

Corporate Finance Theory

Teacher: Bruno Biais

Duration: 24 hours

Number of ECTS credits: 4

Education Level	Period	Language of instruction	Max. class size	Teaching Mode
Master	S1	English	25	In-Person

Prerequisites: Microeconomics, Game Theory

OVERVIEW

We will study how informational frictions generate deviations from the Modigliani & Miller financial structure irrelevance result. We will analyze the incentive properties of different financing tools, such as debt or equity, and how firms can use them to overcome credit rationing and financial constraints.

LEARNING OUTCOMES

1. Understand how the presence of capital market imperfections stemming from moral hazard and information asymmetry generate deviations from the Modigliani Miller irrelevance result.
2. Analyze the incentive compatibility constraints arising in the presence of these imperfections.
3. Understand the adverse consequences of incentive constraints for corporate financing and investment.
4. Analyze the characteristics of financial contracts optimally mitigating the adverse impact of imperfections.

DETAILED DESCRIPTION

Key Topics: Corporate finance, corporate investment, financial contracting, information asymmetry, moral hazard, incentive compatibility, credit rationing, optimal financial structure

Course organization - detailed outline:

October 20: Introduction

November 3: Moral hazard

November 10: Adverse selection

November 17: Two-period dynamic financial contracting

November 24: Infinite horizon discrete-time model

December 1: Infinite horizon continuous-time model

December 8: Students presentations (1)

December 15: Students presentations (2)

ESG-related Content:

Environmental-related content	Social-related content	Governance-related content
Moderate content	Moderate content	Extensive content

Competency Goals:

Transformative Management	Innovative Thinking & Problem Solving	Positive Leadership	Sustainable Business Practices
N/A	Extensive contribution	N/A	Moderate contribution

TEACHING MATERIALS

Slides and papers

TEACHING METHODS

Lectures, games, student presentations of theoretical and empirical research papers

COURSEWORK & EVALUATIONS

Tool/method of evaluation	Duration	Weight in the final grading
Class participation and paper presentations		40%
Final exam	2 hours	60%

BIOGRAPHY

Bruno Biais holds a PhD in finance from HEC, received the Paris Bourse dissertation award and the CNRS bronze medal. He taught at Toulouse, Carnegie Mellon, Oxford, LSE, and now HEC.

His research on finance, contract theory, experimental economics and blockchain is published in *Econometrica*, *Journal of Political Economy*, *American Economic Review*, *Review of Economic Studies*, *Journal of Finance*, *Review of Financial Studies* and *Journal of Financial Economics*.

He was editor of the *Review of Economic Studies*, the *Journal of Finance*, and *Management Science*.

He is a fellow of the Econometric Society and the Finance Theory Group.

He has been scientific adviser to the NYSE, Euronext, European Central Bank and Bank of England and is currently a member of the Scientific Committee the European Systemic Risk Board.