

Index

- absolute-priority rule, 55, 138
- accounting-based performance measures, 22, 29, 59, 118, 123, 180, 299, 306, 338, 340, 344, 353, 376, 378, 407, 625
- accounting, creative, *see* creative accounting
- acquisitions, 5, 9, 17, 20, 29, 43, 50–51, 88, 100, 367, 425, 498–99, 503, 507, 515, 618
 - bootstrap, 433
- active monitoring, *see* monitoring, active
- adverse selection, 2–4, 26, 52, 102, 113–14, 182, 220–21, 237–76, 306, 333, 341, 350, 355, 358, 391, 405, 427, 459–60, 475, 477, 502, 536, 586, 596, 598
- advisory monitoring models, 364
- affirmative covenants, 80, 104
- alliances, 64, 92, 393, 536, 551
- alternative risk transfer, 216
- arm's length finance, 333
- Arrow–Debreu model, 1, 484
- AS model, 333, 335
- asset substitution, *see also* gambling, risk taking, 85, 87, 161–63, 165, 314, 323–24, 389, 602
- authority, 65–68, 79, 240, 334, 407
 - formal, 84, 239, 398, 416, 428
 - real, 9, 35, 84, 204, 239, 398, 402–4, 416, 428, 431, 441
- bailouts, 220, 535
- balance sheet, 3–6, 86–87, 99, 100, 117
 - and collateral, 169
 - and control rights, 390
 - and credit rationing, 117
 - and debt maturity, 204, 558
 - and group lending, 180
 - and liquidity, 174–75
 - and monitoring, 359
 - and takeovers, 428
 - channel, 5, 471, 478, 482
- bank
 - debt, 47, 52, 55, 88–89, 342, 379, 410
 - loans, 47, 80–82, 84, 88–91, 93, 96, 101
 - runs, 5, 454–55, 457, 463, 465–66
- bankruptcy, *see also* Chapter 7, Chapter 11, 1, 8, 15, 20, 25–27, 29, 51–54, 77, 79, 87, 92, 103, 113, 132, 141, 167, 190–91, 199, 256, 410–11, 497, 544, 551, 564, 586–87
- behavioral corporate finance, 9
- benchmarking, 3, 29, 122–23, 180, 278, 283–87, 310–11, 324, 573, 602
- block shareholder, 4, 37, 40, 53
- board of directors, 9, 18–20, 25, 29–30, 33, 37, 63, 65, 84, 239, 254, 258, 334, 395, 425
- bond covenant, 87
- Brander–Lewis model, 289, 296, 298, 319, 321, 325
- bubble, 8, 9, 95, 102, 123, 177, 529
- call option, 21, 23, 46, 77, 342–43, 353, 527, 607
- capital
 - adequacy, 83, 375, 479, 522, 535
 - asset pricing model (CAPM), 219
 - market, internal, *see* internal capital market
 - structure, 76, 82, 102–3, 132, 199, 411
- CAPM, *see* capital asset pricing model
- career concerns, 26, 63, 278, 283, 306–7, 310–11, 321, 336, 588
- carrot and stick, 186, 225, 406–7, 409–10, 559
- cartelization, 165–66, 194, 509, 522, 590
- cash-flow rights, 40, 51, 54, 75, 91, 387, 389, 408, 417, 434, 541, 559–60, 578, 610
- certification, *see also* monitoring, 91–93, 246, 249–51, 358, 375, 471, 479–81, 483
- Chapter 7, 52
- Chapter 11, 20, 26, 52, 87, 410
- Coase Theorem, 53, 64, 390, 410, 428, 536
- collateral, 2, 3, 6, 7, 51, 55, 60, 75–77, 80–82, 88, 90, 92, 99, 102–4, 164, 251
- collusion, 20, 28, 42, 46, 182, 262, 293, 321, 336, 338, 343, 349, 353, 356, 359, 362–64, 414, 537, 555, 594, 606
- commercial paper, 81–83, 88–89, 101, 216, 333–34, 471
- competition
 - bank, 535
 - between legal environments, 36
 - between monitors, 457, 609–10
 - for corporate funding, 414

- competition (*continued*)
 - for labor, 544
 - for savings, 537, 543
 - in lending, 4
 - international, 49
 - product-market, *see* product-market competition
- conglomerates, 9, 36, 47, 414-15
 - break-up of, 49
- contracting institutions, 5, 54-56, 536-41, 544, 556-57, 559
- control rights, 4, 6, 9, 25, 27, 36, 51, 53, 59, 64, 75-76, 80, 84, 91-93
