Universitat Pompeu Fabra Barcelona

Topics in Finance:
Empirical Corporate Finance

2021-2022 Academic Year
Master of Research in Economics, Finance and Management

1. Description of the subject

- Topics in Finance
- Total credits: 3 ECTS

Code: 32273
Workload: 75 hours
Term: 3rd

- Type of subject: Elective
- Department of Economics and Business
- Lecturer: Javier Gómez Biscarri

2. Teaching guide

- **Introduction**

  This is a course that covers a number of topics in **empirical corporate finance**. It is meant to expose students to the main research areas which use financial information in order to analyze the main financial decisions (investment and financing) taken within corporations. This course should be particularly useful for students that wish to pursue an academic career in finance or financial economics. The content of the course may change yearly depending on the professor assigned, so it can be taken in subsequent years.

  The objective is that the course will serve as an introduction to some (due to time constraints, this year we will not have time to cover some areas such as corporate governance or M&As) of the main lines of **empirical research on corporate finance**, placing emphasis on the theories underlying the analyses and on how the theories were "taken to the data".

  By the end of the course, the students should be familiar with the main areas of empirical corporate finance research and should know how these areas relate to empirical finance in general. Also, students will have been exposed to the standard methodologies and practices of empirical researchers.

  No specific background knowledge is required beyond that provided by the methodological courses you are all required to take (especially, econometrics and financial econometrics) and some basic knowledge of asset pricing and of the structure of the financial statements of a firm.

This course is intended for **MRes students interested in finance**, but it is also suggested for **students of the MSc in Economics and Finance or in other GSE programs who are thinking of pursuing a PhD in finance-related issues**.

- **Teaching methodology**

The first two-hour session will present the content of the course and a review of the structure of the financial statements of the firm. The remaining nine sessions will follow a similar structure: each session will start with a presentation of one classic or especially relevant paper (typically on the topic covered in the previous class). The professor will then present a new topic by discussing the general literature (theories and empirics). Special emphasis will be placed on the methodological issues that may be specific to each topic.

- **Contents**

Week	Session	Topic
1	1 (5/16)	Introduction to the course – A crash course on the financial statements
2	2 (5/17)	Data issues in corporate finance Event studies Paper presentation (Fama et al., 1969)
	3 (5/23)	Endogeneity in corporate finance Paper presentation (Bennedsen et al., 2007 / Giroud et al., 2011)
3	4 (5/24)	Earnings forecasts Paper presentation (Easterwood and Nutt, 1999) Valuation (1)
4	5 (5/30)	Valuation (2) Paper presentation (Dechow et al., 1999) Stock prices, returns and earnings (if time allows) The cost of capital: cost of equity
	6 (5/31)	The cost of capital: cost of debt Paper presentation (Easton and Monahan, 2005) Capital Structure (1)
5	7 (6/6)	Capital Structure (2) Paper presentation (Leary and Roberts, 2005) Dividend Policy (1)
	8 (6/7)	Dividend Policy (2) Paper presentation (Floyd et al., 2015) Diversification and internal capital markets
6	9 (6/13)	Paper presentation (Custodio, 2014) Financial constraints and liquidity management
	10 (6/14)	Paper presentation (Almeida et al., 2004) Market efficiency and “corporate finance anomalies” Paper presentation (DeBondt and Thaler, 1990)

- **Assessment and Grading System**

Evaluation will be based on an empirical exercise done in groups (50% of the grade – details to be provided in the first session of class) and on an individual in-class presentation of one of the empirical papers in the reading list (50% of the grade – details to be provided in the first session of class).

- **References – You are not required to read all the papers: the lectures will be based on each session's reading list. Papers with a * will be explicitly presented in class, subject to enrollment.**

1. Introduction - Data Issues and event studies.

(*) Fama, E., Fisher, L., Jensen, M., Roll, R., 1969. The adjustment of stock prices to new information. *International Economic Review* 10, 1–21.

Bernard, V., Thomas, J., 1989.Post-Earnings-Announcement Drift: Delayed Price Response or Risk Premium. *Journal of Accounting Research* 27, 1-48.

Campbell, J.Y., Lo, A.W., MacKinlay, A.C., 1997. *The Econometrics of Financial Markets* (Chapter 4). Princeton University Press.

Driscoll, J.C., Kraay, A.C., 1998. Consistent Covariance Matrix Estimation with Spatially Dependent Panel Data. *Review of Economics and Statistics* 80, 549-560.

Kothari, S.P., Warner, J.B., 2004. Econometrics of event studies. *Handbook of Corporate Finance: Empirical Corporate Finance*. Elsevier.

Petersen, M.A., 2008. Estimating standard errors in finance panel data sets: comparing approaches. *Review of Financial Studies* 22, 435-480.

