

**Finance 9120: Empirical Research in Corporate Finance**  
Tuesday 6:00-9:00 p.m.

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Course Overview

This is a PhD course in corporate finance. The purpose of the course is to (1) gain knowledge of research in corporate finance, (2) learn about methods of testing theories, and (3) understand how to recognize and respond to issues in conducting estimation. The papers to be covered in the course are provided on the attached Reading List.

The attached outline sketches the content of the course. The first 6 weeks will deal with topics in corporate finance. In weeks 7 and 8, students will present published research in an area chosen by the student. Weeks 9 through 13 will address issues involved in conducting empirical research in corporate finance. In weeks 14 and 15, students will present results from their own research.

Course Requirements

Students will be graded on class participation (30%) and a research paper (70%).

**Class Participation:** The course is a seminar. This means that class sessions will primarily entail discussions rather than being lecture-based. All students should come to class with a thorough understanding of the three (or four) assigned papers per week (see the reading list). This includes (a) the basic motivation of the paper (why was it written?), (b) the underlying theory or theories being tested, (c) the data and empirical methods used, (d) the results of the paper, and, most importantly, (e) what future research is suggested by the extant analysis. The participation grade will be based on the cogency of the student's comments. Any student who reveals a lack of preparation is subject to dire sanctions.

**Research paper:** Each student will conduct empirical research on a topic in corporate finance of their own choosing (see the reading list for a variety of possible topics). The paper should be *an event study*, where an event is defined to have an announcement and an execution (completion) date. The focus of analysis should be a set of publicly traded firms that have available stock price and other financial data. Data can come from sources such as CRSP, Compustat and SDC or can be generated from other sources such as LexisNexis, SEC EDGAR, Moody's Manuals, Yahoo Finance and Google. Each student should conduct their work independently.

To accomplish the research paper by the end of the semester, students must act promptly and diligently. To monitor this performance, a schedule for the research paper is attached. Failure to meet prescribed deadlines will impinge on the grade for the research paper.

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### *Schedule for the Research Paper*

All assignments for a given week should be handed in (or emailed) by 12 noon on Monday (the day before class).

<u>Week</u>	<u>Assignment</u>
2	One paragraph abstract on the event to be studied and your motivation
3	Elaboration of the theories being tested and the data to be used
4	Detailed literature review on the topic (write-up and table(s)) Detail the content of the prior research in a table What are the outstanding theoretical and empirical issues? What is your proposed contribution?  Also provide a specific paper to be presented in weeks 7-8
5	Initial sample of firms with announcement and execution dates (dates should be verified with stories from LexisNexis)  Include a one-page write-up of your sampling method Also a table with columns for firm, announcement date and execution date
6	Table with summary statistics for the firms; possible variable include:  age, size, % debt, dividend payout ratio, P/E ratio, R&D/Sales
7-8	Student presentations of published research
9	Basic event study results for announcement and execution dates  Raw returns for (-1,+1) as well as net-of-market (in a table(s))
11	Robustness Analysis  Alternative CAR estimates; Compustat analysis, (in a table(s)) Longer event windows
12	Initial write-up of results
14-15	Student presentations of their own research
15	Completed paper

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### *Outline of Topics*

<u>Week</u>	<u>Date</u>	<u>Topic</u>
1	January 8	Overview of Analysis
2	January 15	Securities Offerings: IPOs and SEOs
3	January 22	Capital Structure and Payout Policy
4	January 29	Corporate Restructuring
5	February 5	Corporate Finance and Industrial Organization
6	February 12	Corporate Governance
7-8	February 19, 26	Student Presentations of Published Research
9	March 4	Microstructure and Price Pressure
Spring Break	March 10-14	
10	March 18	Testing Hypotheses
11	March 25	Choice in Corporate Finance
12	April 1	Endogeneity and Selection Bias
13	April 8	Long Run Performance
14-15	April 15, 22	Student Presentations of Their Own Research

## Finance 9120: Empirical Research in Corporate Finance

### *Reading List*

The material for the course is a list of papers that should all be available electronically. Published papers can be obtained via JSTOR and/or the journals themselves on the UGA library website. Working papers can be found on the Social Science Research Network and/or the authors' websites.

You should purchase the following book on Amazon.com: Clifford W. Smith, Jr. (editor), The Modern Theory of Corporate Finance Second Edition, McGraw Hill: New York, 1990. The book collects a number of seminal theoretical and empirical papers on corporate finance and also contains an important introduction by the editor. The reading list notes the papers contained in the Smith book.

