EBERHARD KARLS
UNIVERSITÄT
TÜBINGEN

Faculty of Economics and Social Sciences

Department of Finance
Prof. Dr. Christian Koziol

B500 Master Seminar on Finance

Design of debt instruments

Organization

The seminar is targeted to master students who participated in the course *Advanced Corporate Finance 1 – Capital Structure* in the winter term (though this is not a formal prerequisite). This seminar is particularly interesting and relevant for students who wish to write their Master thesis at the Department of Finance.

Participants have to register by sending an email to marc.crummenerl@uni-tuebingen.de until **April 16** (end of day).

The kick-off event will take place on **April 17** at **3 PM** in **room E05** (Mohlstr. 36). The attendance of the kick-off event is mandatory for all participants. At the kick-off, the topics will be shortly introduced and assigned to groups of 2-3 students (depending on the total number of participants), who will jointly work on the respective topic.

The topics will be assigned based on the following lottery procedure: Students indicate their preferences on a piece of paper. We randomly select a student, who will be assigned to his or her first choice. The next student, who is again randomly selected, receives his or her highest preference only in case the respective group is not complete yet. In the case the topic should not be available any more, the student will be assigned to the second highest preference and so on.

The grading (9 ECTS) is based on the following three components:

- **Paper (40%):** Each group writes a joint paper. The paper is limited to a maximum of 20 pages for the main part in groups of 2 and to a maximum of 30 pages for the main part in groups of 3. The cover page, table of contents and the appendix do not count towards this limit. In addition, each group prepares a separate abstract summarizing the main findings in bullet points. The abstract is limited to a maximum of 2 pages. We will also provide scientific guidelines, which each paper has to satisfy.

- **Presentation (40%):** It is expected that each group member presents a share of the joint work. Each group has a net presentation time of 20 minutes (groups of 2) or 30 minutes (groups of 3). Great importance is attached to a thorough discussion between all participants and presenters in order to shed light on the topics from different perspectives and to respond to questions. Therefore, the total time available per group is about 90 minutes.
- **Participation (20%):** The critical reflection of research is an important part of academic work. Therefore, we also reward the participation in the discussion of the other groups' work. The papers and abstracts will be made available to everyone in advance for preparation.

All three components must to be graded at least as sufficient ("*ausreichend*") to pass the seminar.

The papers and abstracts have to be delivered to the Department of Finance by **June 19, 2013, 11 AM**. Each group should hand-in two stapled copies (no hardcover or binding required) as well as an electronic copy (text as well as all computations and data).

The use of the standard Microsoft Office applications is definitely sufficient for this seminar, but we highly appreciate when students make themselves familiar with advanced academic software packages like LaTeX and MATLAB.

The final presentations will be scheduled for the **first (or second) week in July**, well in advance of the exam period.

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Overview of topics

1. **Callable Bonds**

   Michael J. Brennan and Eduardo S. Schwartz (1977), “*Savings bonds, retractable bonds and callable bonds*”, Journal of Financial Economics, Nr. 5, pp. 67-88.

2. **Convertible Bonds**

   Michael J. Brennan and Eduardo S. Schwartz (1980), “*Analyzing Convertible Bonds*”, The Journal of Financial and Quantitative Analysis, Vol. 15, No. 4, pp. 907-929.

3. **Liquid Yield Option Note (LYON)**

   John J. McConnell and Eduardo S. Schwartz (1985), “*LYON Taming*”, The Journal of Finance, Vol. 41, No. 3, pp. 561-576.

4. **Conventional Debt under Tax Benefits and Bankruptcy Costs**

   Hayne E. Leland (1994), “*Corporate Debt Value, Bond Covenants, and Optimal Capital Structure*”, The Journal of Finance, Vol. 49, No. 4, pp. 1213-1252.

5. **Step-up Bonds**

   Karan Bhanot and Antonio S. Mello (2006), “*Should corporate debt include a rating trigger*?”, Journal of Financial Economics, 79 (1), pp.69-98.

6. **Contingent Convertibles**

   Christian Koziol and Jochen Lawrenz (2012), “*Contingent convertibles. Solving or seeding the next banking crisis?*”, Journal of Banking and Finance, Vol. 36 (1), pp. 90-104.

7. **CAT Bonds (optional)**

   Neil A. Doherty (1997), “*Innovations in Managing Catastrophe Risk*”, The Journal of Risk and Insurance, Vol. 64, No. 4, Dec. 1997, pp.713-718.