

FIN 745: Seminar in Managerial Finance

Dr. Kristine Watson Hankins
Spring 2017

Time & Location:

Monday	12:30 – 3:00	Gatton 248
Thursdays	12:30 – 3:00	TBD

Goals:

This seminar will cover research issues in empirical corporate finance. It will build on the theory and ‘classics’ background of FIN 740 as well as the econometrics tools you have developed in labor and the econometrics sequence. The goal of this course is to read a broad range of papers in empirical corporate finance, evaluate the data and identification techniques, and generate ideas for your own research agendas with a focus on casual inference.

Readings:

In addition to the assigned articles, I recommend the following for additional reference.

Angrist, J. and J. Pischke, 2009, *Mostly Harmless Econometrics: An Empiricist's Companion*, Princeton University Press

Baum, C., 2015, *An Introduction to Modern Econometrics Using Stata*, Stata Press

Cameron, A. and P. Trivedi, 2005, *Microeconometrics: Methods and Applications*, Cambridge University Press.

Wall Street Journal

Tal Gross's Stata Handout: <http://www.columbia.edu/~tg2370/good-stata-habits.pdf>

Expectations:

Attendance and participation are mandatory. This is for your benefit as well as those of your classmates. Unprepared students will be asked to leave the class. (Yes, I have done this in the past.) Each student will present an article or two from the assigned readings each week (~20 mins) and should write a brief summary to share. I will check your summaries periodically so please post them to the class Dropbox.

Everyone should read all the assigned articles. *Presenters* will lead the discussion. They will identify the main contribution, describe the data and estimation process, highlight any potential shortcomings, hopefully reference related other research that was not assigned, and introduce possible extensions or research ideas related to the paper. Everyone else will provide thoughtful questions.

Classroom participation	15%
Weekly article presentations	15%
Assignments - 3	10% each
Research proposal presentation	10%
Final project (due May 15)	30%

Assignments:

There are three assignments to submit: one methodology reading assignment and two mini-projects designed to facilitate your independent research proposals.

1. *Methodology Papers:* Read the following four papers and write short summaries of each.

Ai, C. and E. Norton, 2003, Interaction terms in logit and probit models, *Economics Letters* 80, 123–129.

Bertrand, M., E. Duflo, and S. Mullainathan, 2004, How Much Should We Trust Differences-in-Differences Estimates?, *Quarterly Journal of Economics* 119, 249-75.

Gormley, T. and D. Matsa, 2014, Common Errors: How to (and Not to) Control for Unobserved Heterogeneity, *Review of Financial Studies* 27, 617-661.

Petersen, M., 2009, Estimating Standard Errors in Finance Panel Data Sets: Comparing Approaches, *Review of Financial Studies* 22, 435 – 480.

2. *The Hunt:* We will have read a number of papers using non-traditional data to understand traditional corporate finance issues. Your job is to search top economics journals, the *Economist* magazine, or other sources to identify a couple potential events or datasets that might be used to examine corporate finance questions. This project most likely will take a lot of time so plan accordingly. Identifying a unique event or sample may change your career.

3. *RDC Data:* You know I love unique data. Jim Ziliak, in Gatton Economics, has spearheaded the effort to bring a Census Research Data Center (RDC) to UK in 2017. This is an amazing resource for the entire college. I want you to propose a research project using this data.
<http://www.census.gov/about/adrm/fsrdc/locations/kentucky.html>

Research Proposal:

Prepare an in-class presentation of an independent corporate finance research idea. You will have approximately 20 minutes to present. Motivate the research question using existing literature and outline your identification strategy. Your motivation should position your paper succinctly within the existing literature but the focus should be your proposed research. Discuss potential data and summarize your expected findings. Your references should include 8-12 relevant papers. This proposal is the groundwork for your final project. However, substandard proposal ideas will be jettisoned and you'll need to identify a new topic for your final project.

Final Project:

The paper can be on any empirical corporate finance topic of your choosing. The paper should be approximately 10 concisely written pages as well as preliminary (but well-designed!) empirical analysis. (Tables do not count towards the page limit.) All topics must be approved by me in advance.

