

COURSE: Law and Finance
 DEPARTMENT: ACCOUNTING & FINANCE (CFC)
 PROGRAM: CMCD AE
 SEMESTER AND YEAR: 2nd semester/2022
 CLASS-HOURS: 30 hours / 15 hours
 PROFESSORS: Rafael A. da Matta & Paulo R. S. Terra
 LANGUAGE: English

COURSE DESCRIPTION

This course is about how investor protection affects firms' access to finance and investment decisions. The course focuses on the importance of the design and enforcement of laws for the effectiveness of creditor protection. When actions, financial conditions, and assets cannot be verified by courts, financial contracts are not fully enforceable. In this case, financial contracts are incomplete and future actions and transactions are decided via renegotiation by the contracting parties. When contracts are incomplete, the focus is on how the institutional design of ownership and control rights affect firms' access to finance. The course will cover the seminal theoretical and empirical works in the literature and expose students to most recent contribution in the field.

LEARNING GOALS

The course learning goals are presented in the table below, showing how they contribute to the learning goals related to the objectives of CMCDAE.

CMCDAE Objectives	Course learning goals	Level of Contribution *
Qualitative research methods	-	○○○
Quantitative research methods	Students will discuss the methods used in the empirical papers	●○○
Knowledge of research themes and theory	Contract theory, microeconomics of information are key topics in this course	●●●
Research procedures	Students will discuss the research procedures used in the empirical papers	●○○
Relevance and innovation in research	Students will be exposed to classic and recent papers published in top journals in the field	●●●
Development of academic papers	-	○○○

The full description of the CMCDAE objectives, and other related information, may be found at <https://rebrand.ly/cmae-eaesp> (masters) e <https://rebrand.ly/cdae-eaesp> (doctorate).

PREVIOUS KNOWLEDGE REQUIRED, IF APPLICABLE

There are no formal pre-requisites. However, students are expected to have previous knowledge of Corporate Finance (covered in the CMCDAE Corporate Finance I course) and Microeconomics (covered in the CMCDAE Fundamentals of Finance course).

CONTENTS/METHODOLOGY

Topics
Seminal theoretical models on incomplete financial contracts
Seminal empirical evidence on law and finance
Renegotiation frictions, financial distress resolution, and firm financing
Asset verifiability, financial distress resolution, and firm financing
Net economic ownership, financial distress resolution, and firm financing

The sessions will contain lectures by the professors, discussions of readings, exercises and seminars by the students

ASSESSMENT

To be defined

BIBLIOGRAPHICAL REFERENCES

Initial reading list (more papers will be added later)

La Porta, R., F. Lopez-de Silanes, A. Shleifer, and R. Vishny, 1997, Legal Determinants of External Finance, *Journal of Finance* 52, 1131-1150.

La Porta, R., F. Lopez-de Silanes, A. Shleifer, and R. Vishny, 1998, Law and Finance, *Journal of Political Economy* 106, 1113-1155.

Hart, O. and J. Moore, 1998, Default and Renegotiation: A Dynamic Model of Debt, *Quarterly Journal of Economics* 114, 1-41.

Hart, O. and J. Moore, 1994, A Theory of Debt Based on the Inalienability of Human Capital, *Quarterly Journal of Economics* 109, 841-879.

Bolton, P. and D. Scharfstein, 1996, Optimal Debt Structure and the Number of Creditors, *Journal of Political Economy* 104, 1-25.

Bolton, P. and D. Scharfstein, 1990, A Theory of Predation Based on Agency Problems in Financial Contracting, *American Economic Review* 80, 93-106.

Campello, M., T. Ladika, and R. Matta, 2019, Renegotiation Frictions and Financial Distress Resolution: Evidence from CDS Spreads, *Review of Finance* 23, 513-556.

Giambona, E., F. Lopez-de-Silanes, and R. Matta, 2022, Stiffing the Creditor: The Effect of Asset Verifiability on Bankruptcy, *Journal of Financial Intermediation*, forthcoming.

Campello, M. and R. Matta, 2020, Investment risk, CDS Insurance, and Firm Financing, *European Economic Review* 125, 103424.