The reading list for each week contains three sets of papers. The first set for each week, Assigned Papers, will be our point of emphasis. These are generally three (or four) papers within the topic for the week, usually one conceptual paper and two empirical papers. You should know these papers backwards and forwards.

The Theory papers provide the conceptual underpinnings of the assigned empirical work. You should understand the arguments in these papers, especially as they relate to the assigned work.

The Background papers provide further treatment of the assigned topic. Many are survey papers that show the development of the area. Some are recent papers not in the assigned group that also indicate the evolution of research in the area.

## 1. Overview of Analysis

### Assigned Papers

Meulbroek, Mitchell, Mulherin, Netter & Poulsen, “Shark Repellents and Managerial Myopia: An Empirical Test,” *Journal of Political Economy* 98 (October 1990) 1108-1117.

Becher, “The Valuation Effect of Bank Mergers,” *Journal of Corporate Finance* 6 (July 2000) 189-214.

Maloney & Mulherin, “The Effects of Splitting on the Ex: A Microstructure Reconciliation,” *Financial Management* 21 (Winter 1992) 44-59.

### Theory

Hayek, “The Use of Knowledge in Society,” *American Economic Review* 35 (September 1945) 519-530.

### Background

Smith, pp. 3-24, in Smith, The Modern Theory of Corporate Finance

Fama, “Efficient Capital Markets: A Review of Theory and Empirical Work,” *Journal of Finance* 25 (May 1970) 383-417.

Fama, “Efficient Capital Markets: II,” *Journal of Finance* 46 (December 1991) 1575-1617.

Kim, Morse & Zingales, “What Has Mattered to Economics Since 1970,” *Journal of Economic Perspectives* 20 (Fall 2006) 189-202.

## 2. Securities Offerings: IPOs and SEOs

### Assigned Papers

Myers & Majluf, “Corporate Financing and Investment Decisions when Firms Have Information that Investors Do not Have,” *Journal of Financial Economics* 13 (June 1984) 187-221. [in Smith, pp. 419-453]

Beatty & Ritter, “Investment Banking, Reputation, and the Underpricing of Initial Public Offerings,” *Journal of Financial Economics* 15 (January-February 1986) 213-232. [in Smith pp. 500-519]

Asquith & Mullins, “Equity Issues and Offering Dilution,” *Journal of Financial Economics* 15 (January-February 1986) 61-89.

### Background

Smith, “Investment Banking and the Capital Acquisition Process,” *Journal of Financial Economics* 15 (January-February 1986) 3-29. [in Smith, pp.454-480]

Ritter & Welch, “A Review of IPO Activity, Pricing and Allocations,” *Journal of Finance* 57 (August 2002) 1795-1828.

Eckbo, Masulis, and Norli, “Security Offerings,” working paper, [see Espen Eckbo’s website at Tuck School of Business, Dartmouth College]

Dittmar & Thakor, “Why Do Firms Issue Equity?” *Journal of Finance* 52 (February 2007) 1-54.

### 3. Capital Structure and Payout Policy

#### Assigned Papers

Jensen & Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics* 3 (October 1976) 305-360. [in Smith, pp. 82-137]

Dann, "Common Stock Repurchases: An Analysis of Returns to Bondholders and Stockholders," *Journal of Financial Economics* 9 (June 1981) 113-138. [in Smith, pp. 277-302]

Lie, "Excess Funds and Agency Problems: An Empirical Study of Incremental Cash Disbursements," *Review of Financial Studies* 13 (Spring 2000) 219-248.

Bradley, Jarrell & Kim, "On the Existence of an Optimal Capital Structure: Theory and Evidence," *Journal of Finance* 39 (July 1984) 857-878.

#### Theory

Myers, "Determinants of Corporate Borrowing," *Journal of Financial Economics* 5 (November 1977) 147-175. [in Smith, pp. 138-166]

Fama, "The Effect of a Firm's Investment and Financing Decisions on the Welfare of Its Security Holders," *American Economic Review* 68 (June 1978) 272-284. [in Smith, pp. 27-43]

Black, "The Dividend Puzzle," *Journal of Portfolio Management* 2 (Winter 1976) 5-8. [in Smith, pp. 215-220]

Easterbrook, "Two Agency-Cost Explanations of Dividends," *American Economic Review* 74 (September 1984) 650-659. [in Smith, pp. 221-230]

DeAngelo & DeAngelo, "The Irrelevance of the MM Dividend Irrelevance Theorem," *Journal of Financial Economics* 79 (February 2006) 293-315.