Schedule:

1/12	Reading Assignment: Survey corporate topics at top conferences Introduction
1/16	No class, MLK
1/19	Clever Empirical Research
1/23	Assignment #1 Due – Econometric Paper Summaries Endogeneity: Ownership and Value
1/26	No class, rescheduled to March 2
1/30	Capital Structure
2/2	No class, rescheduled to March 20
2/6	Distress and Collateral
2/9	Assignment #2 Due – The Hunt Investment
2/13	Payout Policy
2/16	Assignment #3 Due – RDC Data Liquidity Management
2/20	Internal Capital Markets
2/23	Risk Management
2/27	Intermediation
3/2	The Financial Markets and Corporate Finance
3/6	Discuss research proposal ideas Labor and Finance
3/20	Research Proposal Presentations
5/1	Final Project Due

1. Introduction

Angrist, J. D. and J. Pischke, 2010, The Credibility Revolution in Empirical Economics: How Better Research Design is Taking the Con out of Econometrics, *Journal of Economic Perspectives* 24, 3-30.

Hamermesh, D., 1992, A Young Economist's Guide to Professional Etiquette, *Journal of Economic Perspectives* 6, 169-179.

Lalonde, R., 1986, Evaluating the Econometric Evaluations of Training Programs with Experimental Data, *American Economic Review* 76, 604-619.

2. Clever Empirical Research

Giroud, X., 2013, Proximity and Investment: Evidence from Plant-Level Data, *Quarterly Journal of Economics*, 861–915

Gormley, T. and D. A. Matsa. 2011, Growing Out of Trouble? Corporate Responses to Liability Risk, *Review of Financial Studies* 24, 2781-2821.

Greenwood, R. and S. Hansen, 2015, Waves in Ship Prices and Investment, *Quarterly Journal of Economics* 130, 55–109.

Sheen, A., 2014, The Real Product Market Impact of Mergers, *Journal of Finance* 69, 2651–2688.

3. Endogeneity: Ownership and Value

Bennedsen, M., K. M. Nielsen, F. Pérez-González, and D. Wolfenzon, 2007, Inside the Family Firm: the Role of Families in Succession Decisions and Performance, *Quarterly Journal of Economics* 122, 647-691.

Black, B., and W. Kim, 2012, The effect of board structure on firm value: A multiple identification strategies approach using Korean data, *Journal of Financial Economics* 104, 203-226.

Coles, J., M. Lemmon, and J.F. Meschke, 2012, Structural Models and Endogeneity in Corporate Finance: The Link Between Managerial Ownership and Performance, *Journal of Financial Economics* 103, 149-168.

Duchin, R., J. Matsusaka, and O. Ozbas, 2010, When are outside directors effective?, *Journal of Financial Economics* 96, 195-214.

Edgerton, J., 2014, Agency Problems in Public Firms: Evidence from Corporate Jets in Leveraged Buyouts, *Journal of Finance* 67, 2187–2213.

Himmelberg, C. P., G. Hubbard and D. Palia, 1999, Understanding the determinants of managerial ownership and the link between ownership and performance, *Journal of Financial Economics* 53, 353-384.

Morck, R., A. Shleifer and R. Vishny, 1988, Management ownership and market valuation, *Journal of Financial Economics* 20, 293-315.

Zhou, X., 2001, Understanding the determinants of managerial ownership and the link between ownership and performance: Comment, *Journal of Financial Economics* 62, 559-571.

4. Capital Structure

Banerjee, S., S. Dasgupta, and Y. Kim, 2008, Buyer-Supplier Relationships and the Stakeholder Theory of Capital Structure, *Journal of Finance* 63, 2507-2552.

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

Campello, M., 2003, Capital Structure and Product Market Interactions: Evidence from Business Cycles, *Journal of Financial Economics* 68, 353-378.

Chevalier, J., 1995, Capital Structure and Product-Market Competition: Empirical Evidence from the Supermarket Industry, *American Economic Review* 85, p. 415-435.

Fama, E. F., and K. R. French, 2002, Testing Trade-Off and Pecking Order Predictions about Dividends and Debt, *Review of Financial Studies* 15, 1-33.

Faulkender, M., and M. A. Petersen, 2006, Does the Source of Capital Affect Capital Structure? *Review of Financial Studies* 19, 45-79

Giroud, X., H. Mueller, A. Stomper, and A. Westerkamp, 2012, Snow and Leverage, *Review of Financial Studies* 25, 680-710.

Leary, M. T., and M. R. Roberts, 2005, Do Firms Rebalance Their Capital Structure?, *Journal of Finance* 60, 2575-2619.

Lemmon, M. L., M. R. Roberts, and J. F. Zender, 2008, Back to the Beginning: Persistence and the Cross-Section of Corporate Capital Structure, *Journal of Finance* 63, 1575–1608.