 - and balance-sheet strength, 401
 - and block shareholders, 403
 - and competition, 286
 - and contracting institutions, 559
 - and shareholder value, 391
 - and specific investments, 395
 - contingent, 388, 393-94, 497
 - multiple, 392
- convertible
 - bonds, 77, 248, 351
 - debt, 77, 95, 137, 316, 351, 378, 404
- corporate social responsibility, 56, 58, 60
- costly
 - collateral pledging, 3, 92, 123, 130, 143, 170-71, 204, 251, 325, 391, 429, 537-38, 542, 630
 - state verification, 113, 131, 138, 141-43
- covenants, 2, 20, 47, 53, 60, 64, 76-77, 79-80, 82, 84-92, 99, 103-6
 - negative, 60, 80, 84, 88, 103, 119
 - positive, 60, 84-85
- creative accounting, 86, 283, 299-300
- credit
 - analysis, 82-83, 87, 102-3, 116, 127, 165, 184, 274, 497
 - crunch, 5, 90, 478, 482-83, 625
 - cycles, 489
 - line, 95, 205
- creditor rights, 54-55, 535, 551, 554
- cross
 - pledging, 157-59, 163, 180, 192, 609-10, 625
 - subsidization, 3, 48, 237-38, 242-43, 247, 249-50, 254, 414-15, 581
- currencies, 203, 214, 216, 305, 343, 393, 463-65, 540, 565
 - efficient, 203, 294, 305
- deadlock, 29, 59, 64, 400-1, 411
- debt
 - demandable, 337-38, 350-53
 - forgiveness, 114, 126, 140, 146, 205, 227
 - maturity, 3, 80, 232, 537, 557
 - overhang, 114, 125-26, 179, 205, 224, 297, 626
- default, 36, 48, 76, 80-83, 86-87, 89, 103-4
- deposit insurance, 99, 527
- Diamond-Dybvig model, 447, 450, 452-53, 455, 457, 460-61, 466-67, 521, 615, 625
- dilution, 85, 91, 119, 205
- disclosure, 31, 66, 89, 92, 105, 181, 241, 246, 249-50, 333, 345, 402-3, 425, 535-36, 542
- dissipative signal, 3, 239, 249, 303
- dividend smoothing, 313-14
- dividends, *see also* payout policy, 1, 7, 8, 29, 46, 51, 55, 64, 76-78, 85, 95, 97-98, 100-1, 119, 141, 187, 199, 204-5, 225, 238-40, 257-60, 313-14, 351, 379, 399, 411, 447, 449, 452, 463, 529, 535, 541
- dual-class shares, 40, 429, 431, 439
- earnings
 - before interest and taxes, 91, 394, 407
 - manipulation, 283, 299, 304-5, 307
- EBIT, *see* earnings before interest and taxes
- empire building, 9, 163
- Employee Stock Ownership Plan (ESOP), 45
- equity
 - offering, 3, 8, 97, 100-1, 237, 244-46, 262, 275, 597
 - premium, 337, 349, 459-60, 526
- exchange offer, 52, 227, 410
- executive
 - compensation, 18, 24, 29, 35, 41, 49
 - turnover, 25-26, 171
- exit
 - and voice, 334
 - strategy, 248, 356, 379, 471, 607
- fiduciary duty, 37, 58, 62, 433
- financial
 - fragility, 10
 - intermediaries, 5, 79, 83, 166, 357, 447, 471, 480, 535
 - muscle, 3, 5, 166, 286, 321-23, 498-99, 506, 508-9, 601, 626
- fire sale, 82, 165-66, 194, 522, 590
- foreign exchange, 10, 77, 214
- forward markets, 217
- free cash flow, 50-51, 119, 199, 225, 258
- free rider, 436-37
- gambling, 24, 53, 85, 152-53, 214, 217, 307, 309, 315-17, 581-82
- GJ model, 333
- going public, 92, 244, 246, 391
- golden parachute, 19, 45, 304-5, 307, 326, 419, 441, 604-5, 611-12
- greenmail, 46, 425, 441
- growth prospects, 93, 96, 199, 206, 225

- herd behavior, 9, 278, 307, 310, 600
- holdup, 53, 93, 157, 177, 257, 297, 356, 372, 374, 395, 413, 506
- hubris, 9, 50, 428
- ICM, *see* capital market, internal
- implicit incentives, 15, 20–21, 26, 62–63, 171
- inalienability of human capital, 177, 626
- information sharing, 122, 249, 276–77, 599
- initial public offering (IPO), 8, 48, 54, 89–95, 123, 176–77, 237, 240, 250–51, 262, 264, 356, 367–69, 375, 378–79, 394, 439, 471
