



## PRESENTACIÓN

### Breve descripción:

- **Titulación:** Master in Economics and Finance
- **Módulo/Materia:** Module I/Matter: 1.1 Economic Theory
- **ECTS:** 3.5 (87.5 hours of work)
- **Curso, semestre:** Spring, 2023/2024
- **Carácter:**
- **Profesorado:** Florencio López de Silanes
- **Idioma:** English
- **Aula, Horario:** See MEF's class schedule ([link to the web](#))

## RESULTADOS DE APRENDIZAJE (Competencias)

### GENERAL COMPETENCIES

CG1) Train high-level specialists in both economic theory and finance

CG3) Familiarize students with research fields and the most relevant literature in economic theory and finance

CG4) Develop students' critical capacity towards economic or financial phenomena and enhance their communication skills.

CG5) Provide students with the basic theoretical foundations to start doctoral studies in economics or finance.

### SPECIFIC COMPETENCIES

CE2) Develop the main ideas and techniques necessary for the analysis of general equilibrium models

CE5) Study and delve into the economic theory of uncertainty and asymmetric information and its main applications to corporate governance and market dynamics.

CE8) Understand the models that originated the theory of industrial organization, including the treatment of static and dynamic oligopoly theory, entry and exit, asymmetric information, research and development, and operational networks

## PROGRAMA

Topic1: Financial Contracting and the Limits of the M&M Theory

Topics 2: Agency Theory, Corporate Governance and Investor Protection

Topic 3: Ownership Structures around the World

Topic 4: Valuation

Topic 5: Corporate Restructuring

Topic 6: Mergers, Acquisitions and Takeovers



Topic 7: Wrap up: The Impact of Governance in Capital Raising, Investing and Payout Policies around the World; An Agenda for Research

## **ACTIVIDADES FORMATIVAS**

### **GROUPS FOR CASES AND SIMULATION**

There are 2 cases in the course plus the M&A Simulation Case.

The cases should be prepared and worked out in groups of 3 people. The composition of the groups will be announced at the beginning of the class. You cannot switch groups in the middle of the course: groups are permanent for the duration of the course.

### **CASES AND SIMULATION**

You are expected to have prepared your case in groups and to have turned in your answers via email or the webpage of the course 10 minutes BEFORE the beginning of the lecture when the case will be discussed (see the specific in the detailed schedule of "Topics and Bibliography"). I recommend that you also have with you a printout of your answers during lecture to work through our discussion, ask questions to the groups that are presenting, and take further notes.

The answers to the case have to be produced in one single POWERPOINT file (which can incorporate whatever documents you want from word, excel, pictures, photocopies, etc...). But the important thing is that you put all of those documents together in one single file per group. So, remember: only one file per group per case.

The idea of the power point presentation is to mimic what a typical investment banking or corporate advisor firm would produce for a client seeking an opinion or advice on a transaction /issue. You need to be ready to defend all your calculations. The more "Finance" there is in your presentation, the better.

You can use whatever materials or information you want to use to answer the questions and back up your answers, as long as it is legal to use it and you respect plagiarism regulations. You cannot discuss the cases with other groups or work with them.

### **CASE PRESENTATIONS AND CLASS DISCUSSION**

Each group will be required to present orally during lecture ONE out of the two cases. You will have to turn in your power point for the case you are presenting.

The groups that are presenting need to use their prepared power point presentation (which needs to include excel calculations, pictures, pdfs, etc...). This presentation needs to incorporate all potential materials that could help you answer specific questions that you will be asked. So, please be ready with all calculations, valuations, etc... There is a maximum of 3 pages per question of the case.

Each presenting group needs to prepare all the answers in the case, but will not be presenting all the case. I will distribute the questions that each group will present the day of the case presentation. We may hear multiple answers for several questions though. The groups that present the same question need to be contributing new things to the answer previously given by other groups. During the case presentation sessions, every person in the group needs to be active and participating.

Groups also need to turn in answers for the second case (i.e., the one that was not assigned to them for presentation) in the same format as if they were presenting the case.