Li, J.Y., and D. Tang, 2016, The leverage externalities of credit default swaps, *Journal of Financial Economics* 120, 491–513.

5. Distress and Collateral

a. Financial Distress

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

Benmelech, E., 2009, Asset Salability and Debt Maturity: Evidence from Nineteenth-Century American Railroads, *Review of Financial Studies* 22, 1545-1584.

Bernstein, S. E. Colonnelli, X. Giroud, and B. Iverson, 2016, Bankruptcy Spillovers, Working paper

Elkamhi, R., J. Ericsson, C. A. Parsons, 2012, The Cost and Timing of Financial Distress, *Journal of Financial Economics* 105, 62-81.

Hortzscu, A., G. Matvos, C. Syverson, and S. Venkataraman, 2011, Indirect Costs of Financial Distress in Durable Goods Industries: The Case of Auto Manufacturers, *Review of Financial Studies*

Pulvino, T., 1998, Do Asset Fire Sales Exist? An Empirical Investigation of Commercial Aircraft Transactions, *Journal of Finance* 53, 939-978.

b. Collateral

Benmelech, E. and N. Bergman, 2009, Collateral pricing, *Journal of Financial Economics* 91, 339–360.

Chaney, T., D. Sraer, and D. Thesmar, 2012, The Collateral Channel: How Real Estate Shocks affect Corporate Investment, *American Economic Review* 102, 2381-2409.

Calomiris, C., M. Larrain, J. Liberti, and J. Sturgess, 2017, How collateral laws shape lending and sectoral activity, *Journal of Financial Economics*, forthcoming

Campello, M., and M. Larrain, 2016, Enlarging the Contracting Space: Collateral Menus, Access to Credit, and Economic Activity, *Review of Financial Studies* 29, 349-383.

Gan, Jie, 2007, Collateral, Debt Capacity, and Corporate Investment: Evidence from a Natural Experiment, *Journal of Financial Economics* 85, 709-734.

Rampini, A., and S. Viswanathan, 2013, Collateral and capital structure, *Journal of Financial Economics* 109, 466–492.

Rampini, A., and S. Viswanathan, 2010, Collateral, risk management, and the distribution of debt capacity, *Journal of Finance* 65, 2293–2322.

Vig, V., 2013, Access to Collateral and Corporate Debt Structure: Evidence from a Natural Experiment, *Journal of Finance* 68, 881–928.

6. Investment

Almeida, H., M. Campello, and A. F. Galvao, 2010, Measurement Errors in Investment Equations *Review of Financial Studies* 23, 3279-3328

Bakke, T. and T. M. Whited, 2012, Threshold Events and Identification: A Study of Cash Shortfalls, *Journal of Finance* 67, 1083-1111.

Chava, S. and M. Roberts, 2008, How Does Financing Impact Investment? The Role of Debt Covenants, *Journal of Finance* 63, 2085-2121.

Cookson, A., 2017, Leverage and Strategic Preemption: Lessons from Entry Plans and Incumbent Investments, *Journal of Financial Economics*, forthcoming.

Fazzari, S. M., R. G. Hubbard, and B. C. Petersen, 1988, Financing Constraints and Corporate Investment, *Brookings Papers on Economic Activity*, 141-206.

Garmaise, M. J. and G. Natividad, 2010, Information, the Cost of Credit, and Operational Efficiency: An Empirical Study of Microfinance, *Review of Financial Studies* 23, 2560-2590.

Kim, H. and H. Kung, 2016, The Asset Redeployability Channel: How Uncertainty Affects Corporate Investment, *Review of Financial Studies*, forthcoming.

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

Tsoutsoura, M., 2015, The Effect of Succession Taxes on Family Firm Investment: Evidence from a Natural Experiment, *Journal of Finance* 70, 649-688.

7. Payout Policy

Almeida, H., V. Fos, and M. Kronlund, 2016, The Real Effects of Share Repurchases, *Journal of Financial Economics* 119, 168-185.

Becker, Bo, Marcus Jacob, and Martin Jacob, 2013, Payout taxes and the allocation of investment, *Journal of Financial Economics* 107, 1-24.

Bliss, B., Y. Cheng, and D. Denis, 2014, Corporate Payout, Cash Retention, and the Supply of Credit: Evidence from the 2008-09 Credit Crisis, *Journal of Financial Economics*.

Brav, A., J. Graham, C. Harvey, and R. Michaely, 2005, Payout Policy in the 21st Century, *Journal of Financial Economics*, 483-527.

