SYLLABUS

Overview

This course is a rigorous introduction to modern theories of corporate finance. The first half of the course establishes foundational concepts, beginning with the neoclassical and tradeoff models, moving to agency problems and asymmetric information, and then considering security design and control rights. The second half of the course focuses on a select group of current topics, including internal capital markets, diversification, financial development, and corporate governance, where recent research has significantly advanced our understanding and in some cases reversed what was previously believed. The second half also focuses on the challenge of identification, a central issue for most empirical research. The goal of the course is to familiarize students with central ideas underpinning research in corporate finance, and to bring students to the research frontier in select areas. By the end of the course, students will have a working knowledge of the main tools of corporate finance research, and be equipped to begin independent research.

Course Methods

Class meetings are organized around lectures that develop models and discuss empirical results. Some papers will be presented by students in order to help develop presentation skills and create a participatory environment. There is a weekly homework assignment that focuses on modeling. Working through models has several benefits: it develops a deeper understanding of the underlying theory, prepares the student for independent theoretical research, and provides a foundation for empirical research.
The following list is provisional and may be modified as the semester progresses. Required readings will be identified as we go. Asterisks indicate readings that will be discussed in depth in class.

**PART I. Capital Structure: Debt versus Equity**

1. **Neoclassical Model and Tradeoff Model**

   *E. F. Fama & M. H. Miller, *The Theory of Finance*, Dryden Press, 1972, Chapters 1, 2, 4. [Neoclassical model. Book is out of print but can be downloaded at http://gsbwww.uchicago.edu/fac/eugene.fama/research/]*


2. **Security Choice: Agency Problems & Asymmetric Information**


**PART II. Security Design/Financial Contracting**

3. **Assigning Cash Flow**


4. **Assigning Control Rights**


**PART III. Topics**

5. **Product and Capital Market Interactions**


6. **Investment-Cash Flow Sensitivity**


7. Internal Capital Markets


8. Diversification


9. **Finance and Development**


10. **Corporate Governance**


11. Mergers


Grades

Grades will be assigned on the basis of the following:

- Homework assignments 20%
- Midterm (October 7) 30%
- Final exam (December 16, 11 am - 1 pm) 40%
- In-class presentation and participation 10%

At times this class will follow a standard lecture format, but we will also approach learning in a variety of other ways. Here is what your responsibilities are:

1. Attend class, learn the lecture material
2. Read the assigned papers.
3. In-class presentations.
4. Complete homework assignments.
5. Attend the Finance Workshop when the paper is in the area of corporate finance, and be prepared to discuss the paper the following class.

Teaching Assistant

The teaching assistant for this class is Breno Schmidt: breno.schmidt.2009@marshall.usc.edu. Breno Schmidt is a doctoral student in finance who is working on his dissertation. He will be grading homework and going over the solutions at a time to be arranged. Breno will also present a lecture on mergers and acquisitions.

Contact Information

Don’t hesitate to contact either one of us if you have questions about the class. The easiest way to reach us is by email: matsusak@usc.edu and ozbas@usc.edu. We would be glad to schedule an appointment if you would like to speak in person.
Instructor Profile
John G. Matsusaka

Education

B.A. Economics, University of Washington

M.A., Ph.D. Economics, University of Chicago

Professional

Vice Dean for Faculty and Academic Affairs, USC Marshall School, 2007-

Professor of Finance and Business Economics, USC Marshall School, 1991-

Professor of Business and Law, USC Law School, 2004-

Professor of Political Science, USC, 2005-

President, Initiative & Referendum Institute at USC, 2004-

John M. Olin Visiting Professor of Economics, GSB, University of Chicago, 2001

Visiting Associate in Economics, California Institute of Technology, 2000

Visiting Scholar, Anderson School, UCLA, 1996

National Fellow, Hoover Institution, Stanford University, 1994-1995

Other Professional

Consultant on corporate governance, Council of Economic Advisors, Executive Office of the President, Washington D.C., 2002

Recent Research in Corporate Finance


“Corporate Diversification, Value Maximization, and Organizational Capabilities,” Journal of Business, 2001 [Merton Miller Prize for “most significant paper.”]
Instructor Profile
Oguzhan Ozbas

Education

B.S. Industrial Engineering, Boğaziçi University

M.S. Industrial Administration, Carnegie Mellon University

Ph.D. Financial Economics, Massachusetts Institute of Technology

Professional

Assistant Professor of Finance and Business Economics,
USC Marshall School of Business, 2002-

Other Professional


Recent Research in Corporate Finance


