Seminar on Corporate Finance
Spring 2009

Tues. 2:20-5:20 **Dr. Yong-chern Su**
Room 7, B1, COM Room 1004 B2 COM
33661089

Course Objectives

1. To introduce classic corporate finance theory, including capital structures theory, agency theory, signaling theory, and dividends policy theory,
2. To introduce modern corporate finance theory based upon investment banking framework:
   (1). Primary market making theory: investment bank reputation theory, strategic venture capital theory, underwriting theory, international capital raising and corporate governance,
   (2). Secondary market making theory: Liquidity based CAPM(LAPM), information asymmetry and order imbalance theory.
   (3). Market making by financial engineering: Risk management of Value at Risk(VaR), Nesting GARCH theory and GARCH Option Pricing theory.
   (4). Corporate restructuring, including takeover and anti-takeover, LBO and reverse LBO, and spin-off theory.

Class Structure

The reference books and assigned papers are the foundation of this course.

Exams

Class participation and presentation are, among the others, very important factors in the final grading. A comprehensive examination is required in this course.

Reference books

The theory of corporate finance, volume I and II, by Michael J. Brennan, the first edition, 1996, Edward Elgar Publishing Company.

Assigned papers

Issue 1: Capital structure theory

I. MM Theory:

Modigliani and Miller, 1958, The cost of capital, corporation finance and the theory of investment, AER 48, 261-297. (R)(Q)

(Taxes)--- and ---, 1963, Corporate income taxes and the cost of capital,

AER53, 433-443. (R)(Q)
(Taxes)Miller, M., 1977, Debt and taxes, JF 32, 261-275. (R)(Q)
(Risk)Hamada R.S., The effect of the firms capital structure on the systematic risk of common stocks, JF , 435-452.
(Bankruptcy cost)Warner, J., 1977, Bankruptcy costs: some evidence." Journal of Finance 32, 337-480.(Q)
(Bankruptcy cost)Altman, E.I., 1984, A further empirical investigation of the bankruptcy cost question, JF 39, 1067-1089.(Q)
(Agency cost) Ref. Issue 2.
(Information Asymmetry) Ref. Issue 3.
II. Capital Structure Puzzle:
Myers, S., 1984, The capital structure puzzle, JF 39, 575-591. (R)(Q)
Lakshmi, S. and S. Myers, 1999, Testing static tradeoff against pecking order models of capital structure, JFE 51, 219-244. (R)(Q)
Baker, M. and J. Wurgler, 2002, Market timing and capital structure, Journal of Finance 57, 1-32. (R)(Q)
Frank, M.Z. and V.K. Goyal, 2003, Testing the pecking order theory of capital structure, JFE 67, 217-248.
Schultz, P., 2003, Pseudo market timing and the long-run underperformance of IPOs." JF 58, 483-518.

Issue 2: Agency theory

Part I. Brennan. (H. DeAngelo (1981) L. Makowski (1983)
Part II. Brennan. (M.C. Jensen and W.H. Meckling (1976) (R?)(Q), S .C. Myers(1977), R.M. Stulz(1990), A. Shleifer and R.W. Vishny(1986) and B. Holmstrom and J, Tirole(1993))
Smith, C.W. and J.B. Warner, 1979, On financial contracting --- an analysis of bond covenants, Journal of Financial Economics 7, 117-161.
Fama, E.F., 1980, Agency problems and the theory of the firm, JPE 88, 288-307.
Datta, S., M. Iskandar-Datta, and K. Raman, 2001, Executive compensation and corporate acquisition decision, JF 56, 2299-2336.
Ross, S., 2004, Compensation, incentives, and the duality of risk aversion and riskiness, JF 59, 207-226. (R)(Q)

Issue 3: Adverse selection and signaling theory

Part III. Brennan (S.C. Myers and N.S. Majluf(1984), M.H. Miller and K. Rock(1985) (R?)(Q), R. Ambarish, K. John and J. Williams(1987))
Ross, S.A., 1977, The determination of financial structure: the incentive signaling approach, Bell J. of Economics 8, 23-40. (R)(Q)

Kose J. and J. Williams, 1985, Dividends, Dilution, and Taxes: A signaling Equilibrium, JF 40, 1053-1070.

Harris, M. and A. Raviv, 1990, Capital structure and the informational role of debt, JF 45,321-345.

Issue 4: Dividend policy

Miller, M and F. Modigliani, 1961, Dividend policy, growth and the valuation of shares, JF 34, 411-432. (Q)

--- and M.S. Scholes, 1978, Dividends and Taxes, Journal of Financial Economics 6, 333-364.

Marsh, T.A. and R.C. Merton, 1987, Dividend behavior for the aggregate stock market, JB 60, 1-40.

Campbell, J.Y. and R.J. Shiller, 1988, Stock prices, earnings and expected dividends, JF 43,?.

