FINA 6016-001: CORPORATE FINANCE SEMINAR
SPRING 2020

Class: Tuesday 2:00-4:50 pm, BLB 389

Professor: Zinat Alam
Office: BLB 365G
Telephone: 940-565-3065
Email: zinat.alam@unt.edu

Office Hours: Tue/Thr, 11 am – 12pm or by appointment

COURSE OBJECTIVES
The objectives of this course are to provide doctoral students an advanced and rigorous background in the mainstream issues of modern corporate finance, and prepare students for research in corporate finance. For a given topic, we will first study related theoretical or conceptual papers, with the focus on identifying empirically testable hypotheses. We will then discuss seminal as well as current empirical papers on the topic.

CLASS MATERIALS
Required materials: Journal articles. We will use Canvas to share articles and other course related materials. Please make sure you have access to Canvas before class starts.

Reference text: While not required, you might find it useful to refer to an advanced corporate finance textbook for some of the topics we will cover. Given that most articles we cover in class are empirical papers, you need to have a good understanding of econometrics as well. Below, I recommend a few good corporate finance and econometrics books:

Corporate Finance:
- Principals of Corporate Finance (Brealey and Myers or Brealey, Myers, and Allen).

Econometrics:
- Econometric Analysis of Cross Section and Panel Data (Wooldridge)
- Mostly Harmless Econometrics: An Empiricist’s Companion (Angrist and Pischke)
- Endogeneity in Empirical Corporate Finance (Toni Whited and Michael Roberts) in George Constantinides, Milton Harris, and Rene Stulz, eds. Handbook of the Economics of Finance Volume 2, 2012, Elsevier

GRADING
(i) **Presentations** (25% of course grade)

About 2-3 papers will be assigned each class for reading and discussion. Students are expected to read the assigned papers carefully and prepare a 30 min presentation. Presentations should be in PowerPoint, reasonably polished and done in a professional manner. All students in the class should be prepared to participate in a rigorous discussion of the paper.
(ii) **Assignments** (20% of course grade)

- **Paper Summaries**
  For each paper marked with R (except for the first week), you should write a written summary in advance of the class in which the paper is to be discussed. Your summary should address the following points:
  
  (i) State the research question
  (ii) Indicate why it is important
  (iii) Report key findings and conclusions
  (iv) Provide a brief critique of the paper
  (v) Outline any additional research ideas you identify.

  Limit your summary for every paper to two pages, type written, one-inch margins, and a minimum 11-point font.

- **Conceptual summaries (literature review)**
  Limit your summary to five pages, type written, one-inch margins, and a minimum 11-point font.
  Note: These summaries will serve as study notes for our class when you prepare for the comprehensive exam and as a quick reference to corporate finance literature when you pursue research.

- **Class Project**
  Our class will collectively work on a web scrapping project using Beautiful Soup. It will be easier if you install Python 3 and learn some basic Python first. Here are Beautiful Soup documentation and some tutorial to make yourself familiar.

(iii) **Participation/Class Presentation** (20% of course grade)

  Thorough preparation and participation in every class is mandatory, no matter you are presenting or not. I will evaluate your participation based on the quality of your contribution to class discussions, such as comments on assigned papers, questions to presenters. If the presenter makes a mistake, you should be familiar enough with the papers to identify and help correct the mistake.

(iv) **Term Project** (35% of course grade):

  The term project requires that you formulate and solve a specific and original problem in **corporate finance (very broadly defined) empirically**. You have to identify the problem yourself, develop hypotheses to test, gather data to test the hypotheses, and produce some preliminary results with the data. You should also consider how to address endogeneity concerns in your research question. At the end of the semester, you will present your idea in class and submit a final proposal. I encourage you to start early and confirm your idea with me by the middle of the term. My hope is that this project might develop into a working paper in your research portfolio.

**GRADE DISTRIBUTION**

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<thead>
<tr>
<th>Percentage Range</th>
<th>Letter Grade</th>
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<td>90% – 100%</td>
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STRUCTURE OF A TYPICAL CLASS

BEFORE CLASS: I expect you to have read and critiqued the assigned papers for a session thoroughly before class.

FIRST HALF: I will generally present and lead the discussion of the theory.

SECOND HALF: Students will present related empirical papers. All students must make at least three presentations in the semester.

