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UNIVERSITÄT
BERN

Institute for Financial Management

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Financing and Capital Structure

Fall Semester 2022

Lectures: Thursday, 13.15 – 16.00, room HG 120
Office hours: By appointment
Teaching assistant: Jan Pichler, jan.pichler@unibe.ch
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Course website: [KSL](#)
Number of ECTS credits: 6

1. Course content and objectives

This course introduces students to several advanced topics in corporate finance, such as the capital structure of firms, the design of corporate securities, the issuing process of these securities, payout policy, and the implications of financial structuring for the value of firms. It presents a market-oriented framework for analyzing firms' financing and capital structure choices. In addition to the lecture, students will discuss a case study and solve exercises to enhance the understanding of the covered topics.

2. Organization

The lecture takes place in person on Thursday from 13.15 to 16.00. In addition, the lectures will be recorded and made available to students as a podcast on ILIAS.

3. Course material and prerequisites

Books:

The course builds on material from the following books:

- Berk and DeMarzo (**BM**), *Corporate Finance*, Pearson International Edition
- Hillier, Grinblatt, and Titman (**HGT**), *Financial Markets and Corporate Strategy*, European Edition, McGraw Hill

Journal articles:

The following articles discuss some of the fundamental concepts of and results about capital structure and payout policy. We will refer to some of these articles during class. Students can access these articles online through the library of the university.

Three articles are highlighted in **bold**. I expect students to read these articles. They will be an integral part of the final exam.

Role of institutions:

- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., and Vishny, R., 1998. Law and Finance. *Journal of Political Economy* 106, 1113-1155.

Capital structure:

- Akerlof, G., 1970. The Market for Lemons: Quality, Uncertainty, and the Market Mechanism. *Quarterly Journal of Economics* 84, 488-500.
- Baker, M., and Wurgler, J., 2002. Market Timing and Capital Structure. *Journal of Finance* 57, 1-32.
- Frank, M., and Goyal, V., 2003. Testing the Pecking Order Theory of Capital Structure. *Journal of Financial Economics* 67, 217-248.
- **Frank, M., and Goyal, V., 2009. Capital Structure Decisions: Which Factors Are Reliably Important? *Financial Management* 38, 1-37.**
- Graham, J., 2000. How Big Are the Tax Benefits of Debt? *Journal of Finance* 55, 1901-1941.
- Graham, J., and Harvey, C., 2001. The Theory and Practice of Corporate Finance: Evidence from the Field. *Journal of Financial Economics* 60, 187-243.
- **Graham, J., Leary, M., and Roberts, M., 2015. A Century of Capital Structure: The Leveraging of Corporate America. *Journal of Financial Economics* 118, 658-683.**
- Jensen, M., 1986. Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers. *American Economic Review* 76, 323-329.
- Jensen, M., and Meckling, W., 1976. Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics* 3, 305-360.
- Miller, M., 1977. Debt and Taxes. *Journal of Finance* 32, 261-275.
- Modigliani, F., and Miller, M., 1958. The Cost of Capital, Corporation Finance and the Theory of Investment. *American Economic Review* 48, 261-297.
- Modigliani, F., and Miller, M., 1963. Corporate Income Taxes and the Cost of Capital: A Correction. *American Economic Review* 53, 433-443.
- Myers, S., 1977. Determinants of Corporate Borrowing. *Journal of Financial Economics* 5, 147-175.
- Myers, S., and Majluf, N., 1984. Corporate Financing and Investment Decisions When Firms Have Information that Investors Do Not Have. *Journal of Financial Economics* 13, 187-221.

Payout and cash policies:

- Brav, A., Graham, J., Harvey, C., and Michaely, R., 2005. Payout Policy in the 21st Century. *Journal of Financial Economics* 77, 483-527.
- **Graham, J., and Leary, M., 2018. The Evolution of Corporate Cash. *Review of Financial Studies* 31, 4288-4344.**
- Graham, J., 2022. Presidential Address: Corporate finance and Reality. *Journal of Finance*, forthcoming.
- Manconi, A., Peyer, U., and Vermaelen, T., 2018. Are Buybacks Good for Long-Term Shareholder Value? Evidence from Buybacks around the World. *Journal of Financial and Quantitative Analysis*, forthcoming.
- Modigliani, F., and Miller, M., 1961. Dividend Policy, Growth, and the Valuation of Shares. *Journal of Business* 34, 411-433.

Raising equity and debt capital:

- Eckbo, E., Masulis, R., and Norli, O., 2007. Security Offerings: A Survey. In B. E. Eckbo (ed.), *Handbook of Corporate Finance*, Vol. 1: Empirical Corporate Finance, Elsevier.