Brennan, M.J. and A.V. Thakor, 1990, Shareholder preferences and dividend policy, JF 45, 993-1018.

Chen, C. and C. Wu, 1999, The Dynamics of dividends, earnings and prices: evidence and implications for dividend smoothing and signaling, J. of empirical finance 6, 29-58.

Fama, E.F. and K.R. French, 2001, Disappearing dividends: changing firm characteristics or lower propensity to pay, JFE 60, 3-44.

Nissim, D. and A. Ziv, 2001, Dividend changes and future profitability, JF 56, 2111-2134.

Baker, M. and J. Wurgler, 2004, A catering theory of dividends, JF 59,1125-1166.(R)(Q)

DeAngelo, H. and L. DeAngelo, 2006, The irrelevance of the MM dividend irrelevance theorem, JFE 79 293-316.

Issue 5: Investment bank reputation theory and strategy venturing theory

Chemmanur, T.J. and P. Fulghieri, 1994, Investment bank reputation, information production, and financial intermediation, JF 49, 57-80. (R)(Q)

Benveniste, L.M., Ljungqvist, A., Wilhelm, W.J. Jr., and X. Yu, 2003, Evidence of information spillovers in the production of investment banking services, JF 58, 577-608.

Lerner, J., 1994, Venture capitalists and the decision to go public, JFE 35, 293-316.

Gompers, P. and J. Lerner, 2000, Money chasing deals? The impact of fund inflows on private equity valuations, JFE 55, 281-325,

Hellmann, T., 2002, A theory of strategic venture investing, Journal of

Financial Economics 64, 285-314. (R)(Q)
Hellmann, T. and M. Puri, 2002, Venture capital and the professionalization of strt-up firms: empirical evidence, JF 57, 169-198.
Schmidt, K.M., 2003, Cnvertible securities and venture capital finance, JF 58, 1139-1166. (Q)
Fang, L.H., 2005, Investment bank reputation and the price and quality of underwriting services, JF 60, 2729-2762.(Q)

Issue 6: IPO and Underwriting theory

Loughran, T. and J.R. Ritter, 1995, The new issues puzzle, JF 50, 23-51. (Q)
Kim, M. and J.R. Ritter, 1999, valuing IPOs, JFE 53, 409-438.
Chen, H. and J. Ritter, 2000, The seven percent solution, JF 55, 1105-1132.
Hansen, R.S., 2001, Do investment banks compete in IPOs?: the advent of the "7% plus contract". JFE 59, 313-346.
Yeoman, J.C., 2001, The optimal spread and offering price for underwritten securities, JFE 62, 169-198. (R)(Q)
Lowry, M. and S. Shu, 2002, Litigation risk and IPO underpricing, Journal of Financial Economics 65, 309-336.
Aggarwal, R.K., Krigman, L. and K.L. Womack, 2002, Strategic IPO underpricing, information momentum and lockup expiration selling, Journal of Financial Economics 66, 105-138.
Bradley, D.J., Jordan, B.D. and J.R. Ritter, 2003, The quiet period goes out with a Bang, JF 58, 1-36.
Schultz, P., 2003, Pseudo market timing and the long-run underperformance of IPOs." JF 58, 483-518.
Ellis, K., 2006, Who trades IPOs? A close look at the first day of trading, JFE 79, 339-364.

Issue 7: International Capital Raising theory, ADR and Corporate Governance

Miller, D.P., 1999, The market reaction to international cross-listing:evidence from depositary receipt, JFE 51, 103-123.
Johnson, S., Boone, P., Breach, A. and E. Friedman, Corporate governance in the Asian financial crisis, JFE 58, 141-186.
Forbes, K. and R. Rigobon, 2002, No contagion, only interdependence: measuring stock market comovements, Journal of Finance 57, 2223-2262. (R)(Q)
Kodres, L.E. and M. Pritsher, 2002, A rational expectations model of financial contagion, Journal of finance 57, 769-800.(Q)

Bekaert, G., Harvey, C.R., and R.L. Lumsdaine, 2002, Dating the integration of world equity markets, Journal of Financial Economics 65, 203-248.

Reese, W.A. and M.S. Weisbach, 2002, Protection of monority shareholder interests, cross-listings in the U.S. and subsequent equity offerings, JFE 2002, 65-104. (Q)

Pagano, M., Roell, A.A. and J. Zechner, 2002, The geography of equity listing: why do companies list abroad?, JF 57, 2651-2684.

Eun, C.S. and S. Sabherwal, 2003, Cross-border listing and price discovery: evidence from U.S.-listed Canadian Stocks, JF 58, 549-576.

Jong, F. and F. Roon, 2005, Time varying market integration and expected returns in emerging markets, JFE 78, 583-614.

La`Porta, R. F. Lopez-de-silanes, and A. Shleifer, 2006, What works in securities laws? JF 61, 1-32.

