FINA 9200: Finance Theory I
Course Syllabus
Fall 2008

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Introduction

This is a course in finance theory for the Terry College Phd program. The course is ambitious in that in addition to studying some of the seminal work in finance, the course will also survey many current issues in finance academic research. The intent is to give the students a grounding in some of the classic issues in finance, but also introduce them early into the concept of what research is and more explicitly where it is.

Structure of the course

The course is divided into 15 weekly sections, with breaks around major holidays on the calendar.

Course Materials

Lectures material that exists and specific reading material that I have will be posted on Blackboard. You should be able to get most of the articles from the UGA electronic journal locator - http://www.libs.uga.edu/ejournals/. When I have an electronic copy available, I will put some of the more difficult to find articles on Blackboard.

1. Financial Theory and Corporate Policy, by Copeland, Weston & Shastri (CWS) 4th Edition, Pearson ISBN 0-321-12721-8.

Other useful sources
2. Asset Pricing – George Pennacchi, Pearson ISBN 978-0-321-12720-4.
3. Theory of Financial Decision Making, Ingersoll, Rowman & Littlefield. ISBN 0-8476-7359-6. Where to go for all the technical details underlying many of the Risk and Asset Pricing topics we discuss.
4. The Econometrics of Financial Markets, Lo and McKinley, Princeton University Press.

5. The Modern Theory of Corporate Finance, Clifford W. Smith, ed.
ISBN 0-07-059109-1.0
6. Potentially useful websites:

Social science research network – ssrn – www.ssrn.com - thousands of Finance papers and more, started by two finance professors.

Ken French's data library -
http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html

Wharton research data services – wrds - http://wrds.wharton.upenn.edu/
We have a class account for the Wharton research data services (wrds) website.
The username to this account is: fina9200
The password to this account is: UGAirvine1

Grading

Your final grade is determined by your work according to these weights:

Presentations	20%
Homework/Quiz	20%
Participation	20%
Exams	40%

Communication

You can call or email me pretty much anytime.

Topics

Below is an outline of the topics covered in the course. You should expect this list to evolve or expand.

Section 1 Overview of Risk and Return
Date: 8/19/08

Professor Irvine's Guide to Personal Investing

Cochrane, J., 1999. New Facts in Finance, *Journal of Economic Perspectives*.

Machina, M. 1987. Choice under uncertainty: Problems solved and unsolved, *Journal of Economic Perspectives*.

Risk Aversion (CWS Chapter 3). Pennachi, Chapter 1.

Section 2 The Lottery Paradox
Date: 8/26/08

Rabin, M. and R. Thaler, 2001. Risk aversion, *Journal of Economic Perspectives,* 219-232.

Barberis, N. and R. Thaler, 2002. A Survey of Behavioral Finance. This is a rather long article, for now concentrate on the Prospect Theory section (3.2) for now.
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=327880

Kinney, William, 1986. Empirical accounting research design for Ph.D. students, *The Accounting Review,* 61:2, 338-350.

How to review a paper.
Matt Spiegel's advice to referees: http://www.sfs.org/RefereeGuidelines.php
How to get ahead in graduate school with actually cheating
http://www.cob.ohio-state.edu/fin/phdadv.htm
Thromigal's blog: Need Phd? June 17, 2008.
http://sanjivdas.wordpress.com/
Cochrane, J, 2005. Writing tips for Ph.d students, working paper, University of Chicago (Blackboard)

Section 3 Fundamentals
Date: 9/02/08

Stochastic Dominance
Portfolio Theory
Mean Variance Decision Model

CWS Chapter 3.

Section 4 More Fundamentals
Date: 9/09/08

CAPM
CWS Chapter 5, Chapter 6

Fama, E., and K. French, 2004. The Capital Asset Pricing Model: Theory and evidence, *Journal of Economic Perspectives*,

Womack, K., 2003. Understanding Risk and Return, The CAPM and the Fama-French Three-factor Model, Tuck School of Business Case, 03-111. Available from Blackboard or http://papers.ssrn.com/sol3/papers.cfm?abstract_id=481881.

Section 5 Ambiguity
Date: 09/23/08

Barry, C. and S. Brown, 1984. Differential information and the small firm effect, *Journal of Financial Economics*, 13. 283-294.

Epstein, L., and M. Schneider, 2008. Ambiguity, Quality and Asset Pricing, *Journal of Finance,* 63:1.

Presentation/Review - Doukas, Kim and Pantzalis, 2006. Divergence of opinion and equity returns, *Journal of Financial and Quantitative Analysis*, 41:3, 573-606.

Presentation/Review - Corwin, S. and J. Cougenhour, 2008. Limited attention and the allocation of effort in securities trading, forthcoming, *Journal of Finance.*

Section 6 Efficient Markets

Fama, E., 1991. Efficient Capital Markets II, *Journal of Finance,* 46:5, 1575-1617.

Event Studies - Campbell, Lo and McKinley, (CLM) - Chapter 4.

Brown S. and J. Warner, 1985. Using daily stock returns: The case of event studies, *Journal of Financial Economics*, 14:1, 3-31.

Fama E., 1998. Market efficiency, long-term returns and behavioral finance, *Journal of Financial Economics,* 49, 283-306.

Presentation/Review – Hansen, R. and O. Altinkilic, 2007. On the information role of stock recommendations, working paper, Tulane University.

CWS, Chapter 10, 11

Section 7 Skewness, Limits of Arbitrage
Date: 09/30/08

Hirshleifer, D., 2001. Investor Psychology and asset pricing, *Journal of Finance,* 56:4, 1533-1597.

Pontiff, Jeffrey, 2006. Costly arbitrage and the myth of idiosyncratic risk, *Journal of Accounting and Economics,* 42:1, 35-52.

