

FIN 745: Seminar in Managerial Finance

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Spring 2011

Goals:

This seminar will cover research issues in empirical corporate finance. The goal of this course is to learn about useful tools and figure out how to apply them correctly in your own work. To that end, the readings and discussions will balance both methodological topics and current work in the corporate finance literature.

Readings:

In addition to the articles listed below, I recommend the following for additional reference.

- Baum, C., 2006, *An Introduction to Modern Econometrics Using Stata*, Stata Press
Cameron, A. and P. Trivedi, 2005, *Microeconometrics: Methods and Applications*, Cambridge University Press.
Verbeek, M., 2000, *A Guide to Modern Econometrics*, John Wiley and Sons.

Expectations:

This class will meet from 10:00-12:30 on Tuesdays and Thursdays in January and February. Attendance and participation are mandatory. Grading will be based on classroom discussion (25%), an in-class research proposal presentation (25%), and a final project (50%). Each student will present material from the assigned readings each week. The independent and well-developed research proposal is required by May 15. The paper can be on any empirical corporate finance topic of your choosing but should incorporate at least one of the methodological approaches discussed in this class. The paper should be approximately 10-12 concisely written pages as well as preliminary (but well-designed!) empirical analysis. All topics must be approved by me in advance.

Schedule:

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| 1 | 1/13 | Introduction & Standard Errors |
| 2 | 1/18 | Difference in Differences |
| 3 | 1/20 | Difference in Differences Application: Payout Policy |
| 4 | 1/25 | Matching |
| 5 | 1/27 | Matching Application: Diversification Discount |
| 6 | 2/1 | Matching Application: Long Run Returns |
| 7 | 2/3 | Instrumental Variables |
| 8 | 2/8 | Instrumental Variables Application: Venture Capital |
| 9 | 2/10 | Regression Discontinuity & Application: Financing and Investment |
| 10 | 2/15 | Dynamic Panels |
| 11 | 2/17 | Dynamic Panels Application: Capital Structure |
| 12 | 2/22 | Dynamic Panels Application: Simulations |
| 13 | 2/24 | Presentations & Feedback |

1. Introduction

Hamermesh, D., 1992, A Young Economist's Guide to Professional Etiquette, *Journal of Economic Perspectives* 6, 169-179.

Lalonde, R., 1986, Evaluating the Econometric Evaluations of Training Programs with Experimental Data, *American Economic Review* 76, 604-619.

Leamer, E., 1983, Let's Take the Con out of Econometrics, *American Economic Review* 73, 31-43.

2. Standard Errors

De Long, B. and K. Lang, 1992, Are All Economic Hypotheses False?, *Journal of Political Economy* 100, 1257-1272.

Gelman, A. and H. Stern, 2006, The Difference Between Significant and Not Significant is not Itself Statistical Significant, *The American Statistician* 60, 328-331.

Moulton, B. 1990, An Illustration of a Pitfall in Estimating the Effects of Aggregate Variables on Micro Unit, *Review of Economics and Statistics* 72, 334-338.

Petersen, M., 2009, Estimating Standard Errors in Finance Panel Data Sets: Comparing Approaches, *Review of Financial Studies* 22, 435 – 480.

Ziliak, S. and D. McCloskey, 2004, Size Matters: the Standard Error of Regressions in the American Economic Review, *Journal of Socio-Economics* 33, 527-546.

3. Difference in Differences

Bertrand, M., E. Duflo, and S. Mullainathan, 2004, How Much Should We Trust Differences-in-Differences Estimates?, *Quarterly Journal of Economics* 119, 249-75.

Donald, S. and K. Lang, 2007, Inference with Difference-in-differences and Other Panel Data, *Review of Economics & Statistics* 89, 221-233.

Helland, E. and A. Tabarrok, 2004, Using Placebo Laws to Test “More Guns, Less Crime”, *Advances in Economic Analysis & Policy* 4.

Meyer, B., 1995, Natural and Quasi-Experiments in Economics, *Journal of Business & Economic Statistics* 13, 151-161.

• Application: Payout Decisions

Brav, A., J. Graham, C. Harvey, and R. Michaely, 2005, Payout Policy in the 21st Century, *Journal of Financial Economics*, 483-527.

Brown, J. R., N. Liang, and S. Weisbenner, 2007, Executive Financial Incentives and Payout Policy: Firm Responses to the 2003 Dividend Tax Cut, *Journal of Finance* 62, 1935-1965.

Chetty, R. and E. Saez, 2005, Dividend Taxes and Corporate Behavior: Evidence from the 2003 Dividend Tax Cut, *Quarterly Journal of Economics* 120, 791-833.

Fama, E., and K. French, 2001, Disappearing Dividends: Changing Firm Characteristics or Lower Propensity to Pay?, *Journal of Financial Economics* 60, 3–43.

Grinstein, Y., and R. Michaely, 2005, Institutional Holdings and Payout Policy, *Journal of Finance* 60, 1389-1426.

Grullon, G., and R. Michaely, 2002, Dividends, Share Repurchases, and the Substitution Hypothesis, *Journal of Finance* 58, 1649–1684.

