FINA 860 – Principles of Finance  
Fall 2017  
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.)

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.

Given the nature of this class, you are encouraged to choose a topic that is related to what we  
discuss in class (If you are interested in something that is unrelated, please discuss it with the  
instructor). Your presentation should be related to your paper.

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. We will also have an online exam based on  
Berk and DeMarzo that is 5% of your grades (see the next section for more information). 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 need to write a summary.
➢ You are required to read this paper as well.

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. I have posted an exam with 25 questions based on this book and my PMBA class. You are allowed three times to pass this exam with a score of 22 questions correct or better. This is 5% of your grade for this class.)

1. Theory of the Firm
   ❖ Hart, Oliver, *Contracts, and Financial Structure*, Oxford University Press, 1995; Chapters 1-4 (No summary required for this one)
   o Andrade, Gregor, Mark Mitchell, and Erik Stafford, 2001, New Evidence and Perspectives on mergers, *Journal of Economics Perspectives* 15, 103-120

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

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


Economics vol. 1, ed. Andrew W. Lo and Robert C. Merton, Annual Reviews, Danvers, MA


- Zhang, Donghang, Yafei Zhang, and Yijia (Eddie) Zhao, 2017, The Underwriting of Syndicated Loans: Theory and Evidence, University of South Carolina working paper.

9. Behavioral Finance


10. Endogeneity in Corporate Finance


**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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<tr>
<th>Topic</th>
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<tbody>
<tr>
<td>Tuesday, August 29, 2017 Intro; Hart (1995)</td>
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<td>Tuesday, September 5, 2017 Miller (1977) and Myers and Majluf (1984)</td>
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<td>Tuesday, September 12, 2017 Myers (1977); Heaton (2002)</td>
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<td>Tuesday, September 19, 2017 Leland and Pyle (1977); Flannery (1986)</td>
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<td>Tuesday, September 26, 2017 Daniel and Titman (1995); Welch (1992)</td>
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<td>Tuesday, October 3, 2017 Jensen and Meckling (1976) and LaPorta et al. (1998)</td>
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<td>Tuesday, October 10, 2017 LaPorta et al. (2000) (catching up or start next paper …)</td>
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<td>Tuesday, October 17, 2017 Rock (1986) and Benveniste and Spindt (1989)</td>
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<td>Tuesday, October 24, 2017 Bradley, Jordan, and Ritter (2008); Doige, Karolyi, and Stulz (2017)</td>
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<td>Tuesday, October 31, 2017 Loughran and Ritter (1995) and Billet, Flannery, and Garfinkel (2001)</td>
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<td>Tuesday, November 7, 2017 Gompers and Lerner (1999) and Mola and Guidolin (2009)</td>
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<td>Tuesday, November 14, 2017 Gorton and Kahn (2000); Sufi (2007); Zhang, Zhang, and Zhao (2017)</td>
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<td>Tuesday, November 21, 2017 Loughran and Ritter (2002); Shleifer and Vishny (1997)</td>
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<td>Tuesday, November 28, 2017 Murray (2006); Ljungqvist and Wilhelm (2003); Chu, Zhang, and Zhao (2017)</td>
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<td>Tuesday, December 5, 2017 Catching up if needed; Presentations of research project(s)</td>
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