Brown, J. R., N. Liang, and S. Weisbenner, 2007, Executive Financial Incentives and Payout Policy: Firm Responses to the 2003 Dividend Tax Cut, *Journal of Finance* 62, 1935-1965.

Chetty, R. and E. Saez, 2005, Dividend Taxes and Corporate Behavior: Evidence from the 2003 Dividend Tax Cut, *Quarterly Journal of Economics* 120, 791-833.

Fama, E., and K. French, 2001, Disappearing Dividends: Changing Firm Characteristics or Lower Propensity to Pay?, *Journal of Financial Economics* 60, 3–43.

Grinstein, Y., and R. Michaely, 2005, Institutional Holdings and Payout Policy, *Journal of Finance* 60, 1389-1426.

Hankins, K., M. Flannery, and M. Nimalendran, 2008, The Effect of Fiduciary Standards on Institutions' Preference for Dividend-Paying Stocks, *Financial Management* 37, 647-671.

Hoberg, G., G. Phillips, and N. Prabhala, 2014, Product Market Threats, Payouts, and Financial Flexibility, *Journal of Finance* 69, 293-324.

8. Liquidity Management

Acharya, V., S. A. Davydenko, and I. A. Strebulaev, 2012, Cash Holdings and Credit Risk, *Review of Financial Studies* 25, 3572-3609.

Almeida, H., M. Campello, and M. S. Weisbach, 2004, The Cash Flow Sensitivity of Cash. The *Journal of Finance* 59: 1777–1804.

Almeida, H., M. Campello, I. Cunha, and M. Weisbach, 2014, Corporate Liquidity Management: A Conceptual Framework and Survey, *Annual Review of Financial Economics* 6, 135-162

Azar, J. A., J. Kagy, M. Schmalz, 2016, Can Changes in the Cost of Carry Explain the Dynamics of Corporate “Cash” Holdings?, *Review of Financial Studies* 29, 2194-2240

Bates, T. W., K. M., Kahle, and R. M. Stulz, 2009, Why do US Firms Hold So Much More Cash than They Used To?, *Journal of Finance* 64, 1985–2021

Farre-Mensa, J. and A. Ljungqvist, 2015, Do Measures of Financial Constraints Measure Financial Constraints?, *Review of Financial Studies*, Forthcoming

Fresard, L., 2012, Financial Strength and Product Market Behavior: The Real Effects of Corporate Cash Holdings, *Journal of Finance* 65, 1097–1122.

9. Internal Capital Markets

Bharath, S., A. Dittmar, and J. Sivadasan, 2014, Do Going-Private Transactions Affect Plant Efficiency and Investment?, *Review of Financial Studies* 27, 1929-1976.

Boutin, X., G. Cestone, C. Fumagalli, and G. Pica, 2013, The deep-pocket effect of internal capital markets *Journal of Financial Economics* 109, 122–145.

Campa, J. and S. Kedia, 2002, Explaining the Diversification Discount, *Journal of Finance* 57, 1731-1762.

Çolak, G. and T. Whited, 2007, Spin-offs, Divestitures, and Conglomerate Investment, *Review of Financial Studies* 20, 557 - 595.

Maksimovic, V., and G. Phillips, 2013, Conglomerate Firms, Internal Capital Markets, and the Theory of the Firm, *Annual Review of Financial Economics* 5, 225-244.

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.

Seru, A., 2013, Firm Boundaries Matter: Evidence from Conglomerates and R&D Activity, *Journal of Financial Economics* 111, 381–405.

Tate, G., and L. Yang, 2015, The Bright Side of Diversification, *Review of Financial Studies*, Forthcoming

Villalonga, B., 2004, Does Diversification Cause the 'Diversification Discount'?, *Financial Management* 33, 5-27.

10. Risk Management

Almeida, H., K. W. Hankins, and R. Williams, 2016, Risk Management with Supply Contracts, R&R at *Review of Financial Studies*.

Campello, M., C. Lin, Y. Ma, H. Zou, 2011, The Real and Financial Implications of Corporate Hedging, *Journal of Finance* 66, 1615-1647

Corneggia, J. Does risk management matter? Evidence from the U.S. agricultural industry, *Journal of Financial Economics* 109, 419-440.

Garfinkel, J. and K. W. Hankins, 2011, The Role of Risk Management in Mergers and Merger Waves, *Journal of Financial Economics* 101, 515–532.