Barth, M.E., Clinch, G., 2009. Scale Effects in Capital Markets-Based Accounting Research, *Journal of Business, Finance, and Accounting* 36, 253-288.

2. Endogeneity in Corporate Finance.

Guiso, L., Sapienza, P., Zingales, L., 2004, Does local financial development matter? *Quarterly Journal of Economics* 119, 929-969.

(*) Bennedsen, M., Nielsen, K., Perez-Gonzalez, F., Wolfenzon, D., 2007. Inside the family firm: The role of families in succession decisions and performance. *Quarterly Journal of Economics* 122, 647-691.

Angrist, J. D. and J.-S. Pischke (2008). *Mostly Harmless Econometrics: An Empiricist's Companion*. Princeton University Press.

Bakke, T., Whited, T.M., 2012, Threshold events and identification: A study of cash shortfalls, *Journal of Finance* 68, 1083–1111.

(*) Giroud, X., Mueller, H.M., Stomper, A., Westerkamp, A., 2011. Snow and leverage. *Review of Financial Studies*, 25, 680-710.

Roberts, M. R., Whited, T. M., 2013. Endogeneity in empirical corporate finance. In *Handbook of the Economics of Finance*, 493–572. Elsevier.

Gow, I. D., Larcker, D.F., Reiss, P. C., 2016. Causal Inference in Accounting Research. *Journal of Accounting Research* 54, 477-523.

Bowen, D.E., Fresard, L., Tallard, J.P., 2017. What's your identification strategy? Innovation in corporate finance research. *Management Science* 63, 2529-2548.

Welch, Ivo, 2012, A critique of recent quantitative and deep-structure modeling in capital structure research and beyond. *Critical Finance Review* 2, 131-172.

Strebulaev, Ilya A., and Tony M. Whited, 2012. Dynamic corporate finance is useful: A comment on Welch (2012). *Critical Finance Review* 2, 173-191.

3. Earnings Forecasts - Valuation

Fried, D., Givoly, D., 1982. Financial Analysts' Forecasts of Earnings. *Journal of Accounting and Economics* 4, 85-107.

Trueman, B., 1994. Analyst forecasts and herding behavior. *Review of Financial Studies* 7, 97–124.

(*) Easterwood, J., Nutt, S., 1999. Inefficiency in analysts' earnings forecasts: systematic misreaction or systematic optimism. *Journal of Finance* 54, 1777–1797.

Kasznik, R., McNichols, M.F., 2002. Does meeting expectations matter? Evidence from analyst forecast revisions and share prices. *Journal of Accounting Research* 40, 727-760.

Hou, Van Dijk, Zhang, 2012. The implied cost of capital: a new approach. *Journal of Accounting and Economics* 53, 504-526.

Gordon, M. (1959). Dividends, earnings and stock prices. *Review of Economics and Statistics* 41, 99-105.

Ohlson, J., 1995. Earnings, book values, and dividends in equity valuation. *Contemporary Accounting Research* 11, 661–687.

Feltham, G.A., Ohlson, J.A., 1995. Valuation and clean surplus accounting for operating and financial activities. *Contemporary Accounting Research* 11, 689-732.

(*) Dechow, P.M., Hutton, A.P., Sloan, R.G., 1999. An Empirical Assessment of the Residual Income Valuation Model. *Journal of Accounting and Economics* 26, 1-42.

Richardson, G., Tinaikar, S., 2004. Accounting Based Valuation Models: What Have We Learned? *Accounting and Finance* 44, 223-255.

4. Stock prices, returns and earnings

Campbell, J.Y., Shiller, R., 1989. The Dividend-Price ratio and expectations of future dividends and discount factors. *Review of Financial Studies* 1, 195-228.

Campbell, J.Y., 1991. A variance decomposition for stock returns. *Economic Journal* 101, 157-179.

Vuolteenaho, T., 2002. What drives firm-level stock returns? *Journal of Finance* 57, 233-264.

5. The cost of capital –cost of equity and cost of debt

Claus, J., Thomas, J., 2001. Equity premia as low as three percent? Evidence from analysts' earnings forecasts for domestic and international stock markets. *Journal of Finance* 56, 1629–1666.

Gebhardt, W., Lee, C.M., Swaminathan, B., 2001. Toward an implied cost of capital. *Journal of Accounting Research* 39, 135-176.

Easton, P., 2004. PE ratios, PEG ratios, and estimating the implied expected rate of return on equity capital. *The Accounting Review* 79 ,73–95.

Francis, J., LaFond, R., Olsson,P., Schipper, K., 2004. Costs of equity and earnings attributes, *The Accounting Review* 79, 967-1010.

