Location and Time: TBD

Course Overview
This is the first of the two corporate finance courses designed to give you a firm foundation in corporate finance research. This course will mainly cover the fundamental issues in corporate finance. Through the discussions of the major topics in modern finance, students should develop a good understanding of finance theory and a good framework and intuition of thinking about issues in finance. The course focuses on fundamentals. But students are required (and guided) to do some investigations in frontier research areas of financial economics. The readings on any of the topics are selected to provide exposures to fundamental issues. They should not be used as a complete list of all aspects of the literature on a particular topic, and generally speaking, they are not tilted towards frontier research.

Grading
Grades are based on (1) class participation (15%), (2) a paper or a group project (25%, including presentations and discussions that are related to the chosen topic), (3) paper summaries and referee reports (20%), and (5) homework and exams (40%). Below are brief descriptions of each grading component. The instructor will discuss the detailed expectations for each grading component when the class begins. (In case that it matters to you, we will follow the university guidelines in assigning letter grades: 90% and above for A, 85% and above for B+, 80% and above for B, etc.)

Class Participation: Great discussions help all of us to understand the materials. You should be prepared for each class and participate actively in the class discussions.

Paper: You are required to choose a research topic that is of interest to you and approved by the instructor, read the literature on the topic, and identify some unanswered questions that can be developed into research papers later. The paper you need to turn in towards the end of the semester should summarize the literature, discuss the methodologies/research designs used in answering the questions on the topic (depending your progress in the program, you may or may not be required to master these methodologies now. If you are in the first year, the discussions of research designs should give you a road map as to what you need to accomplish in the next two years for your course work), and discuss the potential research questions that you can work on. You are encouraged to work with data and produce preliminary results.

Paper Summaries and Referee Reports: Students are required to submit a summary of the assigned papers (roughly one per class, and the instructor may change the assignments if necessary). Students will also be asked to write a referee report for one to two papers. Each referee report will be worth 3% weight, and the rest (if one referee report, 20-3=17%) will be split evenly among the summaries. More details will be provided on the requirements of the summaries and referee reports.

Homework and Exams: We will have a final exam. In addition, the instructor may use problem sets (small take home exams) if the needs arise. The small exams (problem sets), if any, will be worth 1-2% each and will be indicated for each set, and the rest of the weights will be go to the final exam.
**Readings**

Below is a list of topics for this course. Suggested readings are provided for each topic. Some additions and deletions for the readings could happen, depending on our pace covering the topics. The suggested reading list is typically more than what we can cover in class. We will discuss in details some of the papers (indicated below). You are also required to write a summary for each of these papers unless such a requirement is waived for a particular paper by the instructor in class. As indicated below, we will also have another set of required readings for each topic that we will just generally discuss in class.

- **This paper will be discussed in details in class, and you may be asked to write a summary for it.**
  - **You are required to read this paper as well and may be asked to write a summary for it.**

0. Out-of-Class Reading
  - Berk and Demarzo: Corporate Finance (this is the MBA level corporate finance. If you know the materials, you can skip this book.)

1. Theory of the Firm
   - **Hart, Oliver, *Contracts, and Financial Structure*, Oxford University Press, 1995; Chapters 1-4 (No summary required for this one)**
2. Capital structure
   A. Exogenous Operating Decisions

   B. Primarily Endogenous Operating Decisions
C. Behavioral Approaches

D. Empirical Evidence

3. Signaling Models and Game Theory Applications in Corporate Finance


Welch, Ivo, 1992, Sequential Sales, Learning, and Cascades, *Journal of Finance* 47, 695-732. [Skip subsection F on pp. 709-712, and note that figure 3 on p. 705 has errors. Use the version that I distribute in class, rather than downloading the published article.]

4. Corporate Governance


5. Payout Policies


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6. Securities Offerings (mainly IPOs) and Analysts

A. Short-run Underpricing


B. The Role of Analysts


o Jia, Chunxin, Zhen Xie, and Donghang Zhang, 2015, “Analyst Coverage in the Premarket of IPOs,” Peking University, Shanghai University of Finance and Economics, and University of South Carolina working paper.


C. Quantity Rather than Price


D: Long-Run Performance


7. Investment Banking

- **Drucker, Steven, and Manju Puri, 2005, On the benefits of concurrent lending and underwriting,” Journal of Finance 60, 2763-2800**


- **Huang, Rongbing, and Donghang Zhang, 2011, Managing underwriters and the marketing of seasoned equity offerings, Journal of Financial and Quantitative Analysis 46, 141-170**


8. Financial Contracting and Bank Loans


- Lin, Chen, Yue Ma, Paul Malatesta, and Yuhai Xuan, 2011, Ownership Structure and the Cost of Corporate Borrowing, Journal of Financial Economics 100, 1-23


Zhang, Donghang, Yafei Zhang, and Yijia (Eddie) Zhao, 2018, Primary Market Price Discovery of Syndicated Loans: Theory and Evidence, University of South Carolina working paper.

