FINA 860 – Principles of Finance

Spring 2019

Professor Donghang "DH" Zhang

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.)

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

<u>Paper</u>: 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.

<u>Paper Summaries and Referee Reports</u>: 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.

<u>Homework and Exams:</u> 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
    - o 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 <u>(No summary required for this one)</u>**
    - o Alchian, Armen, and Harold Demsetz, 1972, Production, information costs and economic organization, *American Economic Review* 62: 777-795.
    - o Andrade, Gregor, Mark Mitchell, and Erik Stafford, 2001, New Evidence and Perspectives on mergers, *Journal of Economics Perspectives* 15, 103-120
    - o Coase, R.H., 1937, The Nature of the Firm, *Economica* 4, 386-405.
    - o Grossman, Sanford, and Oliver Hart, 1980, Takeover Bids, the Free Rider Problem and the Theory of the Corporation, *Bell Journal of Economics* 11: 42-64
    - o Grossman, Sanford, and Oliver Hart, 1988, One Share, One Vote and the Market for Corporate Control, *Journal of Financial Economics* 20, 175-202
    - o Jensen, Michael, 1986, Agency Costs of Free Cash Flow, Corporate Finance and Takeovers, *American Economic Review* 76, 323-329
    - ➢ **Kahle, Kathleen M., and René M. Stulz, 2017, Is the US Public Corporations in Trouble? *Journal of Economic Perspectives* 31, 67-88**
    - ➢ **McNeil, Chris, Greg Niehaus, and Eric Powers, 2004, Management Turnover in Subsidiaries of Conglomerates Versus Stand-Alone Firms, *Journal of Financial Economics* 72, 63-96.**
    - o Rajan, Raghuram, Henri Servaes, and Luigi Zingales, 2000, The Cost of Diversity: The Diversification Discount and Inefficient Investment, *Journal of Finance* 55, 35-80
    - o Rajan, Rahgurham, and Luigi Zingales, 1998, Power in a Theory of the Firm, *Quarterly Journal of Economics* 113, 387-432.
    - o Rajan, Raghuram, and Luigi Zingales, 2001, The Firm as a Dedicated Hierarchy: A Theory of the Origins and Growth of Firms, *Quarterly Journal of Economics* 116, 805-851.
    - o Rhodes-Kropf, Matthew, and S. Viswanathan, 2004, Market valuation and merger waves, *Journal of Finance* 59, 2685-2718
    - o Roll, Richard, 1986, The Hubris Hypothesis of Corporate Takeovers, *Journal of Business* 59, 197-216
    - o Scharfstein, David, 1988, The Disciplinary Role of Takeovers, *Review of Economic Studies* 60, 185-199.

- ➢ **Scharfstein, David S., and Jeremy C. Stein, 2000, The Dark Side of Internal Capital Markets: Divisional Rent-Seeking and Inefficient Investment, *Journal of Finance* 55, 2537-2564**
- o Shleifer, Andrei, and Robert W. Vishny, 2003, Stock Market Driven Acquisitions, *Journal of Financial Economics* 70, 295-311
- o Stein, Jeremy, 1988, Takeover Threats and Managerial Myopia, *Journal of Political Economy* 96, 61-80
- o Zingales, Luigi, 2000, In Search of New Foundations, *Journal of Finance* 55, 1623-1653
- o Zingales, Luigi, 2017, Towards a Political Theory of the Firm, *Journal of Economic Perspectives* 31, 113-130