READING CODES

Reading list for every week will be provided a week in advance. The following reading codes are used to mark papers in the list:

R  Required reading before class. Reading summaries are required for these articles.
RNS Required reading before class. Reading summaries are not required for these articles.
P  Paper to be presented by a student. Reading summaries are required for these articles.
S  Survey Article – recommended background reading.

TOPICS AND CLASS SCHEDULE

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<th>Topic</th>
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<tr>
<td>14-Jan</td>
<td>Theory of the Firm</td>
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<td>21-Jan</td>
<td>Financial Policy – Capital Structure – Tradeoff Models</td>
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<td>28-Jan</td>
<td>Financial Policy – Capital Structure – Asymmetric Information and Agency Costs</td>
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<td>4-Feb</td>
<td>Financial Policy – Capital Structure – Other Stakeholders (Conceptual Summary: What is Firm Due)</td>
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<td>11-Feb</td>
<td>Financial Policy – Payout Policies</td>
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<td>18-Feb</td>
<td>Financial Policy – Liquidity Management</td>
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<td>25-Feb</td>
<td>Corporate Investment – Shareholder-bondholder Conflicts</td>
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<td>03-Mar</td>
<td>Corporate Investment – Shareholder-manager Conflicts</td>
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<td>10-Mar</td>
<td>Spring Break</td>
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<td>17-Mar</td>
<td>Corporate Investment – Mergers and Acquisitions (Term Project Proposal Presentation)</td>
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<td>24-Mar</td>
<td>The Going-Public Decision and Internal Capital Markets (Term Project Proposal Presentation)</td>
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<td>31-Mar</td>
<td>Financial Intermediation</td>
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<td>07-Apr</td>
<td>Corporate Control and Governance – Informal Institutions</td>
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<td>14-Apr</td>
<td>Corporate Control and Governance – Informal Institutions (Class Project Due)</td>
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<td>21-Apr</td>
<td>Executive Compensation</td>
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<td>28-Apr</td>
<td>No class, work on term project</td>
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<td>05-May</td>
<td>Term project Due</td>
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GENERAL GUIDELINES FOR PRESENTATIONS

Each presentation will be allocated 30 minutes. It is better to help your audience understand clearly one or two key ideas than to give them a superficial overview of numerous ideas. If the paper contains a model, you need to go through the algebra or at least a stripped down version of the model. You also want your presentation to be flexible enough to accommodate questions from the audience and still finish on time. You do not want to run out of material either, so prepare some slides that can be used if time allows and skipped over if time runs short. Below are more detailed suggestions.

1. Slides

a. Prepare slides using software designed for that purpose (e.g. Powerpoint). Do not simply print out Word documents. Good software will force you to organize your talk and avoid common presentation mistakes.

b. Do not put too much information on a single slide. As a guidance, each slide should contain 1 or 2 main ideas, and you should plan to talk about it for 3-5 minutes. If you have more material than this on a slide, break it up into multiple slides.

c. Use large fonts, 24 pt to 36 pt are good targets. This will enable the audience to read the slides, and will force you to limit the information on an individual slide.

2. Rehearse. Talk through your presentation at least once before class. Pay special attention to the first minute of your talk.

3. Do not go into too much detail but also do not be too general. You will never strike the perfect balance for everyone in the audience. Make your best guess about the balance and be prepared to adapt if you sense your audience wants more of one or the other.

4. Don’t read slides. You should use the slide to mark key points, but plan to explain them verbally. Remember it is a presentation, not a reading assignment.

5. Explain tables and symbols. If you put up numbers or symbols, you need to tell the audience what they mean. For example, if you put up coefficients from a regression, you should state in your talk, “These are coefficients from a regression, the dependent variable is …, the independent variables are …, etc.”

6. Be professional. Be serious about every presentation opportunity. In your academic career, the only way for most people to form an opinion about you is by watching how you present. Presentation skills do not come naturally for most people, but you will get better as long as you prepare well and practice more.

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1 This discussion is motivated by and paraphrased from a syllabus that John G. Matsusaka and Oguzhan Ozbas prepared for one of USC’s doctoral courses.
UNT Policies

The university requires me to pass along to you a whole litany of contractual information, some of which you may find important, some of which you may not. I have placed the information here and on Canvas. I suggest you refer to these policies as necessary.