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The list of groups presenting each case will be distributed in class as soon as registration is closed and we can make the final groups. We will assign the case presentations to groups randomly.

In addition, all groups need to prepare and turn in written answers for the valuation sections of the M&A Simulation Case.

Finally, you are also expected to participate actively in all cases. So, if you want to profit from the course, it is recommended that, at a minimum, you read all the cases and think about them before coming to class. If you do not do this, you may be missing important concepts and practice that may be useful preparation for the final exam. We will also be marking class participation, questions and answers for all groups. The groups that ask more/better questions and contribute to the discussion will obtain more participation points.

## EVALUACIÓN

### CONVOCATORIA ORDINARIA

Class participation: 20% (lectures, simulation and case presentations)

Groups case presentations: 40% (Group Cases and M&A Simulation)

Individual final exam case: 40% (Individual Take Home Case)

### CONVOCATORIA EXTRAORDINARIA

## HORARIOS DE ATENCIÓN

By email

## BIBLIOGRAFÍA

### Topic1:

#### Financial Contracting and the Limits of the M&M Theory

- Modigliani, Franco and Merton Miller, "The Cost of Capital, Corporation Finance and The Theory of Investment," American Economic Review, June 1958. [Find it in the library.](#)
- Miller, Merton, "Debt and Taxes," Journal of Finance, July 1977. [Find it in the library.](#)
- Johnson, S., R. La Porta, F. López-de-Silanes, and A. Shleifer., "Tunneling," American Economic Review Papers Proceedings, Vol. 90, No. 2, May 2000, pp. 22-27. [Find it in the library.](#)
- The Scandal of Wirecard: Wirecard, The Timeline, The Financial Times, July 2020.

### Topics 2:

#### Agency Theory, Corporate Governance and Investor Protection



## Agency Conflicts: Inside and outside shareholders

- Jensen, Michael, and William Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," Journal of Financial Economics, October 1976. [Find it in the library.](#)
- Hart, Oliver, "Firms, Contracts and Financial Structure," Oxford University Press, 1995, Chapters ?  
VxJw3wfC56=1722320931&Kq3cZcYS15=f974aa3a80924137a28d0aa0da880699&Kq3cZcYS15=ff2F%2BbhoT8LRXzggkC7ZQ%2BKznq29TuOqO7Dg4%3D# 1 and 6. [Find it in the library.](#)
- A. Shleifer, and R. Vishny, "Survey of Corporate Governance," Journal of Finance, 1997. [Find it in the library.](#)
- La Porta, Rafael, F. Lopez-de-Silanes, A. Shleifer and R. Vishny, "Investor Protection and Corporate Governance," Journal of Financial Economics, 2001. [Find it in the library.](#)
- La Porta, R., F. Lopez-de-Silanes, A. Shleifer and R. Vishny, "Investor Protection and Corporate Valuation," Journal of Finance LVIII, No. 3, June 2002. [Find it in the library.](#)
- Welch, Ivo, "Chapter 25: Corporate Governance," Corporate Finance, 3rd Edition, 2014.

## Investor Protection and Other Governance Solutions

- Not so Civil Anymore; How Free-Market Economics Reshaped Legal Systems the World Over, The Economist, October 2023
- The Law of the Market, The Economist.
- Check the Laws before You Invest Abroad, The Economist. Investors and Private Markets, The Economist, January 2020.
- Activist Shareholders score with record moves in 2018, Financial Times, January 2019.
- Chief Executives win the Pay Lottery, The Economist, October 2018.
- Activist Funds; An Investor Calls, The Economist, February 2015.
- Shareholder Rights: Power to Owners, The Economist, March 2013.
- Corporate Governance: Shareholders at The Gates, The Economist, March 2013.
- Cohen, Oded, "Firm-level and Country-level Corporate Governance; Does one Complement or Substitute the Other?" SSRN Working Paper, 2020.
- Downar, Benedikt and Mario Keiling, "Shareholder Rights and Capital Structure: Evidence from Derivative Lawsuits," SSRN Working Paper, 2020.
- La Porta, R., F. Lopez-de-Silanes, and A. Shleifer, "Law and Finance after a Decade of Research," and book of the Economics of Finance Vol. 2, Part A, pp 425-491, 2013.
- La Porta, R., F. Lopez-De-Silanes, A. Shleifer, R.W. Vishny, "Legal Determinants of External Finance", The Journal of Finance, Vol. 52, No. 3, Papers and Proceedings Fifty-Seventh Annual Meeting, American Finance Association, New Orleans, Louisiana January 4-6, 1997 (Jul., 1997),
- La Porta, R., F. Lopez-de-Silanes, A. Shleifer and R. Vishny, "Law and Finance," Journal of Political Economy 106, 1998. Reprinted in Richard A. Posner and Francesco Parisi series editors and Paul H. Rubin editor, Economic Approaches to Law; The Evolution of Efficient Common Law, University of Chicago Press, 2006.
- Desai, Mihir, Alexander Dyck, and Luigi Zingales, 2007, Theft and taxes, Journal of Financial Economics.



