



FINA 9200: Theory of Finance
Course Syllabus
Fall 2009

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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 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

Lecture 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.

Class Text

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

Other useful sources

1. Asset Pricing – George Pennacchi, Pearson ISBN 978-0-321-12720-4.

2. 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.
3. The Econometrics of Financial Markets, Lo and McKinley, Princeton University Press.
4. The Modern Theory of Corporate Finance, Clifford W. Smith, ed. ISBN 0-07-059109-1.0
5. Potentially useful websites:

Social science research network – [ssrn](http://www.ssrn.com) – 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/) - <http://wrds.wharton.upenn.edu/>
We have a class account for the Wharton research data services (wrds) website.

The username to this account is: *****

The password to this account is: *****

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. I will be having office hours Thursday 3:30-5:00.

Stuff the University wants in this syllabus

i) Honesty Policy:

As a University of Georgia student, you have agreed to abide by the University's academic honesty policy, "A Culture of Honesty," and the Student Honor Code. All academic work must meet the standards described in "A Culture of Honesty" found at: <http://www.uga.edu/honesty>. Lack of knowledge of the academic honesty policy is not a reasonable explanation for a violation. Questions related to course assignments and the academic honesty policy should be directed to the instructor.

ii) Disclaimer:

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

iii) Grading policy:

The final grade will be based on the total points earned on the material listed in this syllabus. All students will be ranked by points earned and the final grade will be based on that ranking.

iv) Make up examinations:

If you must miss an exam, we will make it up.

v) Pre-Requisite:

Permission of the PhD Coordinator.

Topics

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

Section 1 Overview of Risk and Return

Date: 8/18/08

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). Pennacchi, Chapter 1.

Section 2 The Lottery Paradox

Date: 8/25/08

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

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/phdadvt.htm>

Thromigal's blog: Need PhD? June 17, 2008.

<http://sanjivdas.wordpress.com/>

Cochrane, J, 2005. Writing tips for PhD students, working paper, University of Chicago (Blackboard)

Section 3 Fundamentals

Date: 9/01/08

Stochastic Dominance
Portfolio Theory
Mean Variance Decision Model
Other Statistical Methods

CWS Chapters 1-3.

Section 4 More Fundamentals

Date: 9/08/08

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 and Learning

Date: 09/15/08

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

Guiso, L., P., Sapienza and L. Zingales, 2008. Trusting the stock market, *Journal of Finance*, 63:6, 2557-2600.

Pastor, L., and P. Veronesi, 2008. Learning in financial markets, working paper, University of Chicago.

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 – Chen Q., J. Francis and W. Jiang, 2005. Investor learning about analysts predictive ability, *Journal of Accounting and Economics*, 39:1, 3-24.

Section 6 Efficient Markets

Date: 09/22/08

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 – Boudoukh, J., M., Richardson, J. Shen and R. Whitelaw, Do asset prices reflect fundamentals? Freshly-squeezed evidence from the OJ market. *Journal of Financial Economics*, 397-412.

Presentation/Review – Hansen, R. and O. Altinkilic, 2009. On the information role of stock recommendation revisions, forthcoming, *Journal of Accounting and Economics*.

Presentation/Review - Loh, R. and R. Stulz, 2009. When are analyst recommendation changes influential, working paper, Ohio State University

CWS, Chapter 10, 11

Section 7 Skewness, Limits of Arbitrage, Attention

Date: 09/29/08

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

Golec J., and M. Tamarkin, 1998. Bettors love skewness, not risk, at the race track, *Journal of Political Economy*, 106:1, 205-225.

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

Presentation/Review - Da Zhi, Joseph Engelberg and Pengjie Gao, 2009. In search of attention, working paper, Notre Dame.

Presentation/Review - Fang, L., and J. Peress, 2009. Media Coverage and the cross-section of stock returns, forthcoming, *Journal of Finance*.

Section 8 Government

Date: 09/30/08

Faccio, M, 2006. Politically connected firms, *American Economic Review*, 96:1. 369-386.

Butler, A., Fauver, L., and S. Mortal, 2009. Corruption, political connections and municipal finance, *Review of Financial Studies*, 22:7, 2673-2705.

