

SUMMER 2007
FINA 9130: FINANCIAL RESEARCH METHODOLOGY
Daily, 1:00 - 3:15 pm, Caldwell 306

Instructors: **Harold Mulherin/Jide Wintoki** Office: Brooks 288A
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Office Hours: By appointment

Course Description:

The databases and empirical methodologies used in performing financial research. Event study and regression methodologies in corporate finance research and investment-oriented methodologies such as factor and principal components analyses. Students gain experience in presentation of research and in refereeing papers.

Course Objectives:

I. The main objective of this course is to equip students with the basic technical skills needed to carry out empirical research in financial economics. To accomplish this, the course introduces students to databases and programming techniques that are frequently used in financial research. Databases that will be covered in the course include:

- CRSP
- COMPUSTAT
- IBES
- SDC
- TAQ
- DATASTREAM

In order to have access to CRSP, COMPUSTAT etc., you will need to have a WRDS account. If you do not currently have a WRDS account, please go to: <http://wrds.wharton.upenn.edu/index.shtml> and set up an account under your name immediately.

II. The course is designed to enable students to obtain a working knowledge of SAS sufficient to extract and manipulate data sets that are typically encountered in financial research. Students will use such basic procedures as PROC REG, PROC SQL etc., as well as more advanced techniques like macros. The course will also cover commonly used empirical methodologies like event studies, regressions and matching procedures.

III. The course is also expected to provide students with a deeper understanding of what an academic job entails. Thus students will be expected to complete a number of referee reports and there will be several lectures on research by faculty. There will also be lectures on the effective presentation of research results and papers (e.g. using word processing tools like L^AT_EX).

Recommended Books:

- *Using SAS in Financial Research*, by Juha-Pekka Kallunki, John Broussard, and Ekkehart Boehmer, SAS Press
- *The Little SAS Book: A Primer*, by Lora Delwiche and Susan Slaughter, SAS Press

Class Attendance:

The summer class is definitely not a “break”. The material to be covered is ambitious in scope and the pace will be fairly swift. Other than the first week of class, we will generally not meet on Fridays; the faculty and I expect you to devote a generous amount of time to independent work on the projects and assignments from the course. It would be wise not to schedule any vacation time during this course.

Course Grading:

Programming Assignments	45%
Paper Replication	30%
Referee Reports	15%
Paper summaries and Presentations	10%

Paper Replication:

There will be no final exam in this class. Instead the final project will be a replication of a published paper. Students will have a choice between a limited replication of either Womack (1996) or Loughran and Ritter (1995).

Honor code:

All academic work must meet the standards contained in “A Culture of Honesty”. All students are responsible to inform themselves about those standards before performing any academic work. Unless otherwise specified, I expect all work on projects and assignments to be your own. While I strongly encourage open and frank discussion in class, and collaboration on in-class activities, all other assigned work must be done individually.

Access to SAS, STATA and other programs:

SAS (and some other programs we will use in this course) is available on the Terry College’s CHIEF server. All graduate students of the business school are entitled to a CHIEF account. If you do not already have an account, please contact the Terry Help Desk at 542-6799 to set up one immediately.

Note: The syllabus is a general plan for the course; deviations announced to the class by the instructor may be necessary.

Course Outline:

	Class Activities	Assignment Due
Week 1		
June 7 - Thu.	Introduction to WRDS databases. Introduction to UNIX, SSH and the CHIEF system.	
June 8 - Fri.	Introduction to SAS. Using SAS to pull CRSP and COMPUSTAT data. Hand out Programming Assignment #1.	
Week 2		
June 11 - Mon.	Dr. Jim Linck discusses research and the finance profession. Introduction to SAS (cont'd).	
June 12 - Tue.	Using SAS to pull CRSP and COMPUSTAT data (cont'd). Introduction to the IBES database (recommendations and estimates).	Programming Assignment #1.
June 13 - Wed.	Dr. Jeff Netter discusses research and writing referee reports. Hand out Programming Assignment #2	
June 14 - Thu.	Using SAS to pull IBES data. Hand out 1 st referee report assignment.	
Week 3		
June 18 - Mon.	Short-Run Event studies: discussion of methodologies and sample SAS programs. Papers to be discussed/presented include: Brown and Warner (1985), Barber and Lyon (1996), MacKinlay (1997) and Boehmer, Musumeci and Poulsen (1991).	1 st paper summary and Programming Assignment #2.
June 19 - Tue.	Introduction to SDC (New Issues Database). Hand out 2 nd paper summary assignments. Hand out Programming Assignment #3.	
June 20 - Wed.	Discussion of the impact of database problems on empirical studies. Papers to be discussed include Kahle and Walkling (1996), Shumway (1997) and Boone and Mulherin (2007). Dr. Harold Mulherin discusses empirical issues in finance research.	1 st referee report.