#### Background

Harris & Raviv, "The Theory of Capital Structure," *Journal of Finance* 46 (March 1991) 297-255.

Smith & Watts, "The Investment Opportunity Set and Corporate Financing, Dividend, and Compensation Policies," *Journal of Financial Economics* 32 (December 1992) 263.

Leary & Roberts, "Do Firms Rebalance their Capital Structures?" *Journal of Finance* 60 (December 2005) 2575-2619.

## 4. Corporate Restructuring

### Assigned Papers

Jensen, "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," *American Economic Review* 76 (May 1986) 323-329. [in Smith, pp. 659-665]

Jensen, "The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems," *Journal of Finance* 48 (July 1993) 831-880.

Mitchell & Mulherin, "The Impact of Industry Shocks on Takeover and Restructuring Activity," *Journal of Financial Economics* 41 (June 1996) 193-229.

Boone & Mulherin, "Do Private Equity Consortiums Impede Takeover Competition?" working paper (to be distributed).

### Theory

Coase, "The Nature of the Firm," *Economica* 4 (November 1937) 386-405.

Roll, "The Hubris Theory of Corporate Takeovers," *Journal of Business* 59 (April 1986) 197-216.

### Background

Jensen & Ruback, "The Market for Corporate Control: The Scientific Evidence," *Journal of Financial Economics* 11 (April 1983) 5-50. [in Smith, pp. 593-638]

Jarrell, Brickley & Netter, "The Market for Corporate Control: The Empirical Evidence since 1980," *Journal of Economic Perspectives* 2 (Winter 1988) 49-68. [in Smith, 639-658]

Mitchell & Lehn, "Do Bad Bidders Become Good Targets?" *Journal of Political Economy* 98 (April 1990) 372-398.

Mulherin & Boone, "Comparing Acquisitions and Divestitures," *Journal of Corporate Finance* 6 (July 2000) 117-139.

Andrade, Mitchell & Stafford, "New Evidence and Perspectives on Mergers," *Journal of Economic Perspectives* 15 (Spring 2001) 103-120.

Moeller, Schlingemann & Stulz, "Wealth Destruction on a Massive Scale? A Study of Acquiring-Firm Returns in the Recent Merger Wave," *Journal of Finance* 60 (April 2005) 757-782.

## 5. Corporate Finance and Industrial Organization

### Assigned Papers

Klein, Crawford & Alchian, "Vertical Integration, Appropriable Rents, and the Competitive Contracting Process," *Journal of Law & Economics* 21 (October 1978) 297-327.

Fee, Hadlock & Thomas, "Corporate Equity Ownership and the Governance of Product Market Relationships," *Journal of Finance* 61 (June 2006) 1217-1251.

Graham, Lemmon & Wolf, "Does Corporate Diversification Destroy Value?" *Journal of Finance* 57 (April 2002) 695-720.

### Theory

Williamson, "Corporate Finance and Corporate Governance," 43 (July 1988) 567-591.

### Background

Zingales, "In Search of New Foundations," *Journal of Finance* 55 (August 2000) 1623-1653.

Ciccotello & Hornyak, "Cooperation via Contract: An Analysis of Research and Development Agreements," *Journal of Corporate Finance* 6 (March 2000) 1-24.

Fan, Price Uncertainty and Vertical Integration: An Examination of Petrochemical Firms," *Journal of Corporate Finance* 6 (December 2000) 345-376.

Martin & Sayrak, "Corporate Diversification and Shareholder Value: A Survey of Recent Literature," *Journal of Corporate Finance* 9 (January 2003) 37-57.

Villalonga, "Does Diversification Cause the 'Diversification Discount'?" *Financial Management* 33 (Summer 2004) 5-27.

Higgins, "The Allocation of Control Rights in Pharmaceutical Alliances," *Journal of Corporate Finance* (in press).

Boone, "The Interaction of Ownership, Governance, and Product Markets: Evidence from Equity Carve-Outs," working paper. [see Audra Boone's website at the University of Kansas]

## 6. Corporate Governance

### Assigned Papers

Demsetz & Lehn, "The Structure of Corporate Ownership: Causes and Consequences," *Journal of Political Economy* 93 (December 1985) 1155-1177.

Linck, Netter & Yang, "The Determinants of Board Structure," *Journal of Financial Economics* (article in press).

Howell, "Dual Class Unifications," working paper (to be distributed).

### Theory

Alchian & Demsetz, "Production, Information Costs, and Economic Organization," *American Economic Review* 62 (December 1972) 777-795.