- initiative, 42, 93, 360–61, 373, 396–98, 403, 413–17
- inside liquidity, 5, 450, 517–18, 520–21, 528, 531–32, 620, 629
- insider trading, 17, 21, 44, 341–42, 345
- intermediation, 166, 480, 483, 626
- internal capital market, 9, 20, 33, 52, 78, 95–96, 98, 411–15
- investment banking, 28, 48, 95, 251
- investment–cash-flow sensitivity, *see* sensitivity of investment to cash flow
- investor
 - activism, 15, 36, 38, 41–42, 356, 362
 - protection, 54–56, 94, 333, 359, 487, 493, 544, 616
- IPO, *see* initial public offering (IPO)
- irrelevance result, *see* Modigliani–Miller Theorem
- Jacklin critique, 452–53, 467
- junior debt, 76, 246
- large blockholder, 42, 355, 369, 371, 375, 403–4, 419
- lemons problem, 81, 237, 244, 249, 502
- lender market power, 116, 149, 576–77
- lending channel, 5, 471, 478, 482
- leveraged buyout (LBO), 31, 40, 43–44, 47, 49, 90, 295
- likelihood ratio
 - monotone, 132
- liquidity
 - aggregate, 522, 530–31, 619–20
 - asset pricing model (LAPM), 526
 - demand, 5, 199–200, 375, 405, 447–48, 450, 454, 521
 - consumer, 5, 447, 450, 454, 521, 554
 - firm, 199–200, 405, 448, 450, 521, 554
 - management, 2, 8, 153, 200, 203, 205, 209, 215–16, 219, 226–29, 405, 485, 505–6, 515, 557–58, 560, 618
 - premium, 231, 522, 525–26, 528, 531, 593, 620
 - ratio, 212
 - redispatching, 414, 452, 521
 - trading, 40, 337, 346, 348–49, 367, 457, 459
- liquidity–accountability tradeoff, 172, 625
- loan commitment, 81, 86, 89, 200, 216, 229, 433, 591
- low-information-intensity securities, 3, 5, 248–49, 405, 460
- M&As, *see* mergers and acquisitions
- management buyout (MBO), 43, 47–49
- managerial myopia, 301, 430
- marked-to-market accounting, 300
- market
 - breakdown, 3, 237, 239, 249, 269–70, 273, 477, 596
 - timing, 9, 94, 101–2, 238, 244
 - value accounting, 45
- maximal insider incentives, 132–33
- mergers and acquisitions, 5, 28, 43–44, 50–51, 102, 166, 257, 387, 431, 497, 506, 535, 626
- mezzanine finance, 76
- microfinance, 180
- Modigliani–Miller Theorem, 1–3, 8, 77–78, 84, 102, 389, 409
- monitoring
 - active, 4, 27–28, 42, 47, 90, 147, 343, 355, 359–70, 387, 400–1, 404, 537, 574, 627
 - delegated, 90, 335, 357
 - market, 176, 337–38, 343–45, 349–51, 359, 459–60
 - passive, 4, 333, 337–38, 350, 355, 375
- monotonic reimbursement, 133–34, 271
- one-share-one-vote, 54, 439–40, 535
- option
 - in the money, 24, 308–9
 - out of the money, 23–24, 309
- outside liquidity, 5, 517–18, 523–24, 526–27, 532, 620
- overborrowing, 119–21
- overconfidence, 428
- overmonitoring, 42, 356, 359–61, 365–66, 417, 630
- payout policy, 3, 8, 61, 75, 78, 95–98, 100, 141, 187, 199, 257–58, 270, 305, 313, 594
- pecking order, 176, 238, 247, 278, 379, 599
- poison pill, 4, 45–46, 399, 425, 434, 441
- posturing, 307
- poverty trap, 5, 484, 486, 625
- preferred stock, 76, 91, 177, 199, 342, 394, 418
- priority, 52, 54–55, 76–77, 80, 87–88, 91, 103, 114–15, 121, 138, 233, 408, 410–11, 594
- privately
 - held equity, 47, 90
 - placed debt, 81, 83–84, 88–89
- product-market competition, 3, 15, 20, 28–29, 98, 145–46, 229, 283, 286, 289, 296, 310, 321, 414, 503, 537, 544, 572–73
- project finance, 158–60, 183, 192, 244, 275, 414, 419, 483

- property rights institutions, 6, 54, 536, 544–45, 551, 560, 626, 628
- provisions for loan losses, 299
