

PhD400: Theoretical Corporate Finance

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Spring 2026

Course Summary

The goal of this course is to conduct a thorough study of the theory of corporate finance. A broad range of topics will be covered. To start, the course will provide an economic overview of corporate institutions. As the semester advances, we will examine corporate financing, agency costs, and security design.

We will discuss several topics, including the determinants of outside financing capacity, the implications of credit rationing, liquidity, free cash flow, long-term finance, corporate financing under asymmetric information, the allocation of control rights, takeovers, and consumer liquidity demand.

The course emphasizes in-depth coverage of selected topics rather than attempting to provide a comprehensive overview of the field of corporate finance theory. It is necessarily focused on theory. The material includes game- and contract-theoretic tools applied to corporate finance. However, the main goal is to develop economic intuition, and the math is kept to a minimum.

Learning Outcomes

The course has four goals. The first goal is for students to understand the key theoretical ideas in corporate finance theory discussed in the course. The second goal is to teach students the standard

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terminology of the field of corporate finance, such as debt capacity and costly state verification. The third goal is to improve students' general ability to think and reason as economists. The fourth goal is to enhance students' ability to develop and communicate their own research ideas.

Reading List

The course provides a graduate-level introduction to corporate finance theory. It is based on the textbook *The Theory of Corporate Finance* by Jean Tirole. The course examines specific chapters of the book in detail, especially firms' financing choices and the allocation of corporate control. The textbook includes a comprehensive list of references, which students are encouraged to consult.

Course Structure

Below is a list of topics I plan to cover.

1. An Economic Overview of Corporate Institutions
2. Outside Financing Capacity
3. Some Determinants of Borrowing Capacity
4. Liquidity, Free Cash Flow, and Long-Term Finance
5. Corporate Financing under Asymmetric Information
6. Control Rights and Corporate Governance
7. Takeovers
8. Consumer Liquidity Demand

Homework Assignments

Homework assignments will be distributed as the course progresses. The assignments are intended to deepen the students' understanding of the material of the course and are not graded. A subset of the homework assignments will be discussed in class.

Assessment

Assessment will be based on class participation and a research project. The course grade will be weighted as follows: 50% for class participation and 50% for the research project.

For the research project, students may work in groups of up to two. The project is a short research paper that presents and discusses a model related to the topics covered in class. It should be written in the style of a working paper and should not exceed 20 pages (double-spaced). The paper must be self-contained, including an abstract, an introduction, a complete description of the model, and all proofs. The model should either be a simple extension of a model discussed in class or a new model addressing a question in the broad area of corporate finance. Students can refer to textbook exercises as guidance for potential extensions. The group should consult with me at least once, and meetings should be scheduled personally between the group and me. The research topic must be approved by me.

Office Hours

Please contact me to set up a time that works for both of us.

Schedule

All lectures are held as listed on the course website.