2. Capital structure

A. Exogenous Operating Decisions

- o Berens, James L., and Charles J. Cuny, 1995, The Capital Structure Puzzle Revisited, *Review of Financial Studies* 8, 1185-1208.
- o DeAngelo, Harry and Ronald Masulis, 1980, Optimal Capital Structure Under Corporate and Personal Taxation, *Journal of Financial Economics* 8, 3-30.
- o Graham, John R., 2000, How Big Are the Tax Benefits of Debt? *Journal of Finance* 55, 1901-1941.
- o Binsbergen, Jules H. van, John R. Graham, and Jie Yang, 2010, The Cost of Debt, *Journal of Finance* 65, 2089-2136.
- o Korteweg, Arthur, 2010, The Net Benefits to Leverage, *Journal of Finance* 65, 2137-2170.
- o Leland, Hayne, 1994, Corporate Debt Value, Bond Covenants, and Optimal Capital Structure, *Journal of Finance* 49, 1213-1252.
- ❖ **Miller, Merton, 1977, Debt and Taxes, *Journal of Finance* 32, 261-275.**
- o Modigliani, Franco, and Merton Miller, 1958, The Cost of Capital, Corporation Finance, and the Theory of Investment, *American Economic Review* 48, 261-297.
- ➢ **Myers, Stewart C., 1984, The Capital Structure Puzzle, *Journal of Finance* 39, 575-592**
- ❖ **Myers, Stewart and Nicholas Majluf, 1984, Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have, *Journal of Financial Economics* 13, 187-222**

B. Primarily Endogenous Operating Decisions

- o Harris, Milton and Artur Raviv, 1991, The Theory of Capital Structure, *Journal of Finance* 46, 297-355.
- ➢ **Jensen, Michael, 1986, Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers, *American Economic Review* 76, 323-29 .**
- ❖ **Myers, Stewart C., 1977, The Determinants of Corporate Borrowing, *Journal of Financial Economics* 5, 146-175**
- o Myers, Stewart C., 1993, Still Searching for Optimal Capital Structure, *Journal of Applied Corporate Finance* 6, 4-14.
- o Ross, Stephen A., 1973, The Economic Theory of Agency: The Principal's Problem, *American Economic Review* 63, 134-139.
- ➢ **Stulz, René M., 1988, Managerial Control of Voting Rights: Financing Policies and the Market for Corporate Control, *Journal of Financial Economics* 20, 25-54. .**
- o Stulz, René M., 1990, Managerial Discretion and Optimal Financing Policies, *Journal of Financial Economics* 26, 3-27.

C. Behavioral Approaches

- ❖ **Heaton, J.B., 2002, Managerial Optimism and Corporate Finance, *Financial Management* 31, 33-45.**
- ➢ **Graham, John R., and Campbell R. Harvey, 2001, The Theory and Practice of Corporate Finance: Evidence from the Field, *Journal of Financial Economics* 60, 187-243. .**
- o Roll, Richard, 1986, The Hubris Hypothesis of Corporate Takeovers, *Journal of Business* 59, 197-216.

D. Empirical Evidence

- o Baker, Malcolm, and Jeffrey Wurgler, 2002, Market Timing and Capital Structure, *Journal of Finance* 57, 1-32.
- o Baker, Malcolm, Robin Greenwood, and Jeff Wurgler, 2003, "The Maturity of Debt Issues and Predictable Variation in Bond Returns," *Journal of Financial Economics* 70, 261-291.
- o Denis, David J., 2012, The Persistent Puzzle of Corporate Capital Structure: Current Challenges and New Directions, *Financial Review* 47, 631-643.
- o Fan, Joseph P.H., Sheridan Titman, and Garry Twite, 2012, An International Comparison of Capital Structure and Debt Maturity Choices, *Journal of Financial and Quantitative Analysis* 47, 23-56.
- o Kisgen, Darren, 2009, Do Firms Target Credit Ratings or Leverage Levels? *Journal of Financial and Quantitative Analysis* 44, 1323-1344.
- o Rajan, Raghuram, and Luigi Zingales, 1995, What Do We Know about Capital Structure? Some Evidence from International Data, *Journal of Finance* 50, 1421-1460.
- o Rauh, Joshua D., and Amir Sufi, 2010, Capital Structure and Debt Structure, *Review of Financial Studies* 23, 4242-4280.
- o Welch, Ivo, 2004, Capital Structure and Stock Returns, *Journal of Political Economy* 112, 106-131.

