International Macro/Macroeconomics
Ph.D in Finance, 2007-2008

This second part of the course analyses the implications of financial contracting --due to agency problems -- for the economic activity and asset prices. If time remains we also discuss the role of financial intermediaries' capital, as well as the impact of financial constraints on the q-theory of investments. The main focus is on the theoretical literature, but a few relevant empirical regularities will also be discussed along the way.

1. Financing Relations and Incentive Problems

*Tirole J, 2006, *The Theory of Corporate Finance*, ch 3, 4,

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Hart, O., 2001, Financial Contracting, *Journal of Economic Literature*, Dec. pp. 1079-1110.

2. Financing Constraints and the Macroeconomy

* Bernanke, B., and M. Gertler, 1989, Agency costs, net worth, and business fluctuations, *American Economic Review* 79, 14-31.

Bernanke, B. and M. Gertler, 1990, Financial fragility and economic performance, *Quarterly Journal of Economics*, 105, 87-114.

Gertler, M., 1992, Financial capacity and output fluctuations in an economy with multi-period financial relationships. *Review of Economic Studies*, 59:455–72.

Gian Luca Clementi and Hugo Hopenhayn, A Theory of Financing Constraints and Firm Dynamics, *QJE* 2006

* Carlstrom, C., and T. Fuerst, 1997, Agency costs, net worth, and business fluctuations: a computable general equilibrium analysis, *American Economic Review* 87, 893-910.

3. Collateral and Asset Prices

* Kiyotaki, N., and J. Moore, 1997, Credit cycles, *Journal of Political Economy* 105, 211-248.

Shleifer, A., and R. Vishny, 1992, Liquidation values and debt capacity: a market equilibrium approach, *Journal of Finance* 47, 1343-1366.

Cooley, T., R. Marimon, and V. Quadrini, 2004, Aggregate consequences of limited contract enforceability, *Journal of Political Economy* 112, 817-847.

J. Dow, G. Gorton, and A. Krishnamurthy, Equilibrium Investment and Asset Prices under Imperfect Corporate Control, *American Economic Review*

4. Financial Intermediation and Liquidity

* Holmstrom, B., and J. Tirole, 1997, Financial intermediation, loanable funds, and the real sector, *Quarterly Journal of Economics* 112, 663-691.

Holmstrom B., and J. Tirole, 1998, Private and public supply of liquidity, *Journal of Political Economy* 106, 1-40.

5. Financial Frictions Q-theory and Investments

Hayashi, F., 1982, Tobin's marginal q, and average q: a neoclassical interpretation, Econometrica, Vol. 50, pp. 215-224.

Steven M. Fazzari; R. Glenn Hubbard; Bruce C. Petersen, 1988 Financing Constraints and Corporate Investment *Brookings Papers on Economic Activity*, pp. 141-206.

*Kaplan S. and L. Zingales, Do Investment-Cash Flow Sensitivities Provide Useful Measures of Financing Constraints? The Quarterly Journal of Economics, Vol. 112, N.1 Feb., 1997, pp. 169-215.

Joao Gomes, 2001, Financing Investment, *American Economic Review*, Vol. 91, pp. 1263-1285.

Cooper, R. and J. Ejarque, 2003, Financial frictions and investment: requiem in q, *Review of Economic Dynamics*, Vol. 6, pp. 710-728.

*Andy Abel and Janice C. Eberly, 2004 Q Theory without Adjustment Costs & Cash Flow Effects Without Financing Constraints, June

Guido Lorenzoni and Karl Walentin, 2007, Financial Frictions Investment and Tobin's q, mimeo April 2007

Jovanovic, B., and P. Rousseau, 2002, The Q-theory of mergers, *American Economic Review (PP)* 91, 336-341.