(*) Easton and Monahan, 2005. An evaluation of accounting-based measures of expected returns. *The Accounting Review* 80, 501-538

Hou, K., Robinson, D., 2006. Industry concentration and average stock returns. *Journal of Finance* 61, 1927–1956.

Hou, Van Dijk, Zhang, 2012. The implied cost of capital: a new approach. *Journal of Accounting and Economics* 53, 504-526.

Qiu, J., Yu, F., 2009. The market for corporate control and the cost of debt. *Journal of Financial Economics* 93, 505–524.

Valta, P., 2012. Competition and the cost of debt. *Journal of Financial Economics* 105, 661-682.

Bradley, M., Roberts, M., 2015. The structure and pricing of corporate debt covenants. *Quarterly Journal of Finance* 5, 1-37.

6. Capital structure.

Titman, S., Wessels, R., 1988. The determinants of capital structure. *Journal of Finance* 43, 1-19.

Rajan, R., Zingales, L., 1995. What do we know about capital structure? Some evidence from international data. *Journal of Finance* 50, 1421-1460.

Fama, E., French, K., 2002. Testing trade-off and pecking order predictions about dividends and debt. *Review of Financial Studies* 15, 1-33.

(*) Leary, M.T., Roberts, M.R., 2005. Do firms rebalance their capital structures? *Journal of Finance* 60, 2575-2619.

Dani, A., Rettle, D.A., Whited, T.A., 2014. Refinancing, profitability and capital structure. *Journal of Financial Economics* 114, 424-443.

Graham, J.R., Leary, M.T., 2011. A review of empirical capital structure research and directions fo the future. *Annual Review of Financial Economics* 3 ,309–345.

Denis, D. J., Mihov, V.T., 2003. The Choice Among Bank Debt, Non-Bank Debt, Non-Bank Private Debt and Public Debt: Evidence from new Corporate Borrowings. *Journal of Financial Economics* 70, 3–28.

Rauh, J.D., Sufi, A., 2010. Capital structure and debt structure. *Review of Financial Studies* 28, 4242-4280.

Colla, P., Ippolito, F., Li, K., 2013. Debt Specialization. *Journal of Finance* 68, 2117-2141.

7. Dividend Policy.

Allen, F., Michaely, R., 1995. Dividend Policy. *Handbooks in Operations Research and Management Science* 9, 793-837.

Brav, A., Graham, J.R., Harvey, C.R., Michaely, R., 2005. Payout policy in the 21st century. *Journal of Financial Economics* 77, 483-527.

Fama, E., French, K., 2001. Disappearing dividends. *Journal of Financial Economics* 60, 3-43.

Fama, E., French, K., 2002. Testing trade-off and pecking order predictions about dividends and debt. *Review of Financial Studies* 15, 1-33.

DeAngelo, A., DeAngelo, L., Skinner, D.J., 2004. Are dividends disappearing? Dividend concentration and the consolidation of earnings. *Journal of Financial Economics* 72, 425-456

LaPorta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R.W., 2000. Agency problems and dividend policies around the world. *Journal of Finance* 55, 1-33

Lintner, J., 1956. Distribution of incomes of corporations among dividends, retained earnings, and taxes. *American Economic Review* 46, 97–113.

Miller, M., Modigliani, F., 1961. Dividend policy, growth and the valuation of shares. *Journal of Business* 34, 411-433.

Skinner, D.J., 2008. The evolving relation between earnings, dividends, and stock repurchases. *Journal of Financial Economics* 87, 582-609.

(*) Floyd, E., Li, N., Skinner, D.J., 2015. Payout policy through the financial crisis: The growth of repurchases and the resilience of dividends. *Journal of Financial Economics* 18, 299-316.

8. Diversification and internal capital markets.

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

Berger, P., Ofek, E., 1995. Diversification's Effect on Firm Value. *Journal of Financial Economics* 37, 39-65.

Rajan, R., Servaes, H., Zingales, L., 2000. The Cost of Diversity: The Diversification Discount and Inefficient Investment. *Journal of Finance* 55, 35-80.

Campa, J., Kedia, S., 2001. Explaining the Diversification Discount. *Journal of Finance* 57, 1731-1762.

Graham, J., Lemmon, M., Wolf, J., 2002. Does Corporate Diversification Destroy Value? *Journal of Finance* 57, 695-720.

Maksimovic V., Phillips, G. 2007. Conglomerate firms and internal capital markets. *Handbook of Corporate Finance: Empirical Corporate Finance*. Elsevier.

Villalonga, B., 2004. Does Diversification Cause the Diversification Discount. *Financial Management* 33, 5-23

Villalonga, B., 2004. Diversification Discount or Premium? New Evidence from the Business Information Tracking Series. *Journal of Finance* 59, 475-502.