3. Signaling Models and Game Theory Applications in Corporate Finance

- o Abrahamson, Mark, Tim Jenkinson, and Howard Jones, 2011, Why Don't U.S. Issuers Demand European Fees for IPOs? *Journal of Finance* 66, 2055-2082
- o Ambarish, R., Kose John, and Joseph Williams, 1987, Efficient Signalling with Dividends and Investments, *Journal of Finance* 42, 321-343.
- o Chen, Hsuan-Chi, and Jay R. Ritter, 2000, The Seven Percent Solution, *Journal of Finance* 55, 1105-1131.
- ❖ **Daniel, Kent, and Sheridan Titman, "Financing Investment Under Asymmetric Information" in Jarrow, Maksimovic, and Ziemba's 1995 North-Holland *Handbooks of Operations Research and Management Science: Finance.***
- ➢ **Diamond, Douglas W., and Philip Dybvig, 1983, Bank Runs, Deposit Insurance, and Liquidity, *Journal of Political Economy* 91, 401-419.**
- o Dutta, Prajit, and Ananth Madhavan, 1997, Competition and Collusion in Dealer Markets, *Journal of Finance* 52, 245-276.
- ❖ **Flannery, Mark, 1986, Asymmetric Information and Risky Debt Maturity Choice, *Journal of Finance* 41, 19-37.**
- o Gibbons, Robert, 1997, An Introduction to Applicable Game Theory, *Journal of Economic Perspectives* 11, 127-149

- Grossman, Sanford J., and Oliver D. Hart, 1980, Takeover Bids, the Free Rider Problem, and the Theory of the Corporation, *Bell Journal of Economics* 11, 42-64.
- Hoberg, Gerard, 2007, The Underwriter Persistence Phenomenon, *Journal of Finance* 62, 1169-1206.
- Kumar, Praveen, 1988, Shareholder-Manager Conflict and the Information Content of Dividends, *Review of Financial Studies* 1, 111-136.
- ❖ **Leland, Hayne and David Pyle, 1977, Information Asymmetries, Financial Structure, and Financial Intermediation, *Journal of Finance* 32, 371-387.**
- Liu, Xiaoding, and Jay R. Ritter, 2011, Local Underwriter Oligopolies and IPO Underpricing, *Journal of Financial Economics* 102, 579-601.
- ➢ **Lucas, Deborah J., and Robert L. McDonald, 1990, Equity Issues and Stock Price Dynamics, *Journal of Finance* 45, 1019-1043. [Read pp. 1019-1029 only.]**
- Miller, Merton, and Kevin Rock, 1985, Dividend Policy under Asymmetric Information, *Journal of Finance* 40, 1031-52.
- Rajan, Raghuram, 1992, Insiders and Outsiders: The Choice between Informed and Arm's Length Debt, *Journal of Finance* 47, 1367-1400.
- Ross, Stephen, 1977, The Determinants of Financial Structure: The Incentive Signalling Approach, *Bell Journal of Economics* 8, 23-40.
- Shleifer, Andrei, and Robert Vishny, 1986, Large Shareholders and Corporate Control, *Journal of Political Economy* 94, 461-488.
- ➢ **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
   - Adams, Renee B., Benjamin E. Hermalin, and Michael S. Weisbach, 2010, The Role of Boards of Diretors in Corporate Governance: A Conceptual Framework and Survey, *Journal of Economic Literature* 48, 58-107
   - Aggarwal, Reena, Isil Erel, Rene Stulz, and Rohan Williamson, 2009, Differences in Governance Practices between U.S. and Foreign Firms: Measurement, Causes, and Consequences, *Review of Financial Studies* 22, 3131-3169
   - ➢ **Bebchuk, Lucian A., and Michael S. Weisbach, 2010, The State of Corporate Governance Research, *Review of Financial Studies* 23, 939-961**
   - Bettis, J. Carr, John M. Bizjak, and Michael L. Lemmon, “Managerial Ownership, Incentive Contracting, and the Use of Zero-Cost Collars and Equity Swaps by Corporate Insiders,” *Journal of Financial and Quantitative Analysis* (September 2001) Vol. 36, No. 3, pp. 345-370.
   - Bhagat, Sanjai and Bernard Black, "The Uncertain Relationship Between Board Composition and Firm Performance," in The Power and Influence of Pension and Mutual Funds (ed. R. Smith), 1998.
   - Claessens, Stijn, Simeon Djankov, Joseph P.H. Fan, and Larry H.P. Lang, “Disentangling the Incentive and Entrenchment Effects of Large Shareholdings,” *Journal of Finance* (December 2002) Vol. 57, No. 6, pp. 2741-2771.
   - Claessens, Stijn, Simeon Djankov, and Larry H.P. Lang, “Separation of Ownership from Control of East Asian Firms,” *Journal of Financial Economics* (Oct.-Nov. 2000) Vol. 58, No. 1-2, pp. 81-112.
   - Demirguc-Kunt, Asli, and Vojislav Maksimovic “Law, Finance, and Firm Growth” *Journal of Finance* (December 1998) Vol. 53, pp. 2107-2137

- Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, "The Law and Economics of Self-dealing," *Journal of Financial Economics* (June 2008) Vol. 88, No. 3, pp 430-465.
- Fama, Eugene, 1980, Agency Problems and the Theory of the Tirm, *Journal of Political Economy* 88, 288-307.
- Fama, Eugene, and Michael Jensen, 1983a, Separation of Ownership and Control, *Journal of Law and Economics* 26, 301-325.
- Fama, Eugene, and Michael Jensen, 1983b, "Agency Problems and Residual Claims," *Journal of Law and Economics* 26, 327-349
- Grossman, Sanford, and Oliver Hart, "Corporate Financial Structure and Managerial Incentives," in J. J. McCall, ed., The Economics of Information and Uncertainty. Chicago: U of Chicago Press, 1982.
- Hermalin, Benjamin E., 2005, Trends in Corporate Governance, *Journal of Financial Economics* 60, 2351-2384
- Hermalin, Benjamin E., and Michael S. Weisbach, 1988, The Determinants of Board Composition, *RAND Journal of Economics* 19, 589-606
- ❖ **Jensen, Michael C., and William H. Meckling, 1976, Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure, *Journal of Financial Economics* 3, 305-360.**
- Jensen, Michael C., and Kevin J. Murphy, 1990, Performance Pay and Top-Management Incentives, *Journal of Political Economy* 98, 225-264
- ➢ **Kaplan, Steven N., and Joshua Rauh, "Wall Street and Main Street: What Contributes to the Rise in the Highest Incomes?" *Review of Financial Studies* (March 2010), Vol. 23, No. 3, pp. 1004-1050.**
- LaPorta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny, "Legal Determinants of External Finance," *Journal of Finance* (July 1997) Vol. 52, No. 3, pp. 1131-1150.
- ❖ **LaPorta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny, 1998, Law and Finance, *Journal of Political Economy* 106, 1113-1155.**
- LaPorta, Raphael, Florencio Lopez De Silanes, Andrei Shleifer, and Robert Vishny, 2000**,** Investor protection and corporate governance, *Journal of Financial Economics* 58, 3-27
- Leuz, C., D. Nanda, and P.D. Wysocki, "Earnings Management and Investor Protection: An International Comparison," *Journal of Financial Economics* (September 2003) Vol. 69, No. 3, pp. 505-527.
- ➢ **Shleifer, Andrei, and Robert Vishny, "A Survey of Corporate Governance," *Journal of Finance* (June 1997) Vol. 52, No. 2, pp. 737-783.**
- Wurgler, Jeffrey, "Financial Markets and the Allocation of Capital," *Journal of Financial Economics* (Oct.-Nov. 2000), Vol. 58, 187-214.
- Yermack, David, 1995, Do corporations award CEO stock options effectively? *Journal of Financial Economics* 39, 237-269

5. Payout Policies
   - Allen, F., and R. Michaely. 2003. Payout Policy. In G. Constantinides, M. Harris, and R. Stulz (eds.), *Handbook of the Economics of Finance*. North Holland: Elsevier.
   - Baker, Malcolm, and Jeffrey Wurgler, 2004, A Catering Theory of Dividends, *Journal of Finance* 59, 1125-1165
   - Brav, A., J. Graham, C. Harvey, and R. Michaely. 2005, Payout Policy in the 21st Century, *Journal of Financial Economics* 77, 483–527