Hoberg, G., and K. Moon, 2016, Offshore Activities and Financial vs Operational Hedging, *Journal of Financial Economics*, Forthcoming

Howell, S., 2016, The Cost of Risk Management: Evidence from a Quasi-Experiment, Working paper

Pérez-González, F. and Yun, 2013, Risk Management and Firm Value: Evidence from Weather Derivatives, *Journal of Finance* 68, 2143.

Purnanandam, A., 2008, Financial Distress and Corporate Risk Management: Theory & Evidence, *Journal of Financial Economics* 87, 706-739.

11. Intermediation

Allen, F., 2001, Do Financial Institutions Matter? *Journal of Finance* 56, 1165–1175.

Berger, A. N., N. H. Miller, M. A. Petersen, R. G. Rajan, J. C. Stein, 2005, Does function follow organizational form? Evidence from the lending practices of large and small banks, *Journal of Financial Economics* 76, 237-269.

Breza, E. and A. Liberman, 2016, Financial Contracting and Organizational Form: Evidence from the Regulation of Trade Credit, *Journal of Finance*, Forthcoming

Butler, A.W. and J. Cornaggia, 2011, Does access to external finance improve productivity? Evidence from a natural experiment, *Journal of Financial Economics* 99, 184-203.

Engelberg, J., P. Gao, and C. Parsons, 2012, Friends with money, *Journal of Financial Economics* 103, 169-188.

Fisman, R., and I. Love, 2003, Trade Credit, Financial Intermediary Development, and Industry Growth, *Journal of Finance* 58, 353-374.

Jayaratne, J. and P. Strahan, 1996, The finance-growth nexus: Evidence from bank branch deregulation, *Quarterly Journal of Economics*, 639-670.

Petersen, M. A. and R. G. Rajan, 2002, Does Distance Still Matter? The Information Revolution in Small Business Lending, *Journal of Finance* 57, 2533–2570.

12. The Financial Markets and Corporate Finance

Baker, M., J. C. Stein, and Jeffrey Wurgler, 2003, When Does the Market Matter? Stock Prices and the Investment of Equity-Dependent Firms, *Quarterly Journal of Economics* 118, 969-1005.

Bustamante, M. C., and A. Donangelo, 2016, Industry Concentration and Markup: Implications for Asset Pricing, *Review of Financial Studies*, Forthcoming

Chen, Q., I. Goldstein, and W. Jiang, 2007, Price Informativeness and Investment Sensitivity to Stock Price, *Review of Financial Studies* 20, 619 - 650.

Derrien, F. and A. Keckes, 2013, The Real Effects of Financial Shocks: Evidence from Exogenous Changes in Analyst Coverage, *Journal of Finance* 68, 1407–1440.

Edmans, A., I. Goldstein, and W. Jiang, 2012, The Real Effects of Financial Markets: The Impact of Prices on Takeovers, *Journal of Finance* 67, 933-971.

Foucault, T., and L. Fresard, 2014, Learning from peers' stock prices and corporate investment, *Journal of Financial Economics* 111, 554–577.

Grullon, G., S. Michenaud, and J. P. Weston, 2015, The Real Effects of Short-Selling Constraints, *Review of Financial Studies* 28, 1737-1767.

Peress, J., 2010, Product Market Competition, Insider Trading and Stock Market Efficiency, *Journal of Finance* 65, 1-43.

Subrahmanyam, M. G., D. Y. Tang, and S. Q. Wang, 2014, Does the Tail Wag the Dog?: The Effect of Credit Default Swaps on Credit Risk, *Review of Financial Studies*, Forthcoming.

13. Labor and Finance

Agrawal, A. K., and D. Matsa, 2013, Labor unemployment risk and corporate financing decisions, *Journal of Financial Economics* 108, 449–470.

Bakke, T., H. Mahmudi, C. S. Fernando, J. Salas, 2016, The causal effect of option pay on corporate risk management, *Journal of Financial Economics* 120, 623–643.

Caggese, A., V. Cunat, and D. Metzger, 2016, Firing the Wrong Workers: Financing Constraints and Labor Misallocation, Working paper

Ersahin, N. and R. Irani, 2016, Collateral Values and Corporate Employment, Working paper.

Giroud, X., and H. Mueller, 2016, Redistribution of Local Labor Market Shocks through Firms' Internal Networks, Working paper

Israelsen, R. D., and S. E. Yonker, 2016, Key Human Capital, *Journal of Financial and Quantitative Analysis*, forthcoming

Kim, H., 2016, How Does Labor Market Size Affect Firm Capital Structure? Evidence from Large Plant Openings, R&R at *Journal of Financial Economics*