Emergency Notification & Procedures
UNT uses a system called Eagle Alert to quickly notify students with critical information in the event of an emergency (i.e., severe weather, campus closing, and health and public safety emergencies like chemical spills, fires, or violence). In the event of a university closure, please refer to Blackboard for contingency plans for covering course materials.

Emergency Evacuation Procedures for Business Leadership Building
Severe Weather: In the event of severe weather, all building occupants should immediately seek shelter in the designated shelter-in-place area in the building. If unable to safely move to the designated shelter-in-place area, seek shelter in a windowless interior room or hallway on the lowest floor of the building. All building occupants should take shelter in rooms 055, 077, 090, and the restrooms on the basement level. In rooms 170, 155, and the restrooms on the first floor.
Bomb Threat/Fire: In the event of a bomb threat or fire in the building, all building occupants should immediately evacuate the building using the nearest exit. Once outside, proceed to the designated assembly area. If unable to safely move to the designated assembly area, contact one or more members of your department or unit to let them know you are safe and inform them of your whereabouts. Persons with mobility impairments who are unable to safely exit the building should move to a designated area of refuge and await assistance from emergency responders. All building occupants should immediately evacuate the building and proceed to the south side of Crumley Hall in the grassy area, west of parking lot 24.

Academic Integrity Policy
According to UNT Policy 06.003, Student Academic Integrity, academic dishonesty occurs when students engage in behaviors including, but not limited to cheating, fabrication, facilitating academic dishonesty, forgery, plagiarism, and sabotage. A finding of academic dishonesty may result in a range of academic penalties or sanctions ranging from admonition to expulsion from the University. In my class, students caught cheating or plagiarizing will receive a "0" for that particular assignment or exam. Additionally, the incident will be reported to the Dean of Students, who may impose further penalty.

Accommodations for Disability
UNT makes reasonable academic accommodation for students with disabilities. Students seeking accommodation must first register with the Office of Disability Accommodation (ODA) to verify their eligibility. If a disability is verified, the ODA will provide a student with an accommodation letter to be delivered to faculty to begin a private discussion regarding one’s specific course needs. Students may request accommodations at any time, however, ODA notices of accommodation should be provided as early as possible in the semester to avoid any delay in implementation. Note that students must obtain a new letter of accommodation for every semester and must meet with each faculty member prior to implementation in each class. For additional information see the ODA website.
**Religious Accommodations**
It is University policy to excuse absences of students that result from religious observances and to provide, without penalty, for rescheduling of examinations and additional required class work that may fall on religious holidays. Students who plan to observe such a holiday are requested to notify the instructor as soon as possible in order to make appropriate arrangements for class work or rescheduling of examinations. Please consult [UNT list of major religious Holidays](https://www.unt.edu/studentlife/holiday) for more information.

**Access to Information - Eagle Connect**
Students’ access point for business and academic services at UNT is located at: [my.unt.edu](http://my.unt.edu). All official communication from the University will be delivered to a student’s Eagle Connect account. For more information, please visit the website that explains Eagle Connect and how to forward e-mail [Eagle Connect](https://www.unt.edu/services/eagleconnect).

**Acceptable Student Behavior**
I will expect you to assist in maintaining a classroom environment that is conducive to learning. In order to assure that all students have an opportunity to gain from time spent in class, unless otherwise approved by the instructor, students are prohibited from making offensive remarks, reading newspapers, sleeping, or engaging in any other form of distraction. Inappropriate behavior in the classroom shall result in, minimally, a request to leave the class. The instructor may also refer the student to the Dean of Students to consider whether the student’s conduct violated the Code of Student Conduct. The university’s expectations for student conduct apply to all instructional forums, including university and electronic classroom, labs, discussion groups, field trips, etc. Please review the [Code of Student Conduct](https://www.unt.edu/policies/conduct).

