

Dynamic Capital Structure

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Finance Theory Group Summer School

June 2019

Capital structure decisions are always dynamic in practice, and require some advanced analytical tools to offer insights for empirical analyses. We will cover the literature on structural corporate finance models, with the focus on security valuations, leverage decisions, debt maturity structure, and investment policies. This framework is widely used in macroeconomics and other related field.

This short course requires basic continuous-time techniques (e.g., Ito's lemma) are required, and we will go over many applications of continuous-time analyses.

Paper list:

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- Leland, Hayne, 1998, Agency costs, risk management, and capital structure, *Journal of Finance* 53, 1213-1243.
- Goldstein, Robert, Nengjiu Ju, and Hayne Leland, 2001, An EBIT-based model of dynamic capital structure, *Journal of Business* 74, 483-512.
- Mella-Barral, P., and W.R.M. Perraudin, 1997, Strategic Debt Service, *Journal of Finance* 52, 531-556.
- Miao, J., D. Hackbarth, and E. Morellec, 2006, Capital Structure, Credit Risk, and Macroeconomic Conditions, *Journal of Financial Economics* 82, 519-550.
- Diamond, D. and Z. He, 2014, A Theory of Debt Maturity: The Long and Short of Debt Overhang, *Journal of Finance* 69, 719-762.
- DeMarzo, P. and Z. He, 2018, Leverage Dynamics without Commitment, working paper.