Hankins, K., M. Flannery, and M. Nimalendran, 2008, The Effect of Fiduciary Standards on Institutions' Preference for Dividend-Paying Stocks, *Financial Management* 37, 647-671.

Julio, B. and D. Ikenberry, 2004, Reappearing Dividends, *Journal of Applied Corporate Finance* 16, 89–100.

4. Matching

Abadie, A., and G. W. Imbens, 2006, Large Sample Properties of Matching Estimators for Average Treatment Effects, *Econometrica* 74, 235-267.

Dehejia, R.H. and S. Wahba, 1999, Causal Effects in Nonexperimental Studies: Reevaluating the Evaluation of Training Programs, *Journal of the American Statistical Association* 94, 1053-1062.

Heckman, J., H. Ichimura, and P. Todd, 1997, Matching as an Econometric Evaluation Estimator: Evidence from Evaluating a Job Training Program, *Review of Economic Studies* 64, 605-654.

—, 1998, Matching as an Econometric Evaluation Estimator, *Review of Economic Studies* 65, 261-294.

Smith, J.A. and P.E. Todd, 2005, Does Matching Overcome LaLonde's Critique of Nonexperimental Estimators, *Journal of Econometrics* 125, 305-353.

• Application 1: Diversification Discount

Campa, J. and S. Kedia, 2002, Explaining the Diversification Discount, *Journal of Finance* 57, 1731-1762.

Çolak, G. and T. Whited, 2007, Spin-offs, Divestitures, and Conglomerate Investment, *Review of Financial Studies* 20, 557 - 595.

Lang, L. and R. Stulz, 1994, Tobin's q, Corporate Diversification, and Firm Performance, *Journal of Political Economy* 102, 1248-1280.

Maksimovic V. and G. Phillips, 2002, Do Conglomerate Firms Allocate Resources Inefficiently? Evidence from Plant-Level Data, *Journal of Finance*, 721-767.

Schoar, A., 2002, Effects of Corporate Diversification on Productivity, *Journal of Finance* 57, 2379–2403.

Villalonga, B., 2004, Diversification Discount or Premium? New Evidence from the Business Information Tracking Series, *Journal of Finance* 59, 479-506.

Villalonga, B., 2004, Does Diversification Cause the 'Diversification Discount'?, *Financial Management* 33, 5-27.

• Application 2: Long Run Returns

Barber, B., and J. Lyon, 1997, Detecting Long-Run Abnormal Stock Returns: The Empirical Power and Specification of Test Statistics, *Journal of Financial Economics* 43, 341-372.

Barber, J., B. Lyons, and C. Tsai, 1998, Improved Methods for Tests for Long Run Abnormal Stock Returns, *Journal of Finance* 54, 165-201.

Brav, A., 2000, Inference from Long-Horizon Event Studies: A Bayesian Approach with Application to Initial Public Offerings, *Journal of Finance* 55, 1979-2016.

Brav, A., C. Geczy and P. Gompers, 2000, Is the Abnormal Return Following Equity Issuances Anomalous? *Journal of Financial Economics* 56, 209-249.

Eckbo, E., R. Masulis, and O. Norli, 2000, Seasoned Public Offerings: Resolution of the 'New Issues Puzzle', *Journal of Financial Economics* 56, 251-291.

Jegadeesh, N., 2000, Long-term Performance of Seasoned Equity Offerings: Benchmark Errors and Biases in Expectations, *Financial Management* 29, 5-30.

Li, X. and X. Zhao, 2006, Propensity Score Matching and Abnormal Performance After Seasoned Equity Offerings, *Journal of Empirical Finance* 3, 351-370.

Loughran, T., and J. Ritter, 2000, Uniformly Least Powerful Tests of Market Efficiency, *Journal of Financial Economics* 55, 361-389.

MacKinlay, C., 1997, Event Studies in Economics and Finance, *Journal of Economic Literature* 35, 13-39.

Schultz, P. 2003, Pseudo Market Timing and the Long-Run Underperformance of IPOs, *Journal of Finance*, 483-517.

Spiess, K., and J. Affleck-Graves, 1995, The Long-run Performance Following Seasoned Equity Issues, *Journal of Financial Economics* 38, 243-267.

5. Instrumental Variables

Angrist, J., G. Imbens and D. Rubin, 1996, Identification of Causal Effects Using Instrumental Variables, *Journal of the American Statistical Association* 91, 444-455.

Angrist, J. and A. Krueger, 2001, Instrumental Variables and the Search for Identification, *Journal of Economic Perspectives* 15, 69-85.

Bound, J., D. Jaeger, and R. Baker, 1995, Problems with Instrumental Variables Estimation When the Correlation Between the Instruments and the Endogenous Explanatory Variable is Weak, *Journal of the American Statistical Association* 90, 443-450.

Buckles, K. and D. Hungerman, 2010 Season of Birth and Later Outcomes: Old Questions, New Answers, NBER working paper.

Hausman, J., 2001, Mismeasured Variables in Econometric Analysis: Problems from the Right and Left, *Journal of Economic Perspectives* 15, 57-67.

Murray, M. 2006, Avoiding Invalid Instruments and Coping with Weak Instruments, *Journal of Economic Perspectives* 20, 111-132.