- o Easterbrook, F., 1984, Two Agency-cost Explanations of Dividends, *American Economic Review* 74, 650–59
- ❖ **La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, 2000, Agency Problems and Dividend Policies around the World, *Journal of Finance* 55, 1-33.**
- o Lang, Larry H.P., Mara Faccio, and Leslie Young, 2001, Dividends and Expropriation, *American Economic Review* 91, 54-78
- o Michaely, Roni, and Michael R. Roberts, 2012, Corporate Dividend Policies: Lessons from Private Firms, *Review of Financial Studies*, forthcoming
- o Michaely, R., R. H. Thaler, and K. Womack, 1995, Shareholder Heterogeneity, Adverse Selection, and Payout Policy, *Journal of Finance* 50, 573–608.
- o Miller, Merton and Kevin Rock, 1985, Dividend Policy under Asymmetric Information, *Journal of Finance* 40, 1031-52

6. Securities Offerings (mainly IPOs) and Analysts

A. Short-run Underpricing

- o Beatty, Randolph P. and Jay R. Ritter, "Investment Banking, Reputation, and the Underpricing of Initial Public Offerings," *Journal of Financial Economics* (Jan-Feb 1986), Vol. 15, No. 1-2, pp. 213-232.
- ❖ **Benveniste, Lawrence M. and Paul A. Spindt, "How Investment Bankers Determine the Offer Price and Allocation of New Issues," *Journal of Financial Economics* (October 1989), Vol. 24, No. 2, pp. 343-361.**
- o Ellis, Katrina, Roni Michaely, and Maureen O'Hara, 1999, A Guide to the Initial Public Offering Process, *Corporate Finance Review*
- ➢ **Hanley, Kathleen Weiss, "The Underpricing of IPOs and the Partial Adjustment Phenomenon," *Journal of Financial Economics* 34 (October 1993), pp. 231-250.**
- o Hao, (Grace) Qing, "Laddering in Initial Public Offerings," *Journal of Financial Economics* (July 2007) Vol. 85, No. 1, pp. 102-122.
- o Hoberg, Gerard, "The Underwriter Persistence Phenomenon," *Journal of Finance* (June 2007) Vol. 62, No. 3, pp. 1169-1206.
- o Ritter, Jay R., "Equilibrium in the IPO Market," *Annual Review of Financial Economics* (2011) Vol. 3, pp. 347-374.
- ❖ **Rock, Kevin, "Why New Issues Are Underpriced," *Journal of Financial Economics* (Jan-Feb 1986), Vol. 15, No. 1-2, pp. 187-212.**
- o Sherman, Ann E., and Sheridan Titman, "Building the IPO Order Book: Underpricing and Participation Limits with Costly Information," *Journal of Financial Economics* (July 2002) Vol. 65, No. 1, pp. 3-29.

B. The Role of Analysts

- ❖ **Bradley, Daniel J., Bradford D. Jordan, and Jay R. Ritter, "Analyst Behavior Following IPOs: The 'Bubble Period' Evidence," *Review of Financial Studies* (January 2008) Vol. 21, No. 1, pp. 101-133.**
- o Dunbar, Craig, "Factors Affecting Investment Bank Initial Public Offering Market Share," *Journal of Financial Economics* (January 2000), Vol. 55, No. 1, pp. 3-41.
- o Cliff, Michael, and David Denis, "Do IPO Firms Purchase Analyst Coverage with Underpricing?" *Journal of Finance* (December 2004) Vol. 59, No. 6, 2871-2901.
- o Jegadeesh, N., Joonghyuk Kim, Susan D. Krische, and Charles M.C. Lee, "Analyzing the Analysts: When Do Recommendations Add Value?" *Journal of Finance* (June 2004) Vol. 59, No. 3, pp. 1083-1124.