Lamont O., and R., Thaler, 2003. Anomalies: The law of one price in financial markets, *The Journal of Economic Perspectives*, 17:4, 191-202.

Cohen, L., Frazzini, A. and Malloy, The small world of investing: Board connections and mutual fund returns, forthcoming, *Journal of Political Economy.*

Presentation/Review – Barberis, N., and M. Huang 2008. Stocks as lotteries: The implications of probability weighting for security prices, forthcoming, *American Economic Review.*

Section 8 Event studies, partial anticipation and an introduction to corporate finance.
Date: 10/07/08

Smith, C., 1990. The theory of corporate finance: A historical overview, in The Modern Theory of Corporate Finance, 2nd edition, 1990, 3-24.

Prabhala N. and K. Li, 2007. Self-selection models in corporate finance, in Handbook of Corporate Finance, Espen Eckbo ed.

Prabhala, N., 1997. Conditional methods in event studies and an equilibrium justification for standard event study methods, *Review of Financial Studies*, 10:1, 1-38.

Presentation/Review: Chaplinsky, Susan and Robert Hansen, 1993. Partial anticipation, the flow of information and the economic impact of corporate debt sales, *Review of Financial Studies*, 6:3, 709-732.

Presentation/Review: Ertimur, Y., V. Muslu and F. Zhang, 2007. The long-run performance of analyst coverage initiations, working paper, Duke University.

CWS, Chapter 10, 11

Section 9 Midterm
Date: 10/14/08

Section 10 Microstructure
Date: 10/21/08

Grossman, S., and J. Stiglitz 1980. On the impossibility of informationally efficient markets, *American Economic Review*, 70:3, 393-408.

Easley, Hjidkavar, and O'Hara, 2002. Is information risk a determinant of asset returns? Journal of Finance, 57:5, 2185-2223.

O'Hara, M., 2003. Presidential address: Liquidity and price discovery, *Journal of Finance*, 58:4, 1335-1354.

Amihud, Y., 1986. Asset pricing and the bid-ask spread, *Journal of Financial Economics,* 17:2, 223-249.

CWS, Chapter 10

Section 11 Agency costs
Date: 10/28/08

Jensen, M., and Meckling, 1976. Theory of the firm: Managerial behavior, agency cost and capital structure, *Journal of Financial Economics*, 3, 205-360.

Merz, M., and E. Yashiv, 2006. Labor and the market value of the firm, *American Economic Review*, 97:4, 1419-1431.

Zingales, L., 2000. In search of new foundations, Journal of Finance, 55:4, 1623-1653.

Cohen, L., Frazzini, A. and Malloy, The small world of investing: Board connections and mutual fund returns, forthcoming, *Journal of Political Economy*.

Presentation/Review: Chen, J. M. Kacperczyk and H. Ortiz-Molina, 2008. Labor unions, operating flexibility and the cost of capital, working paper, University of British Columbia.

CWS, Chapter 10

Section 12 Corporate Finance
Date: 11/04/08

Readings: Graham J., and C. Harvey, 2001. The theory and practice of corporate finance: Evidence from the field, *Journal of Financial Economics,*

Harris, M., and A. Raviv, 1991. The theory of capital structure, *Journal of Finance*, 46:1, 297-355.

Miller, M. 1988. The M-M propostions after 30 years, *Journal of Economic Perspectives*, 2, 99-120.

Presentation/Review. Fama, E., and K. French, 2001. Disappearing dividends: Changing firm characteristics or lower propensity to pay? *Journal of Financial Economics,* 60:1, 3-43

Presentation/Review. Daniel, Denis and Naveen, 2008. Do firms manage earnings to meet dividend thresholds? *Journal of Accounting and Economics*, 45:1, 2-26.

CWS Chapter 15, 16

Section 13 Analysts
Date: 11/11/08

Stulz, R. and H. Mehran, 2006. The economics of conflicts of interest in financial institutions, *Journal of Financial Economics,* 85:2, 267-296.

Ramnath, 2008. A review of research related to stock analysts recommendations and forecasts, working paper.

Womack, 1996. Do brokerage analysts' recommendations have investment value? *Journal of Finance*, 51:1, 137-157.

Presentation/Review: Unknown, 2008. What drives sell-side analyst compensation at high status investment banks? working paper, Harvard University.

Presentation/Review: Bodnaruk, A., Massa M., and A, Simonov, 2007. The dark role of investment banks in the market for corporate control, working paper, INSEAD.

Section 14 Analysts and Corporate Finance
Date: 11/18/08

Smith, C., 1986. Investment banking and the capital acquisition process, *Journal of Financial Economics,* 15:1, 3-29. Also in (5).

Myers, S. and N. Majluf, 1984. Corporate financing and investment decisions when firms have information that investors do not have, *Journal of Financial Economics,* 13, 187-221. Also in (5).

Presentation/Review. Yu, F., 2008. Analyst coverage and earnings management, *Journal of Financial Economics,* 88:3, 246-271.

Presentation/Review. Cohen, L., Frazzini, A., and Malloy, 2008. Sell-side school ties, working paper, University of Chicago.

Section 15 Compensation and Risk Aversion
Date: 12/2/08

Jensen M. and Kevin J Murphy, 1990. Performance Pay and top manangement incentives, *Journal of Political Economy,* 51-89.

Ross. S., 2004. Compensation, Incentives and the duality of risk aversion and riskiness, *Journal of Finance*, 59:1, 207-225.

Presentation/Review. Chang, Dasgupta and Hilary, 2006. Analyst coverage and financing decisions, *Journal of Finance*, 61:6, 3009-3048.

Presentation/Review. B. Kelly and A. Ljungqvist, 2007. The value of research, working paper, NYU.

Final Exam scheduled by the registrar