FINA 866- Empirical Corporate Finance

Spring 2018

Instructor:	Yongqiang Chu	**Time:**	T 9:00 – 11:30
Email:	yongqiang.chu@moore.sc.edu	**Place:**	461 MSB

Course Pages:

1. http://blackboard.sc.edu
2. http://sites.google.com/site/yongqiangchu

Office Hours: Catch me whenever you can

Main References:

- Joshua D. Angrist and Jorn-Steffen Pischke, *Mostly Harmless Econometrics*, Princeton, 2009.
- Jeffrey M. Wooldridge, *Econometric Analysis of Cross Section and Panel Data*, 2nd ed., MIT, 2010.
- Bruce Hansen, *Econometrics*, 2017.
- Michael Roberts and Toni Whited, *Endogeneity in Corporate Finance*
- Espen Eckbo, *Handbook of Corporate Finance: Empirical Corporate Finance*, Volumes 1 and 2

Objectives: This course seeks to achieve four equally important goals. First, it is intended to expose students to key papers in the latest empirical corporate finance literature. The focus of the course is on empirical work and econometrics, but some theory will be reviewed. Second, the course is designed to strengthen students' ability to dissect, digest, and critique academic research. Third, the course is intended to introduce students to a variety of cross-sectional econometric techniques that have belatedly made their way into the empirical corporate finance literature. Finally, it gives students an opportunity to improve their presentation skills through repeated practice and constructive feedback. Each of these skills plays a crucial role in a successful academic career.

Course Requirements

- Presentations

  Each student will be responsible for paper presentations in class, which should last about 20 minutes. Students are expected to use Powerpoint or similar presentation software (e.g. Beamer) for their presentations. Presenters should also email me their presentation slides. Students who are not presenting anything on a presentation day should write a maximum one-page, double-spaced critique of one of the papers assigned for that day, highlighting the biggest flaw or flaws in the analysis. These will be collected at the start of the class.

- Participation

  Papers not listed for presentations and discussions will be taught by me. You are expected to read these papers as well as the papers scheduled for presentations before coming to class. **To make this class work, everyone has to work through every assigned reading before class.** Registered Students: The first time I discover you did not work through an assigned paper, I will issue you a warning. The second time, and every time thereafter, that I discover you did not work through an assigned paper before class, I will deduct one third of a grade from your final grade. Auditing students: The first time I discover you did not work through the assigned papers, I will issue you a warning. The second time, I will withdraw your auditing privilege.

- Homework

  I may assign several homeworks throughout the semester. Some these homeworks will require you to work on real data and implement the methods learned in class.

- Final Paper

  The final paper is designed to guide students through the research process. Students are to conduct an empirical study (meaning it involves working with data) either alone or with a partner (no groups of three!!). You may use any software with which you are familiar, except Eviews or any other point-and-click based package. I prefer that you use Matlab, SAS, Fortran, or Stata. You may use other softwares, however, I may not be able to help you as I may not be familiar with those softwares. Students are encouraged to read ahead when generating ideas for the paper. The paper should be an extension or critique of one of the papers on the reading list. Warning: Please be aware that empirical research can be very time consuming and often takes much longer than expected. When choosing a topic, keep the time frame in mind and to try not to over-reach. (Students are not expected to submit publishable papers!) The final paper will have two components:

  1. A five-page (double-spaced) written proposal, due at the end of the sixth week of class. The proposal should include: A cover page with the title of the proposed project and the student(s)' name(s) and contact information (not included in the 5-page limit). A discussion of the research objectives and a literature review placing the study in context. This section should convey to the reader why the study is interesting and important. A discussion of the anticipated results will be helpful here. A clear and detailed description of the intended research methods and data. A list of references (not included in the 5- page limit). I strongly encourage students to discuss ideas with me (and with each other) before choosing a specific topic and writing up the formal proposal.
  2. A polished, academic-style paper including:
     - a title page
     - an abstract
     - an introduction with motivation and intuition
     - a brief literature review (can be integrated into other parts of the paper)
     - a discussion of the data
     - methodology
     - empirical model
     - the results
     - a conclusion

     The paper is due on the last day class. Grades for the research project will be based on the quality of the written work. Clarity will be rewarded, and grammar counts, as do originality and quality of execution.
  3. A 25 minute presentation of your work on the last day of class.