- 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.
- Joel Houston, Christopher James, and Jason Karceski, “What a Difference a Month Makes: Security Analyst Valuations After Initial Public Offerings,” *Journal of Financial and Quantitative Analysis* (March 2006) Vol. 41, No. 1, 111-137.
- Krigman, Laurie, Wayne Shaw, and Kent Womack, “Why Do Firms Switch Underwriters?” *Journal of Financial Economics* (May/June 2001) Vol. 60, Nos. 2-3, pp. 245-284.
- Liu, Xiaoding, and Jay R. Ritter, “The Economic Consequences of IPO Spinning,” *Review of Financial Studies* (May 2010) Vol. 23, No. 5, pp. 2024-2059.
- ➢ **Loughran, Tim, and Jay R. Ritter, “Why Has IPO Underpricing Changed Over Time?” *Financial Management*, (Autumn 2004) Vol. 33, No. 3, pp. 5-37.**

C. Quantity Rather than Price

- ❖ **Doige, Craig, and G. Andrew Karolyi, and René M. Stulz, 2017, The U.S. Listing Gap, *Journal of Financial Economics* 123, 464-487.**
- ➢ **Gao, Xiaohui, Jay R. Ritter, and Zhongyan Zhu, “Where Have All the IPOs Gone?” *Journal of Financial and Quantitative Analysis* (December 2013) Vol. 48, No. 6, pp. 1663-1692.**
- Lowry, Michelle B., 2003, Why Does IPO Volume Fluctuate So Much? *Journal of Financial Economics* 67, 3-40.
- Pastor, Lubos, and Pietro Veronesi, “Rational IPO Waves,” *Journal of Finance* (August 2005) Vol. 60, No. 4, pp 1713-1757.

D: Long-Run Performance

- ➢ **Baker, Malcolm, and Jeffrey Wurgler, “The Equity Share in New Issues and Aggregate Stock Returns,” *Journal of Finance* (October 2000) Vol. 55, No. 5, 2219-2257. [Read pp. 2219-36 only.]**
- ➢ **Bessembinder, Hendrik, and Feng Zhang, “Firm Characteristics and Long-run Stock Returns after Corporate Events,” *Journal of Financial Economics* (July 2013) Vol. 109, No. 1, pp. 83-102.**
- ❖ **Billett, Matthew T., Mark J. Flannery, and Jon A. Garfinkel, “Frequent Issuer’s Influence on Long-run Post-issuance Returns,” *Journal of Financial Economics* (February 2011) Vol. 99, No. 2, pp. 349-364.**
- Brav, Alon, Chris Geczy, and Paul Gompers, “Is the Abnormal Return Following Equity Issuance Anomalous?” *Journal of Financial Economics* (May 2000), Vol. 56, No. 2, pp. 209-249.
- DeAngelo, Harry, Linda DeAngelo, and René Stulz, "Seasoned Equity Offerings, Market Timing, and the Corporate Lifecycle,” *Journal of Financial Economics* (March 2010) Vol. 95, No. 3, pp. 275-295.
- Fama, Eugene F., “Market Efficiency, Long-term Returns, and Behavioral Finance” *Journal of Financial Economics* (September 1998), Vol. 49, No. 3, pp. 283-306.
- Gompers, Paul, Anna Kovner, Josh Lerner, and David Scharfstein, “Venture Capital Investment Cycles: The Impact of Public Markets,” *Journal of Financial Economics* (January 2008) Vol. 87, No. 1, pp. 1-23.
- ➢ **Greenwood, Robin, and Samuel G. Hanson, “Share Issuance and Factor Timing,” *Journal of Finance* (April 2012) Vol. 67, No. 2, pp. 761-798.**
- ❖ **Loughran, Tim, and Jay R. Ritter, "The New Issues Puzzle," *Journal of Finance* (March 1995), Vol. 50, No. 1, pp. 23-51.**