- Lowry, M., Michaely, R., and Volkova, E., 2017. Initial Public Offerings: A Synthesis of the Literature and Directions for Future Research. SSRN working paper.
- Gahng, M., Ritter, J., Zhang, D., 2022. SPACs. SSRN working paper.
- Ritter, J., and Welch, I., 2002. A Review of IPO Activity, Pricing, and Allocations. *Journal of Finance* 57, 1795-1828.
- Smith, C., and Warner, J., 1979. On Financial Contracting: An Analysis of Bond Covenants. *Journal of Financial Economics* 7, 117-161.

Case study:

We will discuss one case study together in class (*Molycorp: Financing the Production of Rare Earth Minerals (A)*; HBS case 9-214-054). I expect all students to **read the case beforehand and to participate actively** during the case discussion.

Lecture notes:

I will upload lecture notes and any additional class material on ILIAS.

4. Problem sets

Students will work on two problem sets in groups of **3-4 students**. Students should submit the team composition [here](#) by the **end of September**. Students without a group can sign up to any group that has free spots. The due dates of the problem sets are indicated in the course schedule below and on the problem sets. For each problem set, students upload their solutions via ILIAS **before the deadline**.

The problem sets count 30% towards the final grade. The solutions to the problem sets will be made available on ILIAS.

Note: The points obtained in the problem sets from the past years do not count this year, and the points from this year cannot be transferred to the following years.

5. Evaluation

An individual final exam counts for 70% of the final grade. The remaining 30% of the grade will come from two problem sets.

The final exam covers the material of the whole course, including material from the problem sets, the case study, and mandatory readings. It will last two hours and is **closed book**. Students can bring along a **calculator** (programmable or non-programmable) as well as a **cheat sheet** (one A4 page, written (hand or computer) on front and back). **Connected devices are not allowed**.

There will be two dates for the final exam: 22.12.2022 and 14.02.2023. Students are free to choose between the two examination dates. They should make sure to register within the registration period on KSL.

6. Tentative course schedule

Date	Content	Readings	Comments
22.09.2022	Introduction and motivation Background <ul style="list-style-type: none"> - The law of one price - Financial intermediaries and instruments - The role of institutions 	BM, Ch. 1, 3 HGT, Ch. 1	
29.09.2022	Capital structure in perfect capital markets <ul style="list-style-type: none"> - Equity vs. debt financing - Modigliani & Miller I and II 	BM, Ch. 14 HGT, Ch. 14	No in person lecture. Podcast only.
06.10.2022	Capital market imperfections I <ul style="list-style-type: none"> - The role of taxes - The role of bankruptcy costs 	BM, Ch. 15, 16 HGT, Ch. 14, 16	
13.10.2022	Capital market imperfections II <ul style="list-style-type: none"> - Incentives - Agency costs and benefits - Information asymmetry - Empirical evidence on capital structure 	BM, Ch. 16 HGT, Ch. 16, 18, 19	
20.10.2022	Payout policy <ul style="list-style-type: none"> - Dividends and share repurchases - Payout policy in perfect capital markets - Payout policy and market imperfections 	BM, Ch. 17 HGT, Ch. 15	
27.10.2022	Long-term financing: Raising equity capital <ul style="list-style-type: none"> - Initial Public Offering (IPO) - IPO puzzles - Direct listings and SPACs 	BM, Ch. 23 HGT, Ch. 3	
03.11.2022	Long-term financing: Raising debt capital <ul style="list-style-type: none"> - Types of debt capital - Securitization 	BM, Ch. 24 HGT, Ch. 2	Problem Set 1 is due at 11.59am
10.11.2022	Characteristics of debt capital <ul style="list-style-type: none"> - Interest rates - Term structure of interest rates - Valuation of debt capital 	BM, Ch. 5, 6	
17.11.2022	Case study discussion <ul style="list-style-type: none"> - Discussion of: MolyCorp: Financing the Production of Rare Earth Minerals (A) 		
24.11.2022	Leasing <ul style="list-style-type: none"> - Leasing versus debt capital - Leasing decision 	BM, Ch. 25 HGT, Ch. 2	
01.12.2022	Guest lecture (tentative) <ul style="list-style-type: none"> - Guests from Credit Suisse - Topic: Raising equity capital 		
08.12.2022	Short-term financing <ul style="list-style-type: none"> - Working capital 	BM, Ch. 26, 27	Problem Set 2 is due at 11.59am
15.12.2022	Review session		
22.12.2022	Final exam (first examination date)		
14.02.2022	Final exam (second examination date)		