Subject Code	AF6304
Subject Title	Corporate Finance
Credit Value	3
Level	6
Normal Duration	One semester
Pre-requisite / Co-requisite/ Exclusion	Nil
Objectives	To bring Ph.D. students to the frontier of knowledge in corporate finance so that they can start doing their own research in this field. The course will cover seven topics, each of which will take about two sessions. The goal will be to combine theory and empirical work, and to bring students to the state of the art in that subfield, so that they potentially begin to do research in that area.
Intended Learning Outcomes	Upon completion of the subject, students will be able to: a. appreciate the importance and relevance of various corporate finance areas; b. critically examine, analyze, and evaluate research work in corporate finance; and c. learn how to conduct corporate finance research on your own.
Subject Synopsis/ Indicative Syllabus	• IPOs and Capital Raising • Corporate Governance and Control • International Corporate Governance and Protection of Shareholders' Interests • Interactions of Product Market and Capital Market • Private Equity/Venture Capital • Allocation and Misallocation of Internal Resources • Financial Distress • Innovation and Finance
Teaching/Learning Methodology	Lectures, class discussions, exams, assignment presentation

<table>
<tr><td>Assessment Methods in Alignment with Intended Learning Outcomes</td><td>

Specific assessment methods/tasks	% weighting	Intended subject learning outcomes to be assessed (Please tick as appropriate)					
		a	b	c			
1. Class participation	10%	✓	✓	✓			
2. Term paper	40%	✓	✓	✓			
3. Written exam	50%	✓	✓	✓			
Total	**100 %**						

**Weighting of assessment methods/tasks may be different, subject to each subject lecturer.*

Note: The specific requirements on individual assessment components discussed above could be adjusted based on the pedagogical needs of the subject lecturer.

To pass this subject, students are required to obtain Grade D or above in BOTH the Continuous Assessment and Exam components.
</td></tr>
<tr><td>Student Study Effort Expected</td><td>

Class contact:	
· Lectures / Seminars	39 Hrs.
Other student study effort:	
· Preparation for class discussion and presentation	30 Hrs.
· Reports and a research proposal	60 Hrs.
Total student study effort	129 Hrs.
</td></tr>
<tr><td>Class Policy</td><td>
In this semester we are going to study eight topics. The reading list for each topic is listed below. (I may add more papers when I find interesting ones.) I would like you to read assigned articles in advance.

The grade for this class will be determined by **class participation (20%), reports and presentations (20%), final exam (30%), and a research proposal in corporate finance (30%)**.

Regarding the 20% grade on class participation, students are expected to come to class, having read the required readings for that class session. In a small class like this, the quality of the discussion will have a major impact on everyone's learning, so it is particularly essential that you come to class prepared.

The class will combine lectures with detailed paper discussions and presentations. I will pre-assign a student to deliver a presentation on a paper and lead the discussion for part of each session. The lead student should prepare slides and/or have an organized format to present the paper and lead discussion about it. Given that you will do many presentations throughout your career, we will strive to hone your skills in this area. You should think of **your task** <u>as presenting the paper as if it were your own research</u>. Thus, you should know the papers as well as the authors do.
</td></tr>
</table>