Tentative Course Outline:

- January 16, Setting the Stage
  - Chapters 1 and 2, MHE
  - Chapter 1, Wooldridge
  - Chapter 1, Hansen
  - **[P]** Shue, Kelley, "Executive Networks and Firm Policies: Evidence from the Random Assignment of MBA Peers." *Review of Financial Studies* 26, 1401-1442.

  - **[P]** Gine, Xavier, Goldberg, Jessica, and Yang, Dean (2012) "Credit Market Consequences of Improved Personal Identification: Field Experimental Evidence from Malawi." *American Economic Review* 102, 2923-2954
  - Krueger, Allen B. (1999): "Experimental Estimates of Education Production Functions." *Quarterly Journal of Economics* 114, 497-532
  - LanLonde, Robert J. (1986): "Evaluating the Econometric Evaluations of Training Programs Using Experimental Data." *American Economics Review* 76, 602-20.
  - Carrel, Scott E. and West James E., "Does Professor Quality Matter? Evidence from Random Assignment of Students to Professors." *Journal of Political Economy* 118, 409-432.

- January 23, Regression Basics
  - Chapter 3, MHE
  - Chapters 2, 3, 4, Wooldridge
  - Chapters 2, 3, 4, Hansen
  - Lang, Larry and Stulz, Rene, E. (1994) "Tobin's Q, Corporate Diversification, and Firm Performance."*Journal of Political Economy* 102, 1248-1280.
  - **[P]** Hoechle, Daniel, Markus Schmid, Ingo Walter, and David Yermack. "How much of the diversification discount can be explained by poor corporate governance?." Journal of Financial Economics 103, no. 1 (2012): 41-60.
  - Campa, Jose M. and Kedia, Simi. (2002) "Explaining the Diversification Discount."*Journal of Finance* 57, 1731-1762
  - **[P]** Schoar, A., and Washington, E. L. (2011). Are the seeds of bad governance sown in good times? (No. w17061). National Bureau of Economic Research.
  - Fazzari, Steven M., et al. "Financing constraints and corporate investment." Brookings papers on economic activity 1988.1 (1988): 141-206.
  - Erickson, T., and Whited, T. M. (2000). Measurement error and the relationship between investment and q. Journal of political economy, 108(5), 1027-1057.

- January 30, Regression Details
  - Hansen, Chapter 14
  - Chu, Y., Zhang, D., & Zhao, Y. (2017). Bank Capital and Lending: Evidence from Syndicated Loans. Forthcoming *Journal of Financial and Quantitative Analysis*
  - Chu, Y. (2017). Banking Deregulation and Credit Supply: Distinguishing the Balance Sheet and the Competition Channels. Forthcoming *Journal of Financial Intermediation*
  - Petersen, M. A. (2009). Estimating standard errors in finance panel data sets: Comparing approaches. Review of Financial Studies, 22(1), 435-480.
  - Bertrand, M., Duflo, E.,& Mullainathan, S. (2004). How much should we trust differences-in-differences estimates?. The Quarterly Journal of Economics, 119(1), 249-275.
  - **[P]** Jimnez Gabriel, Steven Ongena, Jos Luis Peydr and Jess Saurina, 2014, Hazardous times for monetary policy: What do twenty-three million bank loans say about the effects of monetary policy on credit risk?, Econometrica, 82 (2), 463-505.
  - Jimnez Gabriel, Steven Ongena, Jos Luis Peydr and Jess Saurina, 2012, Credit supply and monetary policy: Identifying the bank balance-sheet channel with loan applications, American Economic Review, 102 (5), 2301-2326.
  - **[P]** Schiantarelli, F., Stacchini, M., & Strahan, P. E. (2016). Bank quality, judicial efficiency and borrower runs: Loan repayment delays in Italy (No. w22034). National Bureau of Economic Research.