	Class Activities	Assignment Due
June 21 - Thu.	Long-Run Event studies: discussion of methodologies and sample SAS programs. Papers to be discussed/presented include: Barber and Lyon (1997), Barber, Lyon and Tsai (1999), Mitchell and Stafford (2000) and Loughran and Ritter (2000). Hand out Programming Assignment #4.	2 nd paper summary and Programming Assignment #3.

Week 4

June 25 - Mon.	Regressions, descriptive statistics, and matching procedures in SAS. 1 hour session with John Prechtel for an introduction to DATASTREAM.	
June 26 - Tue.	Regressions, descriptive statistics, and matching procedures in SAS (cont'd). Hand out Programming Assignment #5.	Programming Assignment #4.
June 27 - Wed.	Using macros in SAS.	2 nd referee report.
June 28 - Thu.	Brief Introduction to STATA. Hand out Programming Assignment #6.	Programming Assignment #5.

Week 5

Jul 2 - Tue.	Introduction to L ^A T _E X. Final review of material covered over the semester.	
Jul 3 - Wed.	There will be no class. Work on Paper Replication.	Programming Assignment #6.
Jul 5 - Wed.	There will be no class. Continue Work on Paper Replication.	
Jul 6 - Thu.		Paper Replication.

Papers to be covered:

- Barber, Brad M. and John D. Lyon**, “Detecting Abnormal Operating Performance: The Empirical Power and Specification of Test Statistics,” *Journal of Financial Economics*, 1996, *41*, 359–399.
- and —, “Detecting Long-run Abnormal Stock Returns: The Empirical Power and Specification of Test Statistics,” *Journal of Financial Economics*, 1997, *43*, 341–372.
- , —, and **Chih-Ling Tsai**, “Improved Methods for Tests of Long-run Abnormal Stock Returns,” *Journal of Finance*, 1999, *54*, 165–201.
- Boehmer, Ekkehart, Jim Musumeci, and Annette Poulsen**, “Event Study Methodology Under Conditions of Event-Induced Variance,” *Journal of Financial Economics*, 1991, *30*, 253–272.
- Boone, Audra L. and J. Harold Mulherin**, “Do Termination Provisions Truncate the Takeover Bidding Process?,” *Review of Financial Studies*, 2007, *20*, 461–489.
- Brown, Stephen J. and Jerold B. Warner**, “Using Daily Stock Returns in the Case of Event Studies,” *Journal of Financial Economics*, 1985, *14*, 205–228.
- Kahle, Kathleen M. and Ralph A. Walkling**, “The Impact of Industry Classifications on Financial Research,” *Journal of Financial and Quantitative Analysis*, 1996, *31*, 309–335.
- Loughran, Tim and Jay R. Ritter**, “The New Issues Puzzle,” *Journal of Finance*, 1995, *50*, 23–51.
- and —, “Uniformly least powerful tests of market efficiency,” *Journal of Financial Economics*, 2000, *55*, 361–389.
- MacKinlay, A. Craig**, “Event Studies in Economics and Finance,” *Journal of Economic Literature*, 1997, *35*, 13–39.
- Mitchell, Mark L. and Erik Stafford**, “Managerial Decisions and Long-Term Stock Price Performance,” *Journal of Business*, 2000, *73*, 287–329.
- Shumway, Tyler**, “The Delisting Bias in CRSP Data,” *Journal of Finance*, 1997, *52*, 327–340.
- Womack, Kent L.**, “Do Analysts’ Recommendations Have Investment Value?,” *Journal of Finance*, 1996, *51*, 137–167.