Stulz, "Managerial Control of Voting Rights: Financing Policies and the Market for Corporate Control," *Journal of Financial Economics* 20 (1988) 25-54. [in Smith, pp. 666-695]

### Background

Kole & Mulherin, "The Government as a Shareholder: A Case from the United States," *Journal of Law & Economics* 40 (April 1997) 1-22.

Kole & Lehn, "Deregulation and the Adaptation of Governance Structure: The Case of the U.S. Airline Industry," *Journal of Financial Economics* 52 (April 1999) 79-117.

Meggison & Netter, "From State to Market: A Survey of Empirical Studies on Privatization," *Journal of Economic Literature* 39 (June 2001) 321-389.

Holmstrom & Kaplan, "Corporate Governance and Merger Activity in the United States: Making Sense of the 1980s and 1990s," *Journal of Economic Perspectives* 15 (Spring 2001) 121-144.

Mulherin, "Corporations, Collective Action and Corporate Governance: One Size Does not Fit All," *Public Choice* 124 (July 2005) 179-2004.

Gillan, "Recent Developments in Corporate Governance: An Overview," *Journal of Corporate Finance* 12 (June 2006) 381-402.

Holderness, "The Myth of Diffuse Ownership in the United States," *Review of Financial Studies* (advance access December 10, 2007).

## **7-8. Student Presentations of Published Research**

To be announced.

## 9. Microstructure and Price Pressure

### Assigned Papers

Lease, Masulis & Page, "An Investigation of Market Microstructure Impacts on Event Study Returns," *Journal of Finance* 46 (September 1991) 1523-1536.

Mitchell, Pulvino & Stafford, "Price Pressure around Mergers," *Journal of Finance* 59 (February 2004) 31-63.

Ezzell, Miles & Mulherin, "Is there Really a When-Issued Premium?" *Journal of Financial and Quantitative Analysis* 38 (September 2003) 611-634.

### Theory

Stigler, "Imperfections in the Capital Market," *Journal of Political Economy* 75 (June 1967) 287-292.

Barzel, "Measurement Cost and the Organization of Markets," *Journal of Law and Economics* 25 (April 1982) 27-48.

### Background

Shleifer & Summers, "The Noise Trader Approach to Finance," *Journal of Economic Perspectives* 4 (Spring 1990) 19-33.

Mitchell, Pulvino & Stafford, "Limited Arbitrage in Equity Markets," *Journal of Finance* 57 (April 2002) 551-584.

Lipson, "Market Microstructure and Corporate Finance," *Journal of Corporate Finance* 9 (September 2003) 377-384.

Mashruwala, Rajgopal & Shevlin, "Why is the Accrual Anomaly not Arbitrated Away? The Role of Idiosyncratic Risk and Transaction Costs," *Journal of Accounting and Economics* 42 (October 2006) 3-33.

Pontiff, "Costly Arbitrage and the Myth of Idiosyncratic Risk," *Journal of Accounting and Economics* 42 (October 2006) 35-52.

## 10. Testing Hypotheses

### Assigned Papers

Gerety & Mulherin, “Price Formation on Stock Exchanges: The Evolution of Trading within the Day,” *Review of Financial Studies* 7 (Autumn 1994) 609-629.

Field & Hanka, “The Expiration of IPO Share Lockups,” *Journal of Finance* 55 (April 2001) 471-500.

Hulburt, Miles & Woolridge, “Value Creation from Equity Carve-Outs,” *Financial Management* 31 (Spring 2002) 83-100.

### Theory

Alchian, “Uncertainty, Evolution and Economic Theory,” *Journal of Political Economy* 58 (June 1950) 211-221.

### Background

Diamond, Guns, Germs, and Steel WW Norton & Co: New York, 1999.

## 11. Choice in Corporate Finance

### Assigned Papers

Lehn, Netter & Poulsen, "Consolidating Corporate Control: Dual Class Recapitalizations versus Leveraged Buyouts," *Journal of Financial Economics* 27 (October 1990) 557-580.

Bris, Welch & Zhu, "The Costs of Bankruptcy: Chapter 7 Liquidation versus Chapter 11 Reorganization," *Journal of Finance* 61 (June 2006) 1253-1303.

Boone & Mulherin, "How Are Firms Sold?" *Journal of Finance* 62 (April 2007) 847-875.

### Theory

Rothkopf, Teisberg & Kahn, "Why Are Vickrey Auctions Rare?" *Journal of Political Economy* 98 (February 1990) 94-109.

