

Optimal Long-Term Financial Contracting

[Get access >](#)

Peter M. DeMarzo , Michael J. Fishman

The Review of Financial Studies, Volume 20, Issue 6, November 2007, Pages 2079–2128, <https://doi.org/10.1093/rfs/hhm031>

Published: 07 September 2007

Abstract

We develop an agency model of financial contracting. We derive long-term debt, a line of credit, and equity as optimal securities, capturing the debt coupon and maturity; the interest rate and limits on the credit line; inside versus outside equity; dividend policy; and capital structure dynamics. The optimal debt-equity ratio is history dependent, but debt and credit line terms are independent of the amount financed and, in some cases, the severity of the agency problem. In our model, the agent can divert cash flows; we also consider settings in which the agent undertakes hidden effort, or can control cash flow risk.

Copyright © The Author 2007. Published by Oxford University Press on behalf of The Society for Financial Studies.

You do not currently have access to this article.

Sign in

 [Get help with access](#)

Personal account

- Sign in with email/username & password
- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD

[Sign in >](#)

[Register](#)

Institutional access



Sign in through your institution

[Sign in through your institution](#)

[Sign in with a library card](#)

[Sign in with username/password](#)

[Recommend to your librarian](#)

Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? [Register](#)

Optimal Long-Term Financial Contracting - 24 Hours access

EUR €53.00

GBP £44.00

USD \$58.00

Rental



This article is also available for rental through DeepDyve.