Course Description

Topics in Finance: a second year graduate course for PhD students in finance and economics. 
Tuesdays, 2-5 pm, in room 4214

The course is designed to introduce research ideas and develop tools for advanced graduate students.

The first half of the course (Professor Eberly) introduces corporate finance and asset pricing models with capital. This section addresses optimal investment with various types of capital frictions, such as adjustment costs and irreversible investment, under uncertainty, and includes real options models. Equilibrium (for macroeconomics and asset pricing) topics include production-based asset pricing, multi-sector models, capital liquidity and reallocation, and equilibrium approaches to real options, including empirical applications and testing.

The second half of this course (Professor Eisfeldt) will explore the relationship between financial markets and the macroeconomy. Topics include market liquidity; modeling, measurement, and implications of aggregate investment opportunities; dynamics of firm financing and financial constraints; capital reallocation and restructuring; and the measurement and valuation of organization capital.

Week 1: March 31
Introduction: Optimal investment in “partial equilibrium”
Abel and Eberly, AER 1994

Week 2: to April 14
Option values: McDonald and Siegel, QJE 1986

Week 3: April 20
Equilibrium with real options: Berk, Green and Naik, JF 1999

Week 4: April 21
Production based asset pricing, multi-sector models: Eberly and Wang, 2009

Week 5: April 28
Empirical survey: see section 6 in the reading list
Grading

Evaluation for the course will be based on successful completion of three written assignments. The first two assignments are referee reports, which are to be three to five pages long (each). You should complete one report on a paper from Professor Eberly’s reading list, and one report on a paper from Professor Eisfeldt’s reading list. Papers from off the reading list may be allowed upon approval of the instructor. Your selection needs to be pre-approved by the Professor. Your assignment will be evaluated on giving a clear distillation of what the paper is about, and a thoughtful assessment of the paper’s strengths and weaknesses, including an analysis of the paper’s contributions.

The third assignment is to complete a research proposal (roughly 3 pages) describing a research project that is feasible, interesting, and extends the literature that we have discussed this quarter. It could be an extension or improvement upon the paper discussed in the referee report in the previous assignment. More detailed guidance is provided on the course web site.

Readings (First Five Weeks)

1. Benchmark corporate and equilibrium models with capital

2. Models with adjustment costs; real options
3. Asset pricing with adjustment costs: production-based asset pricing

4. Financing constraints

5. Multi-sector models and capital reallocation
   a. See the Lucas model and the CIR model under “Benchmark models”
   e. Eberly and Wang, “Reallocating and Pricing Illiquid Capital: two productive trees, manuscript, January 2009. http://kis-nt2\docs\faculty\eberly\htm\Research\research.htm

6. Empirical / quantitative papers
   a. Financing constraints and other finance effects


b. Micro-level adjustment costs
   i. Bloom, Nick, Steve Bond and John Van Reenen, Uncertainty and Investment Dynamics, Review of Economic Studies, April 2007
   iii. Eberly, Janice, Sergio Rebelo, Nicolas Vincent, “Investment and Value: A Neoclassical Benchmark,” manuscript, March 2009. http:\kis-nt2\docs\faculty\eberly\htm\Research\research.htm

c. Macro-level adjustment costs/equilibrium

7. Extensions and applications of these issues to household finance....