SYLLABUS

Overview
This course provides a rigorous introduction to fundamental concepts in corporate finance. The goal of the course is to familiarize students with central ideas underpinning research in corporate finance and develop an ability to frame phenomena in terms of existing theory. By the end of the course, students will have a working knowledge of the main tools of corporate finance research, and be equipped to begin independent research. This class begins with the neoclassical and tradeoff models, moves to agency problems and asymmetric information, then security design and control rights, and financial intermediation.

Learning Objectives
- Become familiar with central theoretical ideas underpinning research in corporate finance.
- Become familiar with the central scholarly papers that form the foundation for modern corporate finance.
- Become familiar with the main empirical findings in the literature.
- Understand the limitations as well as strengths of core concepts in the field, and the areas where our understanding is most tenuous.
- Develop the ability to formulate and solve mathematical models in the field.
- Develop the ability to interpret and critique empirical evidence in the field.
- Develop the skill to summarize and present research findings.

Course Methods
Class meetings are organized around lectures that develop models and discuss empirical results. Some papers will be presented by students in order to help develop presentation skills and create a participatory environment. There is a weekly homework assignment that focuses on modeling. Working through models has several benefits: it develops a deeper understanding of the underlying theory, prepares the student for independent theoretical research, and provides a foundation for empirical research.
Prerequisites
Students must have completed one semester of doctoral level microeconomics, ideally GSBA 602. Students should also have completed or be currently enrolled in a second-semester microeconomics class that covers game theory, information economics, and contracting, ideally GSBA 612.

Grades
Grades will be assigned on the following basis:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Homework</td>
<td>30%</td>
</tr>
<tr>
<td>Final exam (May 9, 8-10am)</td>
<td>50%</td>
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<tr>
<td>In-class presentations and participation</td>
<td>20%</td>
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</tbody>
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At times this class will follow a standard lecture format, but we will also approach learning in a variety of other ways. Your responsibilities are:

1. Attend class, learn the lecture material.
2. Read the assigned papers.
3. In-class presentations.
4. Complete homework assignments.
5. Attend the Finance Seminar when the paper is in the area of corporate finance, and be prepared to discuss the paper the following class.

Teaching Assistant
The teaching assistant is Yuan (Bruce) Li: yuan.li.2019@marshall.usc.edu. Bruce is a doctoral student in finance who is working on his dissertation. He will be grading homework and going over the solutions each week at a time to be arranged.

Contact Information
Please do not hesitate to contact me if you have questions about the class. Email is convenient: ozbas@usc.edu or drop by my office if I am there.

Class Notes Policy
Notes or recordings made by students based on a university class or lecture may only be made for purposes of individual or group study, or for other usual non-commercial purposes that reasonably arise from the student’s membership in the class or attendance at the university. This restriction also applies to any information distributed, disseminated or in any way displayed for use in relationship to the class, whether obtained in class, via email or otherwise on the Internet, or via any other medium. Actions in violation of this policy constitute a violation of the Student
Conduct Code, and may subject an individual or entity to university discipline and/or legal proceedings.

**Students with Disabilities**
Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to one of the instructors as early in the semester as possible. DSP is located in Grace Ford Salvatori Hall 120 and is open 8:30 a.m.-5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776.

**Statement on Academic Integrity and Conduct**
USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one’s own academic work from misuse by others as well as to avoid using another’s work as one’s own. All students are expected to understand and abide by these principles. SCampus, the Student Guidebook, contains the Student Conduct Code in Section 11.00, while the recommended sanctions are located in Appendix A. Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: [http://www.usc.edu/student-affairs/SJACS/](http://www.usc.edu/student-affairs/SJACS/). Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

Discrimination, sexual assault, and harassment are not tolerated by the university. You are encouraged to report any incidents to the Office of Equity and Diversity [http://equity.usc.edu/](http://equity.usc.edu/) or to the Department of Public Safety [http://capsnet.usc.edu/department/department-public-safety/online-forms/contact-us](http://capsnet.usc.edu/department/department-public-safety/online-forms/contact-us). This is important for the safety of the whole USC community. Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report or can initiate the report on behalf of another person. The Center for Women and Men [http://engemannshc.usc.edu/cwm/](http://engemannshc.usc.edu/cwm/) provides 24/7 confidential support, and the sexual assault resource center webpage [https://sarc.usc.edu/reporting-options/](https://sarc.usc.edu/reporting-options/) describes reporting options and other resources.
READINGS

The following list is provisional and may be modified as the semester progresses. Required readings will be identified as we go. Asterisks indicate readings that will be discussed in class.

