

**Department of Economics
University of Toronto Mississauga**

ECO440H5S

**Special Topics: Advanced Topics in Financial Economics
Winter 2012**

Class Location and Time:	CC2134 Mondays 4-6pm
Instructor:	Professor Varouj Aivazian
Office Location:	Room KN121
Office Hours:	Mondays 3:30-4pm and 6-6:30pm or by appointment
Telephone:	905-828-5302
Email Address:	varouj.aivazian@utoronto.ca
Course Website:	http://portal.utoronto.ca

Course objectives:

This course deals with the following topics in financial economics:

- i) Theoretical and empirical issues concerning the relevance of corporate financial structure.
- ii) Interactions between corporate investment and financing decisions.
- iii) The role of the financial system and the legal system in economic development and growth.
- iv) Finance and Macroeconomics.

Course materials:

There is no required textbook. The course will rely extensively on readings of journal articles.

Recommended textbooks are:

T. Copeland, J. Weston, K. Shastri, Financial Theory and Corporate Policy, Addison-Wesley, 2005, fourth edition (hereafter referred to as CWS).

Ross, Westerfield, Jaffe and Roberts, Corporate Finance, McGraw-Hill Ryerson, 2008, 5th Canadian Edition (hereafter referred to as RWJR).

Prerequisites:

ECO206Y5 (70%); ECO208Y5 (70%); ECO227Y5 (70%); ECO358H5

Prerequisites are strictly checked and enforced and must be completed before taking a course. By taking this course you acknowledge that you will be removed from the course at any time if you do not meet all requirements set by the Department of Economics. Further information can be found in the 2011-2012 Course Calendar which is available from the Registrars Office.

Grade allocation:

Class Participation	5%	
Class Presentation	35%	
Mid-term test	25%	February 13, 2012 (in class)
Final Exam	<u>35%</u>	
TOTAL	100%	

Each student will be assigned a paper to present in class. The presentation will include a careful discussion of the main points of the article and a critical evaluation of the article. A written report of 3 pages of the presented paper is also required. There is a penalty for late papers of 2% per day including weekends.

Missed Tests: In the event a student misses a midterm test due to illness, the student must submit the University's official "Student Medical Certificate" (available at: http://www.erin.utoronto.ca/index.php?id=9027&no_cache=1) indicating type of illness and date of illness to the Department Office within 5 business days of the test date, if possible.

Make-ups: Students who miss the midterm test due to illness are required to submit official documentation. Those so excused from writing the test will be given the option of writing a makeup test in the last week of classes or have the weight of the final exam increased by 25%.

Re-marking: If a student wants one or more questions on the midterm test re-marked, I reserve the right to re-mark other questions on the test as well.

Academic misconduct:

Students should note that copying, plagiarizing, or other forms of academic misconduct will not be tolerated. Any student caught engaging in such activities will be subject to academic discipline ranging from a mark of zero on the assignment, test or examination to dismissal from the university. Any student abetting or otherwise assisting in such misconduct will also be subject to academic penalties.

Students agree that by taking this course all required papers may be subject to submission for textual similarity review to Turnitin.com for the detection of plagiarism. All submitted papers will be included as source documents in the Turnitin.com reference database solely for the purpose of detecting plagiarism of such papers. The terms that apply to the University's use of the Turnitin.com service are described on the Turnitin.com web site.

Detailed Course Outline:

Week 1 Efficient Capital Markets

S. Grossman and J. Stiglitz, "Information and Competitive Price Systems," American Economic Review, May 1976.

Michael C. Jensen, "Value Maximization, Stakeholder Theory and the Corporate Objective Function", Journal of Applied Corporate Finance, Fall 2001.

RWJR Text - Chapters 13, 14; CWS Text – Chapter 10, 11

Week 2 **Fisher Separation Theorem**

Refer to Class Handout

CWS Text – Chapter 2

Week 3 **The Miller-Modigliani Propositions:**

M. Miller, “The Modigliani-Miller Propositions After Thirty Years,” Journal of Economic Perspectives, Fall 1998.

J. Stiglitz, “Why Financial Structure Matters,” Journal of Economic Perspectives, 2, 1988.

RWJR Text- Chapter 15, 16; CWS Text – Chapter 15

Week 4 **Taxes and Capital Structure**

M.Miller, “Debt and Taxes,” Journal of Finance, 1977

V. Aivazian and S. Turnbull, “Taxation and Capital Structure: A Selected Review,” in the **Impact of Taxation on Business Activity**, 1987, J. Mintz and D. Purvis(editors), The John Deutsch Institute, Queens University.