Presentation/Review. Bebchuk, L., and A. Cohen, 2009. What matters in corporate governance? *Review of Financial Studies*, 783-827.

Presentation/Review – Cohen, L., J. Coval and C. Malloy, 2009. Do powerful politicians cause corporate downsizing, working paper, Harvard University.

Presentation/Review – Cooper, M., H. Gulen and A. Ovtchinnikov, Corporate political contributions and stock returns

Section 9 Financial econometrics

Date: 10/06/08

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

Edmans, A., I. Goldstein, and W. Jiang 2009. Takeover Activity and Target Valuations: Feedback Loops in Financial Markets, working paper, Wharton Business School.

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.

CWS, Chapter 10, 11

Section 10 Midterm

Date: 10/13/08

Section 11 Microstructure

Date: 10/20/08

Biais, B., L. Glosten and C. Spatt, 2005. Market microstructure: A survey of microfoundations, empirical results and policy implications, *Journal of Financial Markets*, 8:2, 217-264.

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

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

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

Presentation/Review - Kadan, O., A. B. Rephael and A. Wohl, 2009. The diminishing liquidity premium, working paper, Washington University.

CWS, Chapter 10

Section 12 Agency costs

Date: 10/27/08

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

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

Presentation/Review: Chen, J. M. Kacperczyk and H. Ortiz-Molina, 2009. Labor unions, operating flexibility and the cost of capital, forthcoming, *Journal of Financial and Quantitative Analysis*.

CWS, Chapter 10

Section 13 Corporate Finance

Date: 11/03/08

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 propositions after 30 years, *Journal of Economic Perspectives*, 2, 99-120.

Adams, R., B. Hermalin and M. Weisbach, 2008. The role of boards of Directors in corporate governance: A conceptual framework and survey, NBER working paper series.

Presentation/Review - Holderness, C., 2009. The Myth of Diffuse ownership in the United States, *Review of Financial Studies*, 22:4, 1377-1408.

CWS Chapter 15, 16

Section 14 Analysts and Brokers

Date: 11/10/08

Irvine, P., 2003. The incremental impact of analyst initiation of coverage, *Journal of Corporate Finance*, 11.

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

Irvine, P., 2003. The incremental impact of analyst initiation of coverage, *Journal of Corporate Finance*, 11.

Presentation/Review - Mola, S., and M. Guidolin, 2009. Affiliated mutual funds and analyst optimism, *Journal of Financial Economics*, 93:1, 108-137.

Presentation/Review. Madureira, L., and S. Underwood, 2008. Information, sell-side research and market making. *Journal of Financial Economics*, 90, 105-126.

Section 15 Compensation and Networking

Date: 12/1/08

Jensen M. and Kevin J Murphy, 1990. Performance Pay and top management 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 Parsec, A., 2009. Information Networks: Implications for mutual fund trading behavior and stock returns, working paper, Yale University.

Presentation/Review - Hwang, B., and S. Kim, 2009. It pays to have friends, *Journal of Financial Economics*, 93:1, 138-158.

Final Exam scheduled by the registrar

References

- Barberis, N. and R. Thaler, 2002. A Survey of Behavioral Finance. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=327880
- Merton, Robert C. 1987. A simple model of capital market equilibrium with incomplete information, *Journal of Finance*, 42:3, 483-510.
- Amihud, Y., 1986. Asset pricing and the bid-ask spread, *Journal of Financial Economics*, 17:2, 223-249.
- 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.
- McGoun, E., 1995. The history of risk “measurement” *Critical Perspectives on Accounting*, 6, 511-532.
- Ricciardi, V., 2008. The Psychology of Risk: The behavioral finance perspective. *Handbook of Finance*, Vol II, Investment Management and Financial Management, Chapter 10, Fabozzi, F. ed.
- Prabhala N. and K. Li, 2007. Self-selection models in corporate finance, in *Handbook of Corporate Finance*, Espen Eckbo ed.
- Stulz, R. and H. Mehran, 2006. The economics of conflicts of interest in financial institutions, *Journal of Financial Economics*, 85:2, 267-296.
- 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.
- 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).