(*) Custodio, C., 2014. Mergers and Acquisitions Accounting and the Diversification Discount. *Journal of Finance* 69, 219-240.

Lamont, O., 1997. Cash Flow and Investment: Evidence from Internal Capital Markets. *Journal of Finance* 52, 83-110.

Stein, J., 1997. Internal Capital Markets and the Competition for Corporate Resources. *Journal of Finance* 52, 111-133.

Shin, H.H., Stulz, R., 1998. Are Internal Capital Markets Efficient? *Quarterly Journal of Economics* 113, 531-552.

Scharfstein, D., Stein, J., 2000. The Dark Side of Internal Capital Markets: Divisional Rent Seeking and Inefficient Investment. *Journal of Finance* 55, 2537-2564.

Maksimovic V., Phillips, G. 2002. Do Conglomerate Firms Allocate Resources Inefficiently Across Industries? Theory and Evidence. *Journal of Finance* 57, 721-776.

Dimitrov, V., Tice, S., 2006.Corporate Diversification and Credit Constraints: Real Effects Across the Business Cycle. *Review of Financial Studies* 19, 1465-1498.

Fee, E., Hadlock, C., Pierce, J., 2009. Investment, Financing Constraints, and Internal Capital Markets: Evidence from the Advertising Expenditures of Multinational Firms. *Review of Financial Studies* 22, 2361-2392.

9. Financial constraints and liquidity management.

Fazzari, S.M., Hubbard, R.G., Petersen, B.C., 1988. Financing constraints and corporate investment. *Brooking Papers on Economic Activity* 1, 141-195.

Kaplan, S. N., Zingales, L., 1997. Do investment-cash flow sensitivities provide useful measures of financing constraints. *Quarterly Journal of Economics* 112, 169-215.

Fazzari, S.M., Hubbard, R.G., Petersen, B.C., 2000. Investment-Cash Flow Sensitivities are Useful: A Comment on Kaplan and Zingales. *Quarterly Journal of Economics* 115, 695-705.

Kaplan, S.N., Zingales, L., 2000. Investment-Cash Flow Sensitivities Are Not Valid Measures of Financing Constraints. *Quarterly Journal of Economics* 115, 707-712.

Opler, T., Pinkowitz, L., Stulz, R., Williamson, R., 1999. The determinants and implications of corporate cash holdings. *Journal of Financial Economics* 52, 3-46.

Alti, A., 2003. How sensitive is investment to cash flow when financing is frictionless? *Journal of Finance* 58, 707-722.

Moyen, N., 2004, Investment-cash flow sensitivities: Constrained versus unconstrained firms. *Journal of Finance* 59, 2061-2092.

(*) Almeida, H., Campello, M., Weisbach, M.S., 2004. The cash flow sensitivity of cash. *Journal of Finance* 59, 1777-1804.

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

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

Bates, T.W., Kahle, K.M., Stulz, R., 2009. Why do US firms hold so much more cash than they used to? *Journal of Finance* 64, 1985-2021.

Hadlock, C.J., Pierce, J.R., 2010. New evidence on measuring financial constraints: Moving beyond the KZ index. *Review of Financial Studies* 23, 1909-1940.

10. Market efficiency and "corporate finance anomalies."

Keim, D., 2006. Financial Market Anomalies. Palgrave Dictionary.

Schwert, W.G., 2003. Anomalies and Market Efficiency. In Handbook of the Economics of Finance. Elsevier.

Bernard, V., Thomas, J., 1989. Post-Earnings-Announcement Drift: Delayed Price Response or Risk Premium. *Journal of Accounting Research* 27(S), 1-48.

(*) DeBondt, W., Thaler, R., 1990. Do security analysts overreact? *American Economic Review* 80, 52–57.

Sloan, R., 1996. Do stock prices fully reflect information in accruals and cash flows about future earnings? *The Accounting Review* 71, 289-315.

Piotroski, J., 2000. Value investing: the use of historical financial statement information to separate winners from losers. *Journal of Accounting Research* 38, 1–41.

Francis, J. LaFond, R., Olsson, P., Schipper, K., 2005. The market pricing of accruals quality. *Journal of Accounting and Economics* 39, 295-327.

Nagel, S., 2005. Short sales, institutional investors, and the cross section of stock returns. *Journal of Financial Economics* 78, 277–309.

Baker, M., Wurgler, J., 2006. Investor sentiment and the cross-section of stock returns. *Journal of Finance* 61, 1645–1680.

Richardson, S., Tuna, I., Wysocki, P., 2010.Accounting Anomalies and Fundamental Analysis: A Review of Recent Research Advances. *Journal of Accounting and Economics* 50, 410-454.