	For those students, who are not presenting in a given session, they need to write a report to summarize the papers assigned for each class day. Your report will be useful in facilitating class discussion. **Your presentation** on a paper (or **writing a report** on a topic) should include (i) the research question(s), (ii) the main hypotheses and their theoretical foundations, (iii) the methods for testing the hypotheses and their appropriateness, (iv) the main findings and implications, and (v) **possible steps for future research**. Even though a particular student is assigned to present and lead discussion of a particular paper, I will still randomly call on other students with questions about the assigned papers. This is essentially a stochastic monitoring mechanism to ensure that everyone comes to class fully prepared for a deep discussion about all of the papers. I expect all students to participate actively in class discussion. If you do not participate regularly and/or if you appear unprepared when I call on you, you will earn a low grade in the participation category. For PhD students, avoiding plagiarism is particularly important. Many students and faculty have had their careers literally or effectively ended by plagiarism, so please learn early what it is and how to avoid it. http://www.indiana.edu/~wts/pamphlets/plagiarism.shtml
Reading List and References	Note: Readings with a * will be emphasized in the class discussion. Unless noted in class, these articles should be read prior to the class discussing the relevant topic. **Topic 1. IPOs and Capital Raising** Overview: Ritter, J. (2003) "Investment Banking and Securities Issuance," *Handbook of the Economics of Finance*, edited by Constantinedes, Harris, and Stulz. Downloadable from http://bear.cba.ufl.edu/ritter . ***A. Initial Public Offerings*** * Rock, K (1986) "Why New Issues are Underpriced?" *Journal of Financial Economics*, 15, 187-212. * Benveniste, L, and Spindt (1989) "How Investment Bankers Determine the Offer Price and Allocation of New Issues," *Journal of Financial Economics*, 24, 343-362. * Pagano, M., F. Panetta, and L. Zingales (1998) "Why do Companies Go Public? An Empirical Analysis" *Journal of Finance.* J. Ritter (1991) "The Long Run Performance of Initial Public Offerings," *The Journal of Finance*. Zingales, L., (1995) "Insider Ownership and the Decision to go Public," *Review of Economic Studies*, 62, 425-448. Brav, Alon and Paul Gompers, (1997), "Myth or Reality? The Long-Run Underperformance of Initial Public offerings," *Journal of Finance* 55, 1979-2016.

*Gao, X., Ritter, J. R., & Zhu, Z. (2013). Where have all the IPOs gone?. Journal of Financial and Quantitative Analysis, 48(06), 1663-1692.

*Craig Doidge, G. Andrew Karolyi, and René M. Stulz, 2013, The U.S. left behind? Financial globalization and the rise of IPOs outside the U.S., Journal of Financial Economics 110, 546-573.

Karolyi, G.A. and Kim, D., 2017, Is the Public Corporation Really in Eclipse? Evidence from the Asia-Pacific, Asia-Pacific Journal of Financial Studies 46, 7-31.

B. Issuing other Securities

Asquith, P. and D. Mullins (1986) "Equity Issues and Offering Dilution," *Journal of Financial Economics*, 15, 61-89.

Henderson, B., N. Jegadeesh, and M. Weisbach (2006) "World Markets for Raising New Capital" (with Brian J. Henderson and Narasimhan Jegadeesh), *Journal of Financial Economics*, Vol. 82, pp. 63-101.

Kim, W. and M. Weisbach (2008) "Motivations for Public Equity Offers: An International Perspective," *Journal of Financial Economics*, Vol. 87. pp. 281-307.

* Erel, I., B. Julio, W. Kim and M. Weisbach (2012), "Macroeconomic Conditions and Capital Raising," *Review of Financial Studies.*

C. Classic papers in capital structure and security offerings

1. **MM Theories and No Arbitrage,** Class notes from UC Berkeley, http://faculty.haas.berkeley.edu/parlour/Teaching/corp_intro.pdf

2. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of financial economics, 3(4), 305-360.

3. *Myers, S. C. (1977). Determinants of corporate borrowing. Journal of financial economics, 5(2), 147-175.

4. Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. Journal of financial economics, 13(2), 187-221.

5. *Korajczyk, R. A., Lucas, D. J., & McDonald, R. L. (1991). The effect of information releases on the pricing and timing of equity issues. Review of financial studies, 4(4), 685-708.

Topic 2. Corporate Governance and Control

* Shleifer, A. and R. Vishny, (1997) "A Survey of Corporate Governance," *Journal of Finance*, 52, 737-783.

A. The Entrenchment Problem

Demsetz, H. (1983) "The Structure of Ownership and the Theory of the Firm," *Journal of Law and Economics.*

Shleifer, A. and R. Vishny (1989) "Managerial Entrenchment: The Case of Firm-Specific Assets," *Journal of Financial Economics*.

* Morck, R., Shleifer, A. and R. Vishny (1988) "Management Ownership and Market Valuation: An Empirical Analysis," *Journal of Financial Economics*.

Holderness, C., R. Kroszner, and D. Sheehan (1999) "Were the Good Old Days that Good? Changes in Managerial Stock Ownership Since the Great Depression," *Journal of Finance*, 54, 435-469.

B. Incentive Contracts and Other Direct Incentives

* Jensen, M. and K. Murphy (1990) "Performance Pay and Top-Management Incentives," *Journal of Political Economy*, 98, 225-264.