- Loughran, Tim, and Jay R. Ritter, "Uniformly Least Powerful Tests of Market Efficiency," *Journal of Financial Economics* (March 2000), Vol. 55, No. 3, pp. 361-389.
- Loughran, Tim, Jay R. Ritter, and Kristian Rydqvist, "Initial Public Offerings: International Insights," Pacific-Basin Finance Journal (June 1994), Vol. 2, No. 2, pp. 165-199.
- Lyandres, Evgeny, Le Sun, and Lu Zhang, "The New Issues Puzzle: Testing the Investment-based Explanation," *Review of Financial Studies* (November 2008) Vol. 21, No. 6, pp. 2825-2855.
- McLean, R. David, Jeffrey Pontiff, and Akiko Watanabe, "Share Issuance and Cross-sectional Returns: International Evidence," *Journal of Financial Economics* (October 2009), Vol. 94, No. 1, pp. 1-17.
- Ritter, Jay R., "The Long Run Performance of Initial Public Offerings," *Journal of Finance* (March 1991), Vol. 46, No. 1, pp. 3-27.
- Ritter, Jay R., "Investment Banking and Securities Issuance," chapter 5 in Constantinides, Harris, and Stulz's North-Holland Handbook of the Economics of Finance (2003).
- Ritter, Jay R., and Ivo Welch, "A Survey of IPO Activity, Pricing, and Allocations," *Journal of Finance* (August 2002), Vol. 57, No. 4, pp. 1795-1828.
- Smith, Clifford, "Investment Banking and the Capital Acquisition Process," *Journal of Financial Economics* (Jan-Feb 1986), Vol. 15, No. 1-2, pp. 3-29.
- Stambaugh, Robert F., "Predictive Regressions," *Journal of Financial Economics* (December 1999) Vol. 54, No. 3, pp. 375-421. [Addresses econometric issues with return regressions with lagged stochastic regressors. Theorem 2 of Amihud, Yakov, and Clifford M. Hurvich December 2004 JFQA "Predictive Regressions: A Reduced-Bias Estimation Method" Vol. 39, No. 4, pp. 813-841) includes a second-order term in their equation 7, which gives a bias of –(σuv/σ2v)[(1 + 3ρ)/T + 3(1 + 3ρ)/T2], and also gives a formula for computing the standard errors. Appendix D of Henderson, Jegadeesh, and Weisbach (October 2006 JFE Vol. 82, No. 1, pp. 63-101 "World Markets for Raising New Capital" gives a brief description of the bias formula.

7. Investment Banking
   - **Drucker, Steven, and Manju Puri, 2005, On the benefits of concurrent lending and underwriting," Journal of Finance 60, 2763-2800**
   - Drucker, Steven, and Manju Puri, 2007, Banks in Capital Markets: A Survey, in Empirical Corporate Finance, ed. by E. Eckbo, Handbooks in Finance, North-Holland Publishers, 189-232
   - **Gompers, Paul, and Josh Lerner, 1999, Conflict of Interest in the Issuance of Public Securities: Evidence from Venture Capital, Journal of Law and Economics 42, 1-28**
   - Hoberg, Gerard, 2007, The Underwriter Persistence Phenomenon, *Journal of Finance* 62, 1169-1206
   - **Huang, Rongbing, and Donghang Zhang, 2011, Managing underwriters and the marketing of seasoned equity offerings, *Journal of Financial and Quantitative Analysis* 46, 141-170**
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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.*

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.	
	Topic
Wednesday, January 16, 2019	Intro; Hart (1995)
Wednesday, January 23, 2019	Miller (1977) and Myers and Majluf (1984)
Wednesday, January 30, 2019	Myers (1977); Heaton (2002)
Wednesday, February 6, 2019	Leland and Pyle (1977); Flannery (1986)
Wednesday, February 13, 2019	Daniel and Titman (1995); Jensen and Meckling (1976)
Wednesday, February 20, 2019	LaPorta et al. (1998); LaPorta et al.(2000)
Wednesday, February 27, 2019	Rock (1986) and Benveniste and Spindt (1989)
Wednesday, March 6, 2019	Bradley, Jordan, and Ritter (2008); Doige, Karolyi, and Stulz (2017)
Wednesday, March 13, 2019	Spring Break - No Class
Wednesday, March 20, 2019	Loughran and Ritter (1995) and Billet, Flannery, and Garfinkel (2001)
Wednesday, March 27, 2019	Drucker and Puri (2005) and Mola and Guidolin (2009)
Wednesday, April 3, 2019	Gorton and Kahn (2000); Zhang, Zhang, and Zhao (2018)
Wednesday, April 10, 2019	Diamond (1984), Acharya et al. (2014)
Wednesday, April 17, 2019	Ljungqvist and Wilhelm (2003); Chu, Zhang, and Zhao (2017)
Wednesday, April 24, 2019	Student presentations