Jin, L. and S.C. Myers, 2006, R-square around the world: new theory and new tests, JFE 79, 257-292.

Issue 8: Liquidity based CAPM(LAPM), Information Asymmetry and order imbalance theory

Kyle, A.S., 1985, Continuous auctions and insider trading, Econometrica 53, 1315-1335.

Lo, A.W. and A.C. MacLinlay, 1988, Stock market prices do not follow random walks: evidence from a simple specification test, Review of Financial Studies 1, 41-66.

Blume, L., Easley, D. and M. O'Hara, 1994, Market statistics and technical analysis: the role of volume, JF 49, 153-181.

Brennan, M.J., Chordia, T. and A. Subramanyam, 1998, Alterative factor specifications, security characteristics and the cross-section of expected stock returns, JFE 49, 345-374.(Q)

Chan, K. and W. Fong, 2000, Trade size, order imbalance and the volatility-volume relation, Journal of Financial Economics 57, 247-274.

Holmstrom, B. and J. Tirole, 2001, LAPM: a liquidity-based asset pricing model, JF 56, 1837-1868.(R)(Q)

Chordia, T, Roll, R. and A. Subrahmanyam, 2002, Order imbalance, liquidity and market returns, Journal of Financial Economics 65. 111-130.(Q)

Llorente, G., Michaely, R., Saar, G. and J. Wang, 2002, Dynamic volume-return relation of individual stocks, the Review of Financial Studies 15, 1005-1048. (R)(Q)

Paster, L. and R.F. Stambaugh, 2003, Liquidity risk and expected stock returns, JPE 111, 642-685.(Q)

Chordia, T. and A. Subramamyam, 2004, Order imbalance and individual stock returns: theory and evidence, JFE 72, 485-518.(R)(Q)

Issue 9: Risk management of Value of Risk(VaR), Nesting GARCH theory and GARCH option pricing theory

(ARCH)Engle, R.F., 1982, Autoregressive conditional heteroskedasticity with estimates of the variance of United Kingdom inflation, Econometrica 50, 987-1007.

(GARCH)Bollerslev, T.,1986, Generalized autoregressive conditional heteroskedasticity, Journal of Econometrics 31, 307-328.

(ARCHM)Engle, R.F., Lilien, D.M. and R.P. Robins, 1987, Estimating time varying risk premia in the term structure: the ARCH-M model, Econometrica 55, 391-407.

(EGARCH)Nelson, D.B., 1991, Conditional heteroskadasticity in asset returns: a new approach, Econometrica 59, 347-370.

(NAGARCH)Engle, R.F. and V.K. Ng, 1993, Measuring and testing the impact of news on volatility, JF 48, 1749-1778.

(NESTING GARCH)Hentschel, L., 1995, All in the family: nesting symmetric and asymmetric GARCH models, JFE 39, 71-104.(R)(Q)

Heston, S. and S. Nandi, 2000, A close-form GARCH option valuation model, The review of financial studies 13, 585-626. (R)(Q)

Berkowitz, J. and J. O'Brien, 2002, How accurate are Value-at-Risk models at commercial banks? JF 57, 1093-1112. (R)(Q)

Issue 10: Corporate Restructuring theory

Degorge, F. and R. Zeckhauser, 1993, The reverse LBO decision and firm performance: theory and evidence, JF 48, 1323-1348.(R)(Q)

Bhagat, S. and R.H. Jefferis, 1994, The cause and consequences of takeover defence: evidence from greenmail, J. of corporate finance I, 201-231.

Desai, H. and P.C. Jain, 1999, Firm performance and focus: long run stock market performance following spin-offs, JFE 54, 75-102.

Field, L.C. and J. M. Karpoff, 2002, Takeover defenses of IPO firms, JF 57, 1857-1890.

Herzel, M., Lemmon, M., Linck, J.S. and L. Rees, 2002, Long-run performance following private placements of equity, JF 57, 2595-2618.

Novaes, W., 2002, Managerial turnover and leverage under a takeover threat, JF 57,2619-2650.

Chemmanur, T. J. and A. Yan, 2004, A theory of corporate spin-offs, JFE 72, 259-290. (R)(Q)

Office Hours

Scheduled office hours are:
Friday: 14:00~15:00
or by appointment.

Date	Topic and References
2/17	Introduction
2/24	Capital structure theory
3/3	Capital structure theory
3/10	Agency theory
3/17	Signal theory
3/24	Dividend policy theory
3/31	Dividend policy theory
4/7	Investment bank reputation theory
4/14	Strategy venturing theory
4/21	IPO and underwriting theory
4/28	International capital raising theory
5/5	Liquidity theory
5/12	Information asymmetry and order imbalance theory
5/19	Nesting GARCH theory
5/26	VaR and GARCH option pricing theory
6/2	Corporate restructuring
6/16	Final Exam.