* Hall, B. and J. Liebman (1998) "Are CEOs Really Paid Like Bureaucrats?" *Quarterly Journal of Economics*, 113, 653-691.

Haubrich, J. (1994) "Risk Aversion, Performance Pay, and the Principal-Agent Problem," *Journal of Political Economy*.

Hall, B. and K. Murphy (2003) "The Trouble with Stock Options," *Journal of Economic Perspectives*, 17, (Number 3), 49-70.

Bebchuk, L, and J. Fried (2003) "Executive Compensation as an Agency Problem," *Journal of Economic Perspectives,* 17, (Number 3), 71-92.

Kaplan, Steven and Joshua Rauh (2010) "Wall Street and Main Street: What contributes to the Rise in the Highest Incomes," *Review of Financial Studies.*

C. Boards of Directors

* Hermalin, B. and M. Weisbach (1998) "Endogenously Chosen Boards of Directors and Their Monitoring of Management", *American Economic Review*, Vol. 88 (March, 1998), pp. 96-118.

* Weisbach, M. (1988) "Outside Directors and CEO Turnover," *Journal of Financial Economics*, 20, 431-460.

Hermalin, B. and M. Weisbach (2003) "Boards of Directors as an Endogenously-Determined Institution: A Survey of the Economic Evidence," *Economic Policy Review*, 9, Number 1.

Adams, R., B. Hermalin and M. Weisbach, (2010) "Boards of Directors and their Role in Corporate Governance: A Conceptual Framework and Survey", *Journal of Economic Literature,* 48, 58-107.

Shivdasani, A. and David Yermack (1999) "CEO Involvement in the Selection of New Board Members: An Empirical Analysis," *Journal of Finance*, 54, pp. 1829-1854.

D. Management Turnover

Bertrand, M. and A. Schoar (2003) "Managing with Style: The Effect of Managers on Firm Policies," *Quarterly Journal of Economics*, 118, 1169-1208.

Pan, Yihui, Tracy Wang, and M. Weisbach (2015) "Learning About CEO Ability and Stock Return Volatility," *Review of Financial Studies.*

Pan, Yihui, Tracy Wang, and M. Weisbach (2016) "CEO Investment Cycles," *Review of Financial Studies*.

E. Proxy Voting and Institutional Activism

* Zingales, L. (1995) "What Determines the Value of Corporate Votes?" *Quarterly Journal of Economics*, 110, 1047-1073.

Zingales, L. (1994) "The Value of the Voting Right: A Study of the Milan Stock Exchange," *Review of Financial Studies*, 7, 125-148.

* Del Guercio, D. and J. Hawkins (1999) "The Motivation and Impact of Pension Fund Activism," *Journal of Financial* Economics, 52, 293-340.

Carleton, W., J. Nelson, and M. Weisbach (1998) "The Influence of Institutions on Corporate Governance through Private Negotiations: Evidence from TIAA-CREF" *The Journal of Finance*, 53, pp. 1335-1362.

Brav, A., W. Jiang, F. Partnoy, and R. Thomas (2008) "Hedge Fund Activism, Corporate Governance, and Firm Performance" *The Journal of Finance*, Vol. 63. pp. 1729-1775.

Topic 3. International Corporate Governance and Protection of Shareholders' Interests

* La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny (1998) "Law and Finance," *Journal of Political Economy*, 52, 1131-1150.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R., (1997). "Legal Determinants of External Finance" Journal of Finance 52, 1131-50.

La Porta, R., F. Lopez-deSilanes, A. Shleifer and R. Vishny (2000) "Agency Problems and Dividend Policies around the World," *Journal of Finance*, 55, 1-33.

Johnson, S., La Porta, R., Lopez-de-Silanes, F., Shleifer, A., (2000) "Tunneling" *American Economic Review Papers and Proceedings,* 90, 22-27.

Dyck, A., and L. Zingales (2004) "Private Benefits of Control: An International Comparison," *Journal of Finance*.

Reese, W. and M. Weisbach (2002) "Protection of Minority Shareholder Interests, Cross-Listings in the United States, and Subsequent Equity Offerings," *Journal of Financial Economics.*

Doidge, C., Karolyi, G.A., Stulz, R.M., 2001. "Why are foreign firms listed in the U.S. worth more?"*Journal of Financial Economics*.

