University of North Carolina at Charlotte  
Belk College of Business  
BPHD 8230 -001  
Theory of Corporate Finance  
Fall 2012 Syllabus

Professor: Dolly King  
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Class Time/Location: 9:30am to 12:15pm Tuesday, 386 Friday Building  
Office Hours: By appointment

Course Objective  
This PhD seminar focuses on contemporary issues in corporate financial theory. We will be exploring major issues in corporate finance including: capital structure, agency theory, information asymmetry and signaling, corporate payout policy, financing strategies and security issuance, market for corporate control, and corporate governance. The main goal of this seminar is to provide a comprehensive overview of the theories and empirical work in corporate finance AND to stimulate research-oriented discussions in an open forum. The seminar will be done in the format of paper discussions.

Below is the reading list. Please note that these topics and related articles are not intended to be exhaustive. There are of course other topics/papers not listed here. What I aim to include is a list of research topics and papers that are considered main topics and classic papers.

Supplemental Reading  
I do not plan to follow any corporate finance textbooks for the seminar. However, I strongly encourage you to read up on the backgrounds of the topics we will discuss throughout the semester. Here are my suggestions:

1. *The Theory of Corporate Finance* by Jean Tirole, Princeton University Press, 2005. This is a new book by one of the top economics working in corporate finance and other areas. This text is the best book (so far out there) for readings on corporate finance theories at the Ph.D. level.


3. *Financial Markets and Corporate Strategy* by Grinblatt and Titman, Irwin/McGraw-Hill, 1998. This is also a MBA level book, which can provide some solid foundations for a good number of topics in corporate finance. In particular, Chapters 17, 18 and 19 of this book provides a useful discussion on financing strategies of firms when firms face asymmetric
information and agency problems. (There is also a 2nd edition (2002) out, so either edition would be fine.)

4. *Principles of Corporate Finance* by Brealey and Myers, 7th edition (2003), Irwin-McGraw Hill. This is the classic and standard MBA level corporate finance text.

**Grading**

Grading for this course is determined by:

1. **Research Paper Discussions**
   We will review in details corporate finance papers selected from the reading list below. The selected papers are listed in the course schedule (distributed separately). Each student will take turns presenting the papers (counts for 30% of your grade). Three papers will be presented and discussed each week. Based on the time allotted for our class, there will be 50 min assigned to each paper. Please prepare for 40 min of paper presentation and leave 10 min for class discussion. Presentation guidelines are provided below.

   In addition to presentation, you are required to complete three critiques (counts for 15% of your grade). From the list of selected papers in the course schedule, you are free to choose the three papers to perform the critiques on. Written critiques are due on the day of paper presentations. Critique guidelines are provided below.

   Regardless of which papers you are assigned to present and which ones you choose to perform critiques on, everyone should come to class prepared to raise and answer questions in class discussion regarding these papers.

   **Presentation Guidelines:** Each presentation should include the following components: (1) Problem statement and motivation; (2) Brief survey of the literature; (3) Concise and intuitive explanations of the arguments for theoretical models or describe empirical methodology and why this methodology is used; (4) Summary of main results and contributions; (5) Critical examination of the strengths and weaknesses of the study; (6) Possible extensions to the paper with specific suggestions about solution techniques (for theory) or empirical methodology/data for these extensions; and (7) Presentation skills are extremely important in our profession. Keep in mind that each presentation must be both informative and entertaining. In addition to presentation contents described in components #1~6, you will also be evaluated on how well you present. I will provide comments and suggestions about your presentation skills throughout the semester. **Presentation will take a lot of time and efforts, but it will be well worth it!**

   **Critique Guidelines:** Critiques must be at least two pages in length (with a maximum of six pages). The format of the critiques should be similar to that of a referee report (so view these critiques as a short version of a formal referee report). In each critique, include the following components: (1) Brief summary of the research problem, motivation, main results, and contributions; (2) Discuss relevant literature; (3) Examine the study in a critical way by pointing out issues/problems and provide suggestions. It is important to support your criticisms and suggestions with relevant literature.
2. Midterm Exam (counts for 15% of your grade): Take-home exam on papers discussed on and prior to October 2 (Tuesday). Midterm exam will be distributed on October 2 (Tuesday) and due on October 16 (Tuesday).

3. Final Exam (counts for 15% of your grade): Final exam options will be distributed on November 27 (Tuesday). You can choose to complete ONE of the following options: term project presentation, take-home exam, or referee report. Project presentations (if anyone chooses this option) and due date of the take-home exams/referee reports are on December 11 (Tuesday).

4. Term Project (counts for 25% of your grade): The requirement of the term project is to be satisfied by the following elements:
   a. Find a topic for research in the field of corporate finance. The topic can be any issue as long as it is in corporate finance, i.e., the topic can be from the topics from the reading list or outside the list. For example, you can do something in corporate risk management if you are interested.
   b. Perform an extensive and comprehensive literature review of the topic you have chosen. Include both theoretical and empirical work related to the topic.
   c. Provide motivation and potential contributions of the topic of research. Be sure to position the topic well within the related literature.
   d. Design research methodologies for your topic. In other words, what theoretical derivations or empirical analysis do you plan to perform to examine the chosen topic?
   e. Discuss data sources.
   f. Bonus: Preliminary results would yield bonus points for the project grade.
   g. A formal project report is due on December 12 (Wednesday).

A one-page proposal for the term project is due on September 25 (Tuesday). Please feel free (and I strongly encourage you) to stop by to discuss your ideas for the project anytime. I would like to meet with you individually when you submit your proposal.

Background
Below is a list of articles that provide backgrounds on various theories and empirical methodologies in finance. We will not discuss these articles in class, however, these are very useful sources for doing research in finance.


Reading List
1. Capital Structure: The Classics

2. Capital Structure: Debt and Taxes

3. Capital Structure: Review and Recent Empiricals

4. Agency Problems, Capital Structure, and Ownership Structure


5. Adverse Selection and Signaling/Information Asymmetry

6. Corporate Payout Policy: Dividends


7. Corporate Payout Policy: Share Repurchases


8. Security Design and Financial Contracting


9. Security Issuance and Venture Capital


10. Market for Corporate Control and M&A

11. Corporate Governance and Management Compensation