- February 6, Instrumental Variables
  - MHE, Chapter 4
  - Hansen, Chapter 11
  - Wooldridge, Chapter 5
  - Roberts and Whited
  - Acemoglu, Daron, Simon Johnson, and James A. Robinson, 2001, The colonial origins of comparative development: An empirical investigation, American Economic Review 91(5), 1369-1401.
  - **[P]** Hoxby, Caroline, 2000, The effect of class size on student achievement: New evidence from population variation, Quarterly Journal of Economics 115, 1239-1285.
  - **[P]** Bennedsen, M., K Nielsen, F. Perez-Gonzalez, and D. Wolfenzon, 2007, Inside the family firm: The role of families in succession decisions and performance, Quarterly Journal of Economics, 122, 647-691.
  - Levitt, Steven, 1997, Using electoral cycles in police hiring to estimate the effect of police on crime, American Economic Review 87, 270-290.
  - Chu, Yongqiang. "Asset Fire Sales by Banks: Evidence from Commercial REO Sales." Review of Corporate Finance Studies 5, (2016): 76-101.
- February 13, Difference-in-Differences
  - MHE, Chapter 5
  - Roberts and Whited
  - **[P]** Bertrand, Marianne, and Sendhil Mullainathan, 2003, Enjoying the quiet life? Corporate governance and managerial preferences, Journal of Political Economy 111, 1043-1075.
  - Chu, Y. and Zhao, Y., 2016. The dark side of shareholder litigation: Evidence from corporate takeovers.
  - Chu, Y. Collateral, Ease of Repossession, and Leases: Evidence from Anti-Recharacterization Laws, Working Paper, University of South Carolina
  - **[P]** Hong, H. and Kacperczyk, M., 2010. Competition and bias. The Quarterly Journal of Economics, 125(4), pp.1683-1725.
  - Jayaratne, Jith, and Philip Strahan, 1996, The finance-growth nexus evidence from bank branch deregulation, Quarterly Journal of Economics, 111(3), 639-670.
- February 20, Regression Discontinuity Design
  - MHE, Chapter 6
  - Roberts and Whited
  - Imbens, Guido, and Thomas Lemieux, 2008, Regression discontinuity designs: A guide to practice, Journal of Econometrics 142, 615-635.
  - **[P]** Malenko, Nadya, and Yao Shen, 2017, The role of proxy advisory firms: Evidence from a regression-discontinuity design, Forthcoming, Review of Financial Studies
  - Keys, Benjamin, Ranmoy Mukherjee, Amit Seru, and Vikrant Vig, 2010, Did securitization lead to lax screening? Evidence from subprime loans, Quarterly Journal of Economics 125
  - Bakke, TorErik, and Toni M. Whited. "Threshold events and identification: A study of cash shortfalls." The Journal of Finance 67, no. 3 (2012): 1083-1111.
  - **[P]** Mian, A., Sufi, A. and Trebbi, F., 2015. Foreclosures, house prices, and the real economy. The Journal of Finance, 70(6), pp.2587-2634.

- February 27, Classical Corporate Finance Theories
  - Jensen, Michael C., and William H. Meckling. "Theory of the firm: Managerial behavior, agency costs and ownership structure." Journal of Financial Economics 3, no. 4 (1976): 305-360.
  - Myers, Stewart C., and Nicholas S. Majluf. "Corporate financing and investment decisions when firms have information that investors do not have." Journal of Financial Economics 13, no. 2 (1984): 187-221.
  - **[P]** Myers, Stewart C. "Determinants of corporate borrowing." Journal of Financial Economics 5, no. 2 (1977): 147-175.
  - **[P]** Smith, Clifford W., and Jerold B. Warner. "On financial contracting: An analysis of bond covenants." Journal of Financial Economics 7, no. 2 (1979): 117-161.
- March 6, Creditors
  - **[P]** Nini, G., Smith, D.C. and Sufi, A., 2009. Creditor control rights and firm investment policy. Journal of Financial Economics, 92(3), pp.400-420.
  - Chu, Yongqiang "Shareholder-creditor conflict and payout policy: Evidence from Mergers between shareholders and lenders", Forthcoming, Review of Financial Studies
  - Chu. Yongqiang, 2017, Debt Renegotiation and Debt Overhang: Evidence from Lender Mergers. Working Paper, University of South Carolina
  - Nini, G., Smith, D.C. and Sufi, A., 2012. Creditor control rights, corporate governance, and firm value. Review of Financial Studies, 25(6), pp.1713-1761.
  - **[P]** Bodnaruk, A., and M. Rossi. 2016. Dual ownership, returns, and voting in mergers. Journal of Financial Economics 120:5880.
  - Jiang, W., K. Li, and P. Shao. 2010. When shareholders are creditors: Effects of the simultaneous holding of equity and debt by non-commercial banking institutions. Review of Financial Studies 23:3595637.
  - Becker, Bo, and Per Stromberg, 2012, "Fiduciary Duties and Equity-Debtholder Conflicts." Review of Financial Studies 25(6), 1931-1969.
- March 20, Shareholders
  - **[P]** Appel, Ian R., Todd A. Gormley, and Donald B. Keim. "Passive investors, not passive owners." Journal of Financial Economics 121, no. 1 (2016): 111-141.
  - **[P]** Brav, A., Jiang, W., Partnoy, F. and Thomas, R., 2008. Hedge fund activism, corporate governance, and firm performance. The Journal of Finance, 63(4), pp.1729-1775.
  - Aghion, P., Van Reenen, J. and Zingales, L., 2013. Innovation and institutional ownership. The American Economic Review, 103(1), pp.277-304.
  - Bharath, S.T., Jayaraman, S. and Nagar, V., 2013. Exit as governance: An empirical analysis. The Journal of Finance, 68(6), pp.2515-2547.
  - Brav, A., Jiang, W. and Kim, H., 2015. The real effects of hedge fund activism: Productivity, asset allocation, and labor outcomes. The Review of Financial Studies, 28(10), pp.2723-2769.
  - Cronqvist, H. and Fahlenbrach, R., 2008. Large shareholders and corporate policies. The Review of Financial Studies, 22(10), pp.3941-3976.
- March 27, Competitors
  - **[P]** Chevalier, J.A., 1995. Capital structure and product-market competition: Empirical evidence from the supermarket industry. American Economic Review, pp.415-435.