Lombardo, D., Pagano, M., 2000. "Law and Equity Markets: A Simple Model." Working Paper, CSEF and University of Salerno.

Topic 4. Interactions of Product Market and Capital Market

A. Theory

* Brander, J. and T. Lewis (1986) "Oligopoly and Financial Structure: The Limited Liability Effect," *American Economic Review*, 76, 956-970.

Maksimovic, V. (1988) "Capital Structure in Repeated Oligopolies," *RAND Journal of Economics*, 19, 389-402.

B. Empirical Tests

* Chevalier, J. (1995) "Capital Structure and Product-Market Competition: Empirical Evidence from the Supermarket Industry," *American Economic Review*.

* Chevalier, J. (1995) "Do LBO Supermarkets Charge More? An Empirical Analysis of the Effects of LBOs on Supermarket Pricing," *Journal of Finance*.

Phillips, G. (1995) "Increased Debt and Industry Product Markets: An Empirical Analysis," *Journal of Financial Economics*, 37, 189-238.

* Campello, M. (2003) "Capital structure and product markets interactions: Evidence from business cycles," Journal of Financial Economics.

Topic 5. Allocation and Misallocation of Internal Resources

A. Survey.

Stein, J. (2001) "Agency, Information and Corporate Investment," (read part 2), in *Handbook of the Economics of Finance*, edited by G. Constantinides, M. Harris, and R. Stulz. North-Holland: Amsterdam.

B. Theory.

* Stein, J. (1989) "Efficient capital markets, inefficient firms: A model of myopic corporate behavior," *Quarterly Journal of Economics*, 104, 655-669.

* Stein, J. (1997) "Internal Capital Markets and the Competition for Corporate Resources," *Journal of Finance*, 52, 111-133.

* Scharfstein, D. and J. Stein (2000) "The Dark Side of Internal Capital Markets: Divisional Rent-Seeking and Inefficient Investment," *Journal of Finance*, 55, 2537-2564.

C. Evidence:

Lamont, O. (1997) "Cash Flow and Investment: Evidence from Internal Capital Markets," *Journal of Finance*, 52, 83-109.

* Stulz, R and H. Shin (1998) "Are Internal Capital Markets Efficient?" *Quarterly Journal of Economics*, 113, 531-552.

* Chevalier, J. "What do we know about cross-subsidization? Evidence from the Investment Policies of Merging Firms," Advances in Economic Analysis and Policy, 4, Article 3.

Lang, L. and R. Stulz (1998) "Tobin's q, Corporate Diversification, and Firm Performance," *Journal of Political Economy*, 102-1248-1280.

Campa, J. and S. Kedia (2002) "Explaining the Diversification Discount," *Journal of Finance.*

Rajan, R., H. Servaes, and L. Zingales (2000) "The Cost of Diversity: The Diversification and Inefficient Investment," *Journal of Finance*, 55, 35-84.

* Schoar, A. (2002) "Effects of Corporate Diversification on Productivity," *Journal of Finance*, 62, 2379-2403.

Lamont, O. and C. Polk (2002) "Does Diversification Destroy Value: Evidence from Industry Shocks," *Journal of Financial Economics*.

Topic 6. Private Equity/Venture Capital

Gompers, P. and J. Lerner (1999) *The Venture Capital Cycle*, MIT Press.

Sahlman, W. (1990) "The Structure and Governance of Venture-Capital Organizations," *Journal of Financial Economics*, 473-521.

Kaplan, S. (1989) "The Effects of Management Buyouts on Operating Performance and Value," *Journal of Financial Economics*, 24, 581-618.

* Kaplan, S. and P. Stromberg (2003) "Financial Contracting meets the Real World: Evidence from Venture Capital Contracts," *Review of Economic Studies.*

Lerner, J. (1994) "Venture Capitalists and the Decision to Go Public," *Journal of Financial Economics*, 293-216.

* Kaplan, S. and A. Schoar (2005) "Private Equity Performance: Returns, Persistence and Capital Flows," *Journal of Finance*, 60, 1791-1823.