RWJR Text Chapters 17, 18; CWS Text – Chapter 14, 15

Week 5 **Agency Problems, Corporate Debt Covenants**

M. Jensen and W. Meckling, “Theory of the Firm: Managerial Behavior, Agency Costs and Capital Structure,” Journal of Financial Economics, 1976.

S. Myers, “Determinants of Corporate Borrowing,” Journal of Financial Economics, 1977.

RWJR Text Chapters 19, 20; CWS Text – Chapter 15

Week 6 **Midterm Test (in class; February 13, 2012)**

Week 7 **Debt Capacity and Bankruptcy**

S. Myers and N. Majluf, “Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have”, Journal of Financial Economics, pp. 187-221. 1984.

V.Aivazian, J. Qiu, Y.Ge, “The Impact of Leverage on Firm Investment: Canadian Evidence, “ Journal of Corporate Finance, 2004.

Week 8 **Empirical Evidence on Capital Structure**

R. Rajan and L. Zingales, "What do we know about capital structure? Some Evidence from International Data," Journal of Finance, 1995.

L. Booth, V. Aivazian, A. Demircug-Kunt, and V. Maksimovic "Capital Structure in Developing Countries", Journal of Finance, February 2001.

L. Lang, E. Ofek, and R. Stulz, "Leverage, Investment, and Firm Growth," Journal of Financial Economics, 40, 1996.

V. Aivazian, Y. Ge, and J. Qiu, "The Impact of Leverage on Firm Investment: Canadian Evidence," forthcoming in the Journal of Corporate Finance.

Week 9 **Law and Finance**

F. Modigliani and E Perotti," The Rules of the Game and the Development of Security Markets," Pacific-Basin Capital markets Research, volume II, S. Rhee and R. Change (eds.), 1991, North Holland.

V. Aivazian, "Microeconomic Elements of Financial Liberalization: Perspectives From Finance Theory," in J. Fanelli and R. Medhora, eds., Financial Reform in Developing Countries, London, MacMillan, 1998.

La Porta, Lopez-de-Silanes, Shleifer, Vishny, "Law and Finance," Journal of Political Economy, 1998.

RWJR Text Chapter 19

Week 10 **Financial Regulation**

S.Hanson, A.Kashyap, and J.Stein, "A Macroprudential Approach to Financial Regulation," Journal of Economic Perspectives, 2010.

F.Broner and J.Ventura, "Rethinking the Effects of Financial Liberalization," Working paper, December 2010

Paper Presentation: TBA

Week 11 **Financial Development and Growth**

R.Rajan and L.Zingales, "Financial Dependence and Growth," American Economic Review 88, 559-586, 1998

R.King and R.Levine, "Finance and Growth: Schumpeter Might be Right," Quarterly Journal of Economics 109, 717-738, 1993

Paper Presentation: TBA

Week 12

Bubbles, Investments and Business Cycles

S.Pratap and C.Urrutia, "Financial Frictions and Total Factor Productivity: Accounting for the Real Effects of Financial Crises," *Review of Economic Dynamics*, forthcoming.

J.Miao and P.Wang, "Bubbles and Total Factor Productivity," *American Economic Review Papers and Proceedings*, forthcoming.

A.Eisfeldt and A.Rampini, "Managerial Incentives, Capital Reallocation, and the Business Cycle," *Journal of Financial Economics*, 2008

V.Aivazian, M.Rahaman, and L.Sun, "Financial Shocks and Firm Performance: Evidence from Systemic Banking Crises," Working paper, 2011

D.Ding and M.Rahaman, "Booms, Busts, and Firm Exit: Evidence from M&A Activities Across Business Cycles," Working paper, 2011

Paper Presentation: TBA