**Student Evaluation (SPOT) Administration Dates**
Student feedback is important and an essential part of participation in this course. The student evaluation of instruction is a requirement for all organized classes at UNT. The survey will be made available during weeks 13, 14 and 15 of the long semesters to provide students with an opportunity to evaluate how this course is taught. Students will receive an email from "UNT SPOT Course Evaluations via IASystem Notification" ([no-reply@iasystem.org](mailto:no-reply@iasystem.org)) with the survey link. Students should look for the email in their UNT email inbox. Simply click on the link and complete the survey. Once students complete the survey they will receive a confirmation email that the survey has been submitted. For additional information, please visit the [SPOT website](https://www.sspot.unt.edu) or email [spot@unt.edu](mailto:spot@unt.edu).

**Retention of Student Records**
Student records pertaining to this course are maintained in a secure location by the instructor of record. All records such as exams, answer sheets (with keys), and written papers submitted during the duration of the course are kept for at least one calendar year after course completion. Course work completed via Canvas, including grading information and comments, is also stored in a safe electronic environment for one year. Students have the right to view their individual record; however, information about student’s records will not be divulged to other individuals without proper written consent. Students are encouraged to review the Public Information Policy and the Family Educational Rights and Privacy Act (FERPA) laws and the University’s policy. See UNT Policy 10.10, Records Management and Retention for additional information.

**Sexual Assault Prevention**
UNT is committed to providing a safe learning environment free of all forms of sexual misconduct, including sexual harassment sexual assault, domestic violence, dating violence, and stalking. Federal laws (Title IX and the Violence Against Women Act) and UNT policies prohibit discrimination on the basis of sex, and therefore prohibit sexual misconduct. If you or someone you know is experiencing sexual harassment, relationship violence, stalking, and/or sexual assault, there are campus resources available to provide support and assistance. UNT’s Survivor Advocates can assist a student who has been impacted by violence by filing protective orders, completing crime victim’s compensation applications, contacting professors for absences related to an assault, working with housing to facilitate a room change where appropriate, and connecting students to other resources available both on and off campus. The Survivor Advocates can be reached at SurvivorAdvocate@unt.edu or by calling the Dean of Students Office at 940-565-2648. Additionally, alleged sexual misconduct can be non-confidentially reported to the Title IX Coordinator at oeo@unt.edu or at (940) 565 2759.

Use of Student Work
Student owns the copyright for all work (e.g. software, photographs, reports, presentations, and email postings) they create within a class and the University is not entitled to use any student work without the student’s permission unless all of the following criteria are met:

- The work is used only once.
- The work is not used in its entirety.
- Use of the work does not affect any potential profits from the work.
- The student is not identified.
- The work is identified as student work.

If the use of the work does not meet all of the above criteria, then the University office or department using the work must obtain the student’s written permission.
FINA 6016-001 SPRING 2020 READING LIST

READING CODES
Canvas will have will R, RNS, P and S papers. Please download the other papers on your own. The following reading codes are used to mark papers in the list:

R  Required reading before class. Reading summaries (not for the first week) are required for these articles.
RNS  Required reading before class. Reading summaries are not required for these articles.
P  Paper to be presented by a student. Reading summaries are required for these articles.
S  Survey Article – recommended background reading

Papers without a reading code are included to provide you with an extensive reference list.

January 14 – Theory of the firm
Alchian, A, and H. Demsetz, Production, information costs and economic organization, American Economic Review 62 (1972), 777-705
Williamson, Oliver, 1971, The Vertical Integration of Production: Market Failure Considerations, American Economic Review 61, 112-123.
Haskel J, Westlake S, 2017, Capitalism without Capital The Rise of the Intangible Economy, Princeton University Press. (This is a book. Our library has it.)

Conceptual summary: Based on the above reading list, write an essay of no more than five pages of text, double-spaced, on the topic “What is a firm?” Use relevant citations to support your logic.

Due on Feb 4, 2020
January 21 – Capital Structure: Tradeoff Theory

**Theory**


**Empirical evidence**

**Trade-off - Taxes**


**Trade-off - Bankruptcy costs based**


January 28 – Capital Structure: Asymmetric Information and Agency Costs

Theory

Capital Structure and Asymmetric Information


Agency theory explanations of capital structure and debt bonding


S M. Harris and A. Raviv, The theory of capital structure, *Journal of Finance*, 46 (1991), 297-355 (also applies to information-based models)


Empirical evidence

Asymmetric Information


**Agency theory explanations of capital structure**


A. Agrawal and G. Mandelker, Managerial incentives and corporate investment and financing decisions, Journal of Finance, 42 (1987), 823-837


February 4 – Capital Structure: Other stakeholders (customers, rivals, suppliers, employees)

Theory:


Empirical Evidence:


February 11 - Financial Policy – Payout Policies

Why firms initiate dividends?