<table>
<thead>
<tr>
<th>Week</th>
<th>Topic</th>
<th>Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Neoclassical model + Tradeoff model</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Taxes &amp; bankruptcy</td>
<td>HW 1</td>
</tr>
<tr>
<td>3</td>
<td>Agency problems</td>
<td>HW 2; presentations</td>
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<tr>
<td>4</td>
<td>Asymmetric information</td>
<td>HW 3; presentations</td>
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<tr>
<td>5</td>
<td>Security design: cash flow</td>
<td>HW 4</td>
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<tr>
<td>6</td>
<td>Security design: control rights</td>
<td>HW 5</td>
</tr>
<tr>
<td>7</td>
<td>Financial Intermediation</td>
<td>HW 6</td>
</tr>
<tr>
<td>8</td>
<td>FINAL EXAM</td>
<td></td>
</tr>
</tbody>
</table>

Part I. Capital Structure: Debt versus Equity

1. Neoclassical Model and Tradeoff Model

*E. F. Fama & M. H. Miller, *The Theory of Finance*, Dryden Press, 1972, Chapters 1, 2, .
   [Neoclassical model. Book is out of print but can be downloaded at http://faculty.chicagobooth.edu/eugene.fama/research/ .]


### 2. Security Choice: Agency Problems & Asymmetric Information


### 3. Evidence


**Part II. Security Design/Financial Contracting**

4. **Assigning Cash Flow**


5. **Assigning Control Rights**


6. **Financial Intermediation**


Instructor Profile
Oguzhan Ozbas

Education
B.S. Industrial Engineering, Boğaziçi University
M.S. Industrial Administration, Carnegie Mellon University
Ph.D. Financial Economics, Massachusetts Institute of Technology

Professional
Associate Professor of Finance and Business Economics, USC Marshall, 2002-
Visiting Associate Professor of Finance, Koç University, 2011-2012, 2013-2015
Treasury Associate, Ford Motor Company, Dearborn, MI, 1995-1998

Other Professional
Consultant to the Corporate Affairs Division, Organisation for Economic Co-operation
and Development on the proxy advisory industry, Paris, France, 2014-15

Research in Corporate Finance and Governance

“Why Do Managers Fight Shareholder Proposals? Evidence from No-Action Letter


Law, Economics, and Organization, forthcoming.

and Organization, 2014.

“Corporate Diversification and the Cost of Capital,” with R. Hann and M. Ogneva, Journal of
Finance, 2013.

“Club Deals in Leveraged Buyouts,” with M. Officer and B. Sensoy, Journal of Financial

“Costly External Finance, Corporate Investment, and the Subprime Mortgage Credit

“Evidence on the Dark Side of Internal Capital Markets,” with D. Scharfstein, Review of

“When Are Outside Directors Effective?,” with R. Duchin and J. Matsusaka, Journal of

“Integration, Organizational Processes, and Allocation of Resources,” Journal of Financial
Economics, 2005.
FBE 630. FUNDAMENTALS OF CORPORATE FINANCE

Professor Oguzhan Ozbas

Spring 2017

SCHEDULE

2/28/2017  Tuesday (9:00-11:50)
3/7/2017  Tuesday (9:00-11:50)
3/29/2017  Wednesday (2:00-4:50)
4/4/2017  Tuesday (9:00-11:50)
4/11/2017  Tuesday (9:00-11:50)
4/18/2017  Tuesday (9:00-11:50)
4/25/2017  Tuesday (9:00-11:50)

University scheduled final examination on 5/9/2017 Tuesday 8:00-10:00