The Interaction Between Industrial Organization and Corporate Finance

The objective of the course is to introduce the student to a new promising area of research. Traditionally IO economists have abstracted from financial considerations, while financial economists have neglected the underlying market structure when studying financial decisions. The main issue in this field is that the organization of the industry and financial decisions are interdependent, and therefore the traditional (separate) approaches are incomplete. The integration of these two aspects allows a much richer understanding of both product market relationships and capital structure decisions.

Background textbooks:

The Theory of Industrial Organization, Jean Tirole, MIT Press


Course outline

1. Intro.: from perfect markets to theories of the firm & contracting problems.

Modigliani-Miller proposition

Manager-Equity Holder Conflicts
  Principal Agent Problem
  Use of debt to mitigate Manager-Equity Holder Conflicts

Debt Holder-Equity Holder Conflicts
  Asset substitution
  Reluctance to liquidate


2. External contracting problems

2.1 Firm ownership


2.2 Contracting and capital structure (overview)


3. Financial structure and intra-industry competition


Sarig, Oded H., 1988, “Bargaining with a corporation and the capital structure of the bargaining firm”


4. Managerial ownership and firm competition


5. Managerial compensation and Debt Holder-Equity Holder Conflicts

