

ECON 423 Topics in Financial Economics

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Office hours: Thursday 11:30am-1:00pm.

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Office hours: Wednesday 2:30-3:30pm in Dunning 332.

Time and Room: Monday 11:30am-1:00pm and Thursday 1:00-2:30pm in MacDonald 2.

Course website: <http://www.econ.queensu.ca/faculty/viero/econ423/>

The course introduces topics and theories in corporate finance. It will cover the case of perfect capital markets as well as various cases of imperfections such as taxes and agency problems. We will also consider some issues in corporate governance. The approach of the course is theoretical.

Prerequisites: Econ 310 (Microeconomic Theory II) and Econ 322 (Financial Markets and Risk Management).

Required Text: Joao Amaro de Matos, *Theoretical Foundations of Corporate Finance*, Princeton University Press 2001.

Other books/texts: Tirole, J., *The Theory of Corporate Finance*, Princeton University Press 2006.

Huang, C. and R.H. Litzenberger, *Foundations for Financial Economics*, North-Holland 1988. (HL)

Jensen, M.C, and W.H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics* 1976, p. 305-360. (JM)

Evaluation: Midterm 30%, Final 50%, Homework assignments: 20%.

Midterm Exam: Monday February 11, in class. Closed book.

All components of this course will receive numerical percentage marks. The final grade you receive for the course will be derived by converting your numerical course average to a letter grade according to Queen's Official Grade Conversion Scale.

Topics/Rough lecture plan:

- 1 Valuation of investment opportunities under certainty (Ch. 1)
- 2 Valuation of investment opportunities under certainty (Ch. 1)
- 3 Valuation of investment opportunities under uncertainty (Ch. 1)
- 4 Valuation of investment opportunities under uncertainty (Ch. 1)
- 5 Beta values, CAPM, and real options (Ch. 1)

- 6 Optimal capital structure in perfect capital markets - Modigliani and Miller (Ch. 2)
- 7 Optimal capital structure in the presence of taxes (Ch. 2)
- 8 Conflicts of interest between equity holders and managers (Ch. 3.1 and JM)
- 9 Principal-agent problems: Incentive pay and stock options (Ch. 3.1)
- 10 Conflicts of interest between equity holders and debt holders (Ch. 3.1)
- 11 Midterm exam
- 12 Conflicts of interest between equity holders and debt holders (Ch. 3.1)
- 13 Informational asymmetries (Ch. 3.2)
- 14 Informational asymmetries – signaling (Ch. 3.2)
- 15 Payout policy – dividends (Ch. 4)
- 16 Payout policy – stock repurchases (Ch. 4)
- 17 17-24 Topics in financial contracting, corporate governance, and capital restructuring (Ch. 5-6)

Messages from the university:

Queen's students, faculty, administrators and staff all have responsibilities for supporting and upholding the fundamental values of academic integrity. Academic integrity is constituted by the five core fundamental values of honesty, trust, fairness, respect and responsibility (see www.academicintegrity.org) and by the quality of courage. These values and qualities are central to the building, nurturing and sustaining of an academic community in which all members of the community will thrive. Adherence to the values expressed through academic integrity forms a foundation for the "freedom of inquiry and exchange of ideas" essential to the intellectual life of the University. Students are responsible for familiarizing themselves with and adhering to the regulations concerning academic integrity. General information on academic integrity is available at Integrity@Queen's University, along with Faculty or School specific information. Departures from academic integrity include, but are not limited to, plagiarism, use of unauthorized materials, facilitation, forgery and falsification. Actions which contravene the regulation on academic integrity carry sanctions that can range from a warning, to loss of grades on an assignment, to failure of a course, to requirement to withdraw from the university.

Queen's University is committed to achieving full accessibility for persons with disabilities.

Part of this commitment includes arranging academic accommodations for students with disabilities to ensure they have an equitable opportunity to participate in all of their academic activities. If you are a student with a disability and think you may need accommodations, you are strongly encouraged to contact Student Wellness Services (SWS) and register as early as possible. For more information, including important deadlines, please visit the Student Wellness website at: <http://www.queensu.ca/studentwellness/accessibility-services/>

The Senate Policy on Academic Consideration for Students in Extenuating Circumstances

(<http://www.queensu.ca/secretariat/sites/webpublish.queensu.ca.uslclwww/files/files/policies/senateandtrustees/Academic%20Considerations%20for%20Extenuating%20Circumstances%20Policy%20Final.pdf>)

was approved in April, 2017. Queen's University is committed to providing academic consideration to students experiencing extenuating circumstances that are beyond their control and which have a direct and substantial impact on their ability to meet essential academic requirements. The Faculty of Arts and Science has developed a protocol to provide a consistent and equitable approach in dealing with requests for academic consideration for students facing extenuating circumstances, which can be found at: <http://www.queensu.ca/artsci/accommodations>