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- Dyck, Alexander and Luigi Zingales, 2004, "Private benefits of control: An international comparison," *Journal of Finance*, 59, 537-600.
- Jensen, Michael, "Agency Cost of Free Cash Flow, Corporate Finance, and Takeovers," *American Economic Review*, May 1986.
- Kind, A., and Y. Schlapfer, "Are Forced CEO Turnovers good or bad news?" SSRN Working Paper ?  
VxJw3wfC56=1722320931&Kq3cZcYS15=f974aa3a80924137a28d0aa0da880699&Kq3cZcYS15=f2F%2BbhoT8LRXzggkC7ZQ%2BKznq29TuOqO7Dg4%3D#1679632, 2011.
- Dittmann, I., E. Maug, C. Schneider, "Bankers on the Boards of German Firms: What They Do, What They Are Worth, and Why They Are (Still) There," *Review of Finance*, Vol. 14, pp.35-71, 2010.
- Morck, Randall, Andrei Shleifer, and Robert Vishny, "Management Ownership and Market Valuation," *Journal of Financial Economics*, January 1988.
- Demsetz, Harold, and Kenneth Lehn, "The Structure of Corporate Ownership: Causes and Consequences," *Journal of Political Economy*, December 1985.
- Morck, Randall, Andrei Shleifer, and Robert Vishny, "Do Managerial Objectives Drive Bad Acquisitions?" *Journal of Finance*, March 1990.
- Morck, Randall, Andrei Shleifer, and Robert Vishny, "Alternative Mechanisms of Corporate Control," *American Economic Review*, September 1989.
- Jensen, Michael, and Richard S. Ruback, "The Market for Corporate Control: the Scientific Evidence," *Journal of Financial Economics*, April 1983.

## Topic 3:

### Ownership Structures around the World

- Family Companies: The Dark Side of Family Capitalism, *The Economist*, April 2015.
- Family Firms: Business in the Blood, *The Economist*, November 2014.
- Alibaba Listing: Shareholder Rights, Out of Control, *The Economist*, September 2014.
- Aminadav, Gur, and Elias Papaioannou, "Corporate Control Around the World," *Journal of Finance*, 2021.
- Lukomnik, J., and Quinn, S., "Controlled Companies in the Standard & Poor's 1500: A ten-year performance and risk review." Investor Responsibility Research Center Institute, New York, October 2012.
- Atanasov, V., B. Black, C. Ciccotello, and S. Gyoshev, "How does law affect finance? An examination of equity tunneling in Bulgaria," *Journal of Financial Economics*, 96, pp 155-173, 2010.
- Dyck, A. & Zingales, L., "Private Benefits of Control: An International Comparison", *Journal of Finance*, 59 (2), 2004.
- Burkart, M., F. Panunzi, and A. Shleifer, "Family Firms," *Journal of Finance*, October 2003.
- Claessens, S., S. Djankov, J. Fan, and L. Lang, "Disentangling the Incentive and Entrenchment Effects of Large Shareholdings," *Journal of Finance*, 2003.



