [2002]

Lecture 7

IPOs and the decision to go public: rationales, implications and empirical evidence

- Lecture Slides
- Problem Set 3 (IPOs)

Lecture 8

Introduction to Entrepreneurial Finance

- Lecture Slides

Lecture 9

Valuation techniques. Financial statements and free cash flows; WACC and APV; Other valuation methods

- Lecture Slides
- Problem Set 4 (Valuation)
- Problem Set 5* (Dividend Policy)

Lecture 10

Real Options

- Lecture Slides
- Problem Set 6 (Real Options)

Lecture 11

Mergers and Acquisitions

- Lecture Slides
- Problem Set 7 (M&A)

Lecture 12

Anomalies and biases in corporate investments

- Lecture Slides
- Problem Set 8* (TBD)

References

- Malcolm Baker and Jeffrey Wurgler. Market timing and capital structure. *The journal of finance*, 57(1):1–32, 2002.
- Rebel A Cole. What do we know about the capital structure of privately held us firms? evidence from the surveys of small business finance. *Financial Management*, 42(4):777–813, 2013.
- Michael C Jensen and William H Meckling. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, 3(4):305–360, 1976.
- Merton H Miller. Debt and taxes. *the Journal of Finance*, 32(2):261–275, 1977.
- Franco Modigliani and Merton H Miller. The cost of capital, corporation finance and the theory of investment. *The American economic review*, 48(3):261–297, 1958.
- Stewart C Myers. Determinants of corporate borrowing. *Journal of financial economics*, 5(2):147–175, 1977.
- Stewart C Myers and Nicholas S Majluf. Corporate financing and investment decisions when firms have information that investors do not have. *Journal of financial economics*, 13(2):187–221, 1984.
- Raghuram G Rajan and Luigi Zingales. What do we know about capital structure? some evidence from international data. *The journal of Finance*, 50(5):1421–1460, 1995.
- Alicia M Robb and David T Robinson. The capital structure decisions of new firms. *The Review of Financial Studies*, 27(1):153–179, 2014.