Lecturer  Prof. David Kelsey, Office, Streatham Court 34; tel. 26-2536;  e-mail, D.Kelsey@ex.ac.uk.  Office hours 2:30-4:30 Thursdays

GENERAL REFERENCES

- G. M. Constantinides (Editor), et al. *Handbook of the Economics of Finance*, North Holland Amsterdam.
  - Very expensive at £150, but worth buying if you are wealthy.
  - Currently out of print but worth buying if you can find a second-hand copy.

Method of Assessment Two hour written examination 100%.

COURSE ORGANISATION The course consists of 20 hours of lectures.

COURSE OUTLINE AND READING LIST (provisional)

1. **The Modigliani-Miller Theorems**  The financial structure of the firm, choice between debt and equity financing, dividend policy, effect of taxes.
   - Tirole Ch. 2.
   - *Milgrom and Roberts, Ch.14.

2. **The Market for Lemons**  Analysis of a simple model of a market with asymmetric information.
   - Milgrom and Roberts pp.149-154.

3. **Moral Hazard and Incentives**  Moral hazard and incentive contracts, the informativeness principle, the incentive intensity principle and the monitoring intensity principle.
4. **Incentive effects of Debt and Equity**
   Effect of financing on incentives to supply effort and avoid bankruptcy. Past debt reduces the incentive for future investment.
   
   - *Milgrom and Roberts, Ch.7.
   - Tirole Ch. 3.

5. **Adverse Selection and the Debt-Equity Ratio**
   Financial signalling, models, the implications for investment, adverse selection and investment.

   - Tirole Ch. 6.
   - *Milgrom and Roberts, Ch.15.

6. **Takeovers and Auctions**
   Common value auctions, the winner’s curse, application to takeovers, the effect of toeholds.


The books on the reading list should be available in the short loan section of the library. A selection of readings has been provided for each topic to avoid pressure on library resources. **TEXTBOOK PURCHASE** As can be seen there is no single textbook which covers all the material. The most useful book to buy would be Tirole.

* Denotes essential reading
article available on-line from www.jstor.ac.uk.

article available on-line from http://www.paulklemperer.org/index.htm (This site also contains some additional material on auctions.)

The course web site which contains copies of handouts, links to some articles and books, etc. can be found at http://www.people.ex.ac.uk/dk210/fmd--II-09.html

(Note this contains more information than the SOBE web-site.)