McCardle & Viswanathan, "The Direct Entry versus Takeover Decision and Stock Price Performance around Takeovers," *Journal of Business* 67 (January 1994) 1-43.

Hansen, "Auctions of Companies," *Economic Inquiry* 39 (January 2001) 330-43.

### Background

Marsh, "The Choice between Equity and Debt: An Empirical Study," *Journal of Finance* 37 (March 1982) 121-144.

Smith & Wakeman, "Determinants of Corporate Leasing Policy," *Journal of Finance* 40 (July 1985) 895-908. [in Smith, pp. 305-318]

Smith, "The Choice of Issuance Procedure and the Cost of Competitive and Negotiated Underwriting: An Examination of the Impact of Rule 50," *Journal of Finance* 42 (July 1987) 703-720.

Hansen, "The Demise of the Rights Issue," *Review of Financial Studies* 1 (Autumn 1988) 289-309.

Deli & Varma, "Closed-end versus Open-end: The Choice of Organizational Form," *Journal of Corporate Finance* 8 (January 2002) 1-27.

Villalonga & McGahan, "The Choice among Acquisitions, Alliances, and Divestitures," *Strategic Management Journal* 26 (December 2005) 1183-1208.

## 12. Endogeneity and Selection Bias

### Assigned Papers

Duggal & Miller, "Institutional Ownership and Firm Performance: The Case of Bidder Returns," *Journal of Corporate Finance* 5 (June 1999) 103-117.

Schwert, "Hostility in Takeovers: In the Eyes of the Beholder?" *Journal of Finance* 55 (December 2000) 2599-2640.

Mulherin & Poulsen, "Proxy Contests and Corporate Change: Implications for Shareholder Wealth," *Journal of Financial Economics* 47 (March 1998) 279-313.

### Theory

Demsetz, & Lehn, "The Structure of Corporate Ownership: Causes and Consequences," *Journal of Political Economy* 93 (December 1985) 1155-1177.

Heckman, "Detecting Discrimination," *Journal of Economic Perspectives* 12 (Spring 1998) 101-116.

### Background

Palepu, "Predicting Takeover Targets: A Methodological and Empirical Analysis," *Journal of Accounting and Economics* 8 (March 1986) 3-35.

Banz & Breen, "Sample-Dependent Results Using Accounting and Market Data: Some Evidence," *Journal of Finance* 41 (September 1986) 779-793.

Shumway, "The Delisting Bias in CRSP Data," *Journal of Finance* 52 (March 1997) 327-340.

Jorion & Goetzmann, "Global Stock Markets in the Twentieth Century," *Journal of Finance* 54 (June 1999) 953-980.

Nelson, "The 'CalPERS Effect' Revisited Again," *Journal of Corporate Finance* 12 (January 2006) 187-213.

### **13. Long Run Performance**

#### Assigned Papers

Byun & Rozeff, “Long-run Performance after Stock Splits: 1927 to 1996,” *Journal of Finance* 58 (June 2003) 1063-1085.

Eckbo, Masulis & Norli, “Seasoned Public Offerings: Resolution of the ‘New Issues’ Puzzle,” *Journal of Financial Economics* 56 (May 2000) 251-291.

Cheng, “Post-Listing Underperformance: Is It Really Bad to Move Trading Locations?” *Journal of Corporate Finance* 12 (December 2005) 97-120.

#### Theory

Coase, “The Lighthouse in Economics,” *Journal of Law and Economics* 17 (October 1974) 357-376.

Stigler & Becker, “De Gustibus non est Disputandum,” *American Economic Review* 67 (March 1977) 76-90.

Barzel, “Some Fallacies in the Interpretation of Information Costs,” *Journal of Law and Economics* 20 (October 1977) 291-307.

#### Background

Canina, Michaely, Thaler & Womack, “Caveat Compounder: A Warning about Using the Daily CRSP Equal-Weighted Index to Compute Long-Run Excess Returns,” *Journal of Finance* 53 (February 1998) 403-416.

Fama, “Market Efficiency, Long-Term Returns, and Behavioral Finance,” *Journal of Financial Economics* 49 (September 1998) 283-306.

Mitchell & Stafford, “Managerial Decisions and Long-Term Stock Price Performance,” *Journal of Business* 73 (July 2000) 287-329.

Loughran & Ritter, “Uniformly Least Powerful Tests of Market Efficiency,” *Journal of Financial Economics* 55 (March 2000) 361-389.

Ritter, “Behavioral Finance,” working paper. [See Jay Ritter’s web site at the University of Florida]

## **14-15. Student Presentations of Their Own Research**

To be announced