* Axelson, U., P. Stromberg, and M. Weisbach (2009), "Why are Buyouts Levered? The Financial Structure of Private Equity Funds," *Journal of Finance*.

* Axelson, U., T. Jenkinson, P. Stromberg, and M. Weisbach (2013) "Borrow Cheap, Buy High? The Determinants of Leverage and Pricing in Buyouts" *Journal of Finance*.

Topic 7. Financial Distress

A. Theory

* Gertner, R. and D. Scharfstein (1991) "A Theory of Workouts and the Effects of Reorganization Law," *Journal of Finance*, 46, 1189-1222.

* Shleifer, A. and R. Vishny (1992) "Liquidation Values and Debt Capacity: A Market Equilibrium Approach," *Journal of Finance*, 47, 1343-1366.

Almeida, H. and T. Philippon (2007) "The Risk-Adjusted cost of Financial Distress".

B. Empirical Evidence

* Pulvino, T. (1998) "Do Asset Fire Sales Exist? An Empirical Investigation of

Commercial Aircraft Transactions," *Journal of Finance*, 53, 939-978.

* Benmelech, Efraim (2007) "Asset Salability and Debt Maturity: Evidence from 19th Century American Railroads," *Review of Financial Studies*.

* Andrade, Gregor and Steven N. Kaplan (1998) "How Costly is Financial (not Economic) Distress? Evidence from Highly Leveraged Transactions," *Journal of Finance*, 53, pp. 1443-1493.

Benmelech, Efraim, Mark Garmaise and Tobias Moskowitz (2005), "Do Liquidation Values Affect Financial Contracts? Evidence from Commercial Loan Contracts and Zoning Regulation," *Quarterly Journal of Economics*, 120, 1121-1154.

Warner, J. (1977) "Bankruptcy Costs: Some Evidence," *Journal of Finance*, 32, 337-348.

Cutler, D. and L. Summers (1988) "The Costs of Conflict Resolution and Financial Distress: Evidence from Texaco-Pennzoil Legislation," *RAND Journal of Economics*.

Weiss, L (1990) "Bankruptcy Resolution: Direct Costs and Violation of Priority of Claims," *Journal of Financial Economics*, 27, 419-444.

* Hortzscu, Ali, Gregor Matvos, Chad Syverson and Siriam Venkataraman (2011) "Indirect Costs of Financial Distress in Durable Goods Industries: The Case of Auto Manufacturers," *Review of Financial Studies,* forthcoming.

Lim, Jongha, (2014) "The Role of Activist Hedge Funds in Distressed Firms," *Journal of Financial and Quantitative Analysis.*

Topic 8. Innovation and Finance

1. Holmstrom, B. (1989). Agency costs and innovation. Journal of Economic Behavior & Organization, 12(3), 305-327.

2. Lerner, J., Sorensen, M., & Strömberg, P. (2011). Private equity and long-run investment: The case of innovation. The Journal of Finance, 66(2), 445-477.

3. Manso, G. (2011). Motivating innovation. The Journal of Finance, 66(5), 1823-1860.

4. Atanassov, J. (2013). Do hostile takeovers stifle innovation? Evidence from antitakeover legislation and corporate patenting. The Journal of Finance, 68(3), 1097-1131.

5. Ederer, F., & Manso, G. (2013). Is pay for performance detrimental to innovation?. Management Science, 59(7), 1496-1513.

6. Phillips, G. M., & Zhdanov, A. (2013). R&D and the Incentives from Merger and Acquisition Activity. Review of Financial Studies, 26(1), 34-78.

7. Bena, J., & Li, K. (2014). Corporate innovations and mergers and acquisitions. The Journal of Finance, 69(5), 1923-1960.

8. Sapra, H., Subramanian, A., & Subramanian, K. V. (2014). Corporate governance and innovation: Theory and evidence. Journal of Financial and Quantitative Analysis, 49(04), 957-1003.

	9. Tian, X., & Wang, T. Y. (2014). Tolerance for failure and corporate innovation. Review of Financial Studies, 27(1), 211-255. 10. Balsmeier, B., Fleming, L., & Manso, G. (2016). Independent Boards and Innovation. Working paper. 11. Bradley, D., Kim, I., & Tian, X. (2016). Do unions affect innovation?. Management Science, forthcoming.