9. Bank Specialness


10. Endogeneity in Corporate Finance

11. Behavioral Finance (Optional)
o Edelen, Roger, and Greg Kadlec, “Issuer Surplus and the Partial Adjustment of
o Hirshliefer, David, “Investor Psychology and Asset Pricing,” *Journal of Finance*
(August 2001), Vol. 56, No. 4, pp. 1533-1597.
➢ Kahneman, Daniel, and Amos Tversky, “Prospect Theory: An Analysis of
❖ Loughran, Tim, and Jay R. Ritter, “Why Don’t Issuers Get Upset About
Leaving Money on the Table in IPOs?” *Review of Financial Studies*, (2002)
Vol. 15, No. 2, pp. 413-443.
o Ljungqvist, Alexander, and William J. Wilhelm, Jr., 2005, Does Prospect Theory
➢ Miller, Ed, “Risk, Uncertainty, and Divergence of Opinion,” *Journal of
➢ Shefrin, H.M. and M. Statman, ”Explaining Investor Preference for Cash
253-282.
➢ Merton, Robert C., “A Simple Model of Capital Market Equilibrium with
Incomplete Information,” *Journal of Finance* (July 1987) Vol. 42, No. 3, 483-
510. [The “prologue” on pages 483-487 can be skipped.]
❖ Shleifer, Andrei, and Robert Vishny, ”The Limits of Arbitrage,” *Journal of
o Stein, Jeremy C., ”Rational Capital Budgeting in an Irrational World,” *Journal of
o Zhang, Donghang, “Why Do IPO Underwriters Allocate Extra Shares When They
Expect to Buy Them Back?” *Journal of Financial and Quantitative Analysis*

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University of South Carolina Honor Code
All forms of academic dishonesty are prohibited. These include cheating, plagiarism, lying in
academic matters, fraud, bribery, unauthorized access to tests and examinations. I expect that all of
you follow the highest possible interpretations of the honor code. Any violation of the Honor Code
will result in an F for this class. Here is a copy of the Honor Code:

*It is the responsibility of every student at the University of South Carolina Columbia to
adhere steadfastly to truthfulness and to avoid dishonesty, fraud, or deceit of any type in
connection with any academic program. Any student who violates this Honor Code or who
knowingly assists another to violate this Honor Code shall be subject to discipline.*

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### Tentative Class Schedule

The schedule is tentative and is for your reference only. We may need to adjust our pace and/or coverage of materials as we proceed. Below we only list the papers that we will discuss in details in class (those labeled with a diamond). If time permits, you may be asked to present and discuss the papers that are labeled by an arrow (you will be informed in advance if that is the case). Note that you may be asked to write a summary for any of the required readings (those labeled with a diamond or an arrow). All the dates are subject to change.

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
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<tbody>
<tr>
<td>Wednesday, January 16, 2019</td>
<td>Intro; Hart (1995)</td>
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<td>Wednesday, January 23, 2019</td>
<td>Miller (1977) and Myers and Majluf (1984)</td>
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<td>Wednesday, January 30, 2019</td>
<td>Myers (1977); Heaton (2002)</td>
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<td>Wednesday, February 6, 2019</td>
<td>Leland and Pyle (1977); Flannery (1986)</td>
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<td>Wednesday, February 13, 2019</td>
<td>Daniel and Titman (1995); Jensen and Meckling (1976)</td>
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<td>Wednesday, February 20, 2019</td>
<td>LaPorta et al. (1998); LaPorta et al.(2000)</td>
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<tr>
<td>Wednesday, February 27, 2019</td>
<td>Rock (1986) and Benveniste and Spindt (1989)</td>
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<tr>
<td>Wednesday, March 6, 2019</td>
<td>Bradley, Jordan, and Ritter (2008); Doige, Karolyi, and Stulz (2017)</td>
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<tr>
<td>Wednesday, March 13, 2019</td>
<td>Spring Break - No Class</td>
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<tr>
<td>Wednesday, March 27, 2019</td>
<td>Drucker and Puri (2005) and Mola and Guidolin (2009)</td>
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<tr>
<td>Wednesday, April 3, 2019</td>
<td>Gorton and Kahn (2000); Zhang, Zhang, and Zhao (2018)</td>
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<td>Wednesday, April 10, 2019</td>
<td>Diamond (1984), Acharya et al. (2014)</td>
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<tr>
<td>Wednesday, April 17, 2019</td>
<td>Ljungqvist and Wilhelm (2003); Chu, Zhang, and Zhao (2017)</td>
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<tr>
<td>Wednesday, April 24, 2019</td>
<td>Student presentations</td>
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