- proxy fights, 17, 20, 25, 37–38, 41–42, 45, 51, 333–34, 336, 355
- quest for pledgeable income, 157, 286, 428–29
- rating agency, 19, 27–28, 77, 79, 83, 114, 250, 276, 335
- ratings, 83, 88–89, 251, 257, 276
- redeployability, 164–65, 194, 499–500, 503
- relationship
 - banking, 177, 251, 355, 369, 413
 - lending, 80, 181, 476
- relative performance evaluation, *see* benchmarking, 22, 122, 285, 310
- renegotiation, *see* soft budget constraint
- reorganization, 6, 25, 45, 52–54, 87, 311, 407–8, 410
- reputation, 20, 22, 37, 57, 79, 83, 88, 91–92, 95, 121–22, 144, 179, 181, 205, 216, 250, 276, 306, 336, 369, 544, 606
- reputational capital, 91, 122, 179, 190, 274–75
- retained earnings/retentions, 3, 95–98, 102, 128, 143, 148, 167, 185–86, 200, 218–19, 225, 238, 246, 255, 258, 290, 313, 399, 513, 515, 541, 558, 561, 575
- risk
 - management, 3, 22, 29, 52, 66, 153, 162, 199–200, 213–17, 219, 234, 299, 411, 535, 582
 - taking, 17, 61, 77, 85, 119, 283, 299, 307, 314–16, 318, 337, 406
- Sarbanes-Oxley Act, 16, 19, 28, 32, 34–35, 305
- seasoned
 - equity offerings (SEOs), 8, 9, 90, 100, 240, 262
 - offerings, 219, 235, 237, 239, 264, 275, 366, 506–7, 515, 541, 558, 561–62
- security design, 2, 3, 240, 290–91, 389, 404–8, 410–11, 418, 610
- senior debt, 76, 85, 91, 326, 464, 625–26
- sensitivity of investment to cash flow, 2, 3, 100, 124, 128, 216, 220, 224–25, 291, 294, 414, 625
- SEO, *see* seasoned equity offerings (SEOs)
- share repurchases, 8, 78, 85, 97, 100, 204, 257, 314
- shareholder
 - activism, 17, 333
 - rights, 42
 - value, 4, 16, 20, 23, 25, 46–47, 56–57, 59–62, 64, 102, 391, 425
- short-termism, *see* managerial myopia
- soft budget constraint, 3, 89, 119, 179, 201, 213, 215, 220–24, 230–31, 297–98, 325, 361, 409, 414, 566, 592, 604
- specific investment, 164, 177–79, 297, 388, 395, 506, 537
- speculation, 333, 335, 343, 345, 351, 459, 463–64
- stakeholder society, 15–16, 56–60, 62–64
- standard debt contract, 113, 132, 134, 138–40, 248, 271, 579
- start-up, 36, 47, 90–91, 96, 123, 177, 199, 239, 362, 375, 379, 393, 405, 411, 415, 417, 471, 477, 479, 607
- stock price reaction, negative, 3, 46, 50, 101, 237–38, 245, 262, 275–76, 313, 597
- stores of value, 5, 8, 513–15, 517–20, 522–23, 525–26, 528, 531–32, 620–21
- subordinated debt, 76, 333
- sufficient statistic, 122–23
- takeover
 - defenses, 45, 425, 428, 434, 441
 - managerial resistance, 441
- takeovers, 3, 4, 15, 17, 20, 25–27, 31–32, 35–36, 41, 43–51, 53, 55, 57–58, 60, 90, 93
- tender offer, 17, 29, 37, 43, 45, 366–69, 431–37, 630
- time
 - consistency, 545, 566
 - inconsistency, 536, 540, 545, 551
- toehold, 45, 371, 432–33, 438, 440–41
- trade credit, 80–82, 88, 95, 99, 101, 299, 355, 411
- tradeoff theory, 8
- Treasury bond, 133, 173, 177, 231, 352, 498, 513, 526, 551, 593
- tunneling, 343, 353, 356, 362–63, 433, 535
- underpricing, 3, 91, 93, 239–40, 262–64, 272
- underwriting, 28, 81, 88, 93–95, 241, 250, 262, 335, 375
- venture capital, 26, 68, 79, 90–92, 98, 123, 176–77, 251, 375, 378, 380, 414
- vertical integration, 64, 286, 322, 601
- warranties, 80, 104
- whistleblowing, 34
- window dressing, 300
- winner picking, 414
- winner's curse, 93, 240, 262, 368, 370–72, 440–41
- workout, 52–53, 410
- yardstick competition, *see also* benchmarking, 22
- yield curve, 450–51, 453–54
 - technological, 448, 451–52