  - **[P]** Azar, Jos, Martin C. Schmalz, and Isabel Tecu. ”Anti-competitive effects of common ownership.” (2017). Forthcoming, Journal of Finance
  - He, Jie, and Jiekun Huang. ”Product market competition in a world of cross-ownership: Evidence from institutional blockholdings.” The Review of Financial Studies (2017)
  - Phillips, Gordon, 1995, ”Increased Debt and Industry Product Markets: An Empirical Analysis,” Journal of Financial Economics, 37, 189-238.
  - ”Debt and product market competition: Local market entry, exit, and expansion decisions of supermarket chains.” American Economic Review, 85, 415-35.
  - Hoberg, G., Phillips, G. and Prabhala, N., 2014. Product market threats, payouts, and financial flexibility. The Journal of Finance, 69(1), pp.293-324.

- April 3, Suppliers and Customers
  - Chu, Yongqiang, Xuan Tian, and Wenyu Wang. (2017) ”Learning from customers: Corporate innovation along the supply chain.” Forthcoming, *Management Science*
  - Chu, Y., 2012. Optimal capital structure,bargaining, and the supplier market structure. Journal of Financial Economics 106(2), 411-426.
  - **[P]** Banerjee, S., S. Dasgupta, Y. Kim, 2008. Buyer-supplier relationships and the stakeholder theory of capital structure. Journal of Finance 63(5), 2507-2552.
  - **[P]** Barrot, J.-N., J. Sauvagnat, 2016. Input specificity and the propagation of idiosyncratic shocks in production networks. Quarterly Journal of Economics.
  - Fee, C. E., S. Thomas, 2004. Sources of gains in horizontal mergers: evidence from customer, supplier, and rival firms. Journal of Financial Economics 74(3), 423-460.

- April 10, Labor and Employees
  - Agrawai, Ashwini and David A. Matsa. 2013. Labor Unemployment Risk and Corporate Financing Decisions. Journal of Financial Economics. 108(2): 449-470.
  - **[P]** Matsa, David A.. 2010. Capital Structure as a Strategic Variable: Evidence from Collective Bargaining. Journal of Finance. 65(3): 1197-1232.
  - **[P]** Lee, D.S. and Mas, A., 2012. Long-run impacts of unions on firms: New evidence from financial markets, 19611999. The Quarterly Journal of Economics, 127(1), pp.333-378.
  - Simintzi, E., Vig, V. and Volpin, P., 2014. Labor protection and leverage. The Review of Financial Studies, 28(2), pp.561-591.
  - Lin, X., Zhao, X. and Favilukis, J., 2017. The Elephant in the Room: the Impact of Labor Obligations on Credit Markets, Working Paper, University of Minnesota

- April 17, Student Presentation

- April 24, Student Presentation