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- Bertrand, M., P. Mehta and S. Mullainathan., "Ferretting out Tunneling: An Application to Indian Business Groups," Quarterly Journal of Economics, 2002.
- La Porta, Rafael, Florencio López-de-Silanes and Andrei Shleifer., "Corporate Ownership around the World," Journal of Finance 54, No. 2, 1999, pp. 471-517.

## **CASE 1 (to be prepared before the Spring & to be presented during Spring Lectures):**

- Samsung Electronics: 30 Years of Corporate Governance," SKEMA Business School Case, Revised 2021.

## **SPRING LECTURES, 2024**

### **Topic 4:**

#### **Valuation**

- Mitra, S.K., "Note on Cash Flow Valuation Methods," Ivey School of Business Note, 2010.
- Fernandez, Nuno, "Note on Company Valuation by Discounted Cash-flows," IMD Notes, 2012. [Read part 4: Creating Value Through M&A].
- Case: Nelson Paper Products, Harvard Business School Case. [Needs to be read BEFORE starting the Valuation lecture as this case will be used to illustrate valuation methodologies]

### **CASE 1 (in class presentation):**

- Samsung Electronics: 30 Years of Corporate Governance," SKEMA Business School Case, Revised 2021.

### **Topic 5:**

#### **Corporate Restructuring**

#### **The Value Gap; What Corporate Restructuring is all about (Divestitures, Leverage Buyouts and Private Equity, Spin-offs, Carve-outs, etc...)**

- Shekhar, Suraj, "Signalling, Reputaiton and Spinoffs," Journal of Economic Behaviour & Organization," 2018.
- Pettit, Justin, "Positioning for Growth; Carve-outs and Spin-offs," SSRN, 2011.
- Veld, Chris, and Veld-Merkoulova, Yulia, "Do Spin-offs Really Create Value?" SSRN, 2002.
- Kastiel, K., "Using Spin-offs to Raise Cash, Reduce Debt and Recapitalize," Harvard Law School Forum on Corporate Governance and Financial Regulation, 2015.
- Michealy, R. and W. Shaw, "The Choice of Going Public: Spin-Offs vs. Carve-Outs," Financial Management, 1995.
- Kaplan, S. and P. Stromberg, "Leveraged Buyouts and Private Equity," Journal of Economic Perspectives, 2009.
- Gottschal, O., F. Lopez de Silanes, and L. Phalippou, "Giants at the Gate: Investment Returns and Diseconomies of Scale in Private Equity," Journal of Financial and Quantitative Analysis, 2015.



**Topic 6:**

**Mergers, Acquisitions and Takeovers**

- AT&T to merge with Discovery, CNBC, May, 2021.
- M&A Breaking the Wave, The Wall Street Journal, July, 2019.
- With LinkedIn, Microsoft Looks to Avoid Past Acquisition Busts, The New York Times, December 8, 2016
- Why Microsoft Bought LinkedIn, The Wall Street Journal, June 14, 2016.
- M&A: The New Rules of Attraction, The Economist, November 2014
- The Trouble with Mergers: Corporate Mergers are Hard to Resist, but They Rarely turn out Happily, The Economist, November 2014.
- Smart, Megginson, and Gitman, "Mergers and Acquisitions" Corporate Finance, Chapter 19.
- Betton, Eckbo and Thorburn, "Corporate Takeovers," Handbook of Empirical Corporate Finance, Vol 2, Elsevier, B.V. 2008.
- Bourgeois, L.J., Evaluation Questions for Assessing Post-Merger Integration," Harvard Business School, 2014.
- Renneboog, L., and Cara Vansteenkiste, "Failure and Success in Mergers and Acquisitions, " Journal of Corporate Finance, vol. 58, October 2019.

**CASE 2 (to be prepared and presented in groups):**

- PayPal (and e-Bay) in 2015: Reshaping the Financial Service Landscape, Stanford Business School.

**M&A SIMULATION CASE (to be prepared individually):**

- M&A Valuation and Simulation: M&A in Wine Country V2. Harvard Business School, 2021.

**Topic 7:**

- **Wrap up: The Impact of Governance in Capital Raising, Investing and Payout Policies around the World; An Agenda for Research**