Signaling:


Agency Costs:


Transaction Costs:


Behavior Explanations: Catering


Taxes:

How to pay?

Dividend smoothing:

Dividends vs. Share repurchases:


Survey papers:
February 18 - Financial Policy – Liquidity Management

The determinants of corporate cash policy:


The trend of increased cash holdings:


Lines of credit:


February 25 - Corporate Investment – Shareholder-bondholder Conflicts


Inefficient investment from asset-substitution: Jensen and Meckling (1976)

Underinvestment from debt overhang:


Underinvestment from the costly state verification auditing/bankruptcy cost:


Underinvestment from the dilution/adverse selection cost:


Empirical Evidence:

*The Stock Market and Investment*


**Debt and Investments**


March 3 - Corporate Investment – Shareholder-manager Conflicts

Empire Building


*Empirical evidence:*


Empire-Preservation, Entrenchment and Diversification


*Empirical evidence:*


Reputational and Career Concerns and Managerial myopia


Empirical evidence:


Managing with style:


Quiet life


Overconfidence


Risk-taking behavior:


J. Sunder, S. Sunder, and J. Zhang, 2017, Pilot CEOs and corporate innovation, JFE, 123, 209-224.

March 17 - Corporate Investment – Mergers and Acquisitions

Theory:


Empirical Evidence:

Merger motives and process:


C. Cunningham, F. Ederer, S. Ma, 2019, Killer Acquisitions, working paper.
Post-merger outcome:


Failed takeovers:


Merger wave:


The Role of Investment Banks:


Survey papers:


**Tem Project Proposal Presentation**: Identify research question, motivate with literature review, develop testable hypotheses and describe the data ( or how you are going to collect it). No more than 20 min presentation. Maximum four students can present.

**Due on Mar 17, 2020**
The Going-Public Decision


Useful links and resources on Jay Ritter’s website: [https://site.warrington.ufl.edu/ritter/curriculum-vita/](https://site.warrington.ufl.edu/ritter/curriculum-vita/)

**Tem Project Proposal Presentation**: Identify research question, motivate with literature review, develop testable hypotheses and describe the data (or how you are going to collect it). No more than 20 min presentation. Maximum four students can present.

**Due on Mar 24, 2020**
March 31 - Financial Intermediation


P Foley, S., J. Karlsen, T. Putnins, Sex, drugs, and Bitcoin: How much illegal activity is financed through digital currencies? 2018, Review of financial studies, Fintech special issue


April 7 - Corporate Control and Governance – Formal Institutions

Board of Directors:


Institutional investors:


Market and shareholder control:


**Ownership structure:**


**Survey articles:**


Survey:


CSR, Climate Finance, Big Data, and Other topics:


C. Schiller, Global Supply-Chain Networks and Corporate Social Responsibility, working paper, 2018.


April 21 - Executive Compensation

Theory:

Compensation design:


Equity grants:

Pay for performance sensitivity:

Relative performance evaluation:
J. Bizjak, S. Kalpathy, Li, and Young, 2018, The role of peer firm selection in explicit relative performance awards, working paper.


Perks:

Pay horizon:


Director compensation:

Compensation as an agency problem:


Mutual fund manager compensation:

Surveys

<table>
<thead>
<tr>
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<th>Authors</th>
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<tbody>
<tr>
<td>R</td>
<td>Gibbs, M.</td>
<td>2016</td>
<td>Past, Present and Future Compensation Research: Economist Perspectives,</td>
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<td></td>
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<td>Compensation and Benefits Review.</td>
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<tr>
<td>S</td>
<td>Edmans, Gabaix, Jenter.</td>
<td>2017</td>
<td>Executive compensation: A Survey of Theory and Evidence,</td>
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**Tem Project Due:** Write a term project. Identify research question, motivate with literature review, develop testable hypotheses, describe the data, run some preliminary tests (not only descriptive statistics) and present the results. Project should be written in a paper format, in a professional manner which could be developed within a short time as a summer paper and submit to a conference. **Due on May 5, 2020**