• Application: Venture Capital

Bottazzi, L., M. Da Rin, and T. Hellmann, 2008, Who are the Active Investors? Evidence from Venture Capital, *Journal of Financial Economics* 89, 488-512.

Cumming, D., 2008, Contracts and Exits in Venture Capital Finance, *Review of Financial Studies* 21, 1947-1982.

Gompers, P. and J. Lerner, 2000, Money Chasing Deals? The Impact of Fund Inflows on Private Equity Valuations, *Journal of Financial Economics* 55, 281-325.

Hellmann, T., L. Lindsey, and M. Puri, 2008, Building Relationships Early: Banks in Venture Capital, *Review of Financial Studies* 21, 513-541.

Korteweg, A. and M. Sorensen, 2010, Risk and Return Characteristics of Venture Capital-Backed Entrepreneurial Companies, *Review of Financial Studies* 23, 3738-3772.

Kortum, S. and J. Lerner, 2000, Assessing the Contribution of Venture Capital to Innovation, *The RAND Journal of Economics* 31, 674-692.

Samila, S. and O. Sorenson, forthcoming, Venture Capital, Entrepreneurship, and Economic Growth, *The Review of Economics and Statistics*.

Sorensen, M., forthcoming, How Smart is Smart Money? A Two-Sided Matching Model of Venture Capital, *Journal of Finance*.

6. Regression Discontinuity

Card, D. and D. Lee, 2007, Regression Discontinuity Inference with Specification Error, *Journal of Econometrics* 142, 655-674.

Imbens G. and T. Lemieux, 2008, Regression Discontinuity Design: A Guide to Practice, *Journal of Econometrics* 142, 615-635.

• Application: Financing and Investment

Chava, S. and M. Roberts, 2008, How Does Financing Impact Investment? The Role of Debt Covenants, *Journal of Finance* 63, 2085-2121.

Rauh, J., 2006, Investment and Financing Constraints: Evidence from the Funding of Corporate Pension Plans, *Journal of Finance* 61, 33-71.

Gan, Jie, 2007, Collateral, Debt Capacity, and Corporate Investment: Evidence from a Natural Experiment, *Journal of Financial Economics* 85, 709-734.

Garmaise, M. J. and G. Natividad, 2010, Information, the Cost of Credit, and Operational Efficiency: An Empirical Study of Microfinance, *Review of Financial Studies* 23, 2560-2590.

7. Dynamic Panels & GMM

Bond, S., 2002, Dynamic Panel Data Models: A Guide to Micro Data Methods and Practice, *Portuguese Economic Journal* 1, 141-162.

Blundell, Richard and Stephen Bond, 1998, Initial Conditions and Moment Restrictions in Dynamic Panel Data Models, *Journal of Econometrics* 87, 115-143.

Coles, J., M. Lemmon, and J. Meschke, 2008, Structural Models and Endogeneity in Corporate Finance, Working paper.

Wooldridge, J., 2001, Applications of Generalized Method of Moments Estimation, *Journal of Economic Perspectives* 15, 87-100.

• **Application: Capital Structure**

Barclay, M. and C. Smith, 2005, The Capital Structure Puzzle: The Evidence Revisited, *Journal of Applied Corporate Finance* 17, 8-17.

Chevalier, J., 1995, Capital Structure and Product Market Competition: Empirical Evidence from the Supermarket Industry, *American Economic Review* 85, 415-435.

Flannery, M. and Rangan, K., 2006, Partial Adjustment toward Target Capital Structures, *Journal of Financial Economics*, 469-506.

Lemmon, M.L., Roberts, M.R. and Zender J.F. 2008, Back to the Beginning: Persistence and the Cross-Section of Corporate Capital Structure, *Journal of Finance* 63, 1575-1608.

Strebulaev, I., 2007, Do Tests of Capital Structure Theory Mean What They Say?, *Journal of Finance* 62, 1747-1787.

Titman, S. and R. Wessels, 1988, The Determinants of Capital Structure, *Journal of Finance* 43, 1-19.

• **Application: Capital Structure Simulations**

Chang, X. and S. Dasgupta, Target Behavior and Financing: How Conclusive is the Evidence?, *Journal of Finance* 64, 1767-1796.

Chirinko, R. S. and A. R. Singha, 2000, Testing Static Tradeoff Against Pecking Order Models of Capital Structure: A Critical Comment, *Journal of Financial Economics* 58, 417-425.

De Jong, A. M. Verbeek, and P. Verwijmeren, 2010, The Impact of Financing Surpluses and Large Financing Deficits on Tests of the Pecking Order Theory, *Financial Management*, 733-756.

Flannery, M. and K. W. Hankins, 2010, Estimating Dynamic Panels in Corporate Finance, Working paper.

Hovakimian, A. and G. Li, 2010, In Search of Conclusive Evidence: How to Test for Adjustment to Target Capital Structure, *Journal of Corporate Finance*

Shyam-Sundars and Myers, 1999, Testing Static Tradeoff Against Pecking Order Models of Capital Structure, *Journal of Financial Economics* 51, 219-244.