

**Department and Graduate Institute of Finance  
College of Management  
National Taiwan University**

**Seminar on Empirical Finance (723 D1050)  
and Seminar in Corporate Finance (723 M8500)**

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**Consultation Hours:** By appointment

**I. Course Objectives:**

The primary objective of the course is to exchange ideas in corporate finance. I hope that doing this will help you meet several other objectives, namely,

- (1) Improve your ability to formulate viable research topics. The means of doing this are to examine a number of research areas in corporate finance to see how they developed, to practice by suggesting lines of research in areas that we discuss, to select areas for discussion, to prepare literature searches, and to engage in discussions of research.
- (2) Improve your understanding of current areas of research in corporate finance. The means of doing this is to examine a sampling of current research areas in corporate finance.
- (3) Improve your ability to discuss, comment upon, and referee the work of others. The means of doing this are class discussions of papers.
- (4) Improve your ability to conduct research in corporate finance. The means of doing this is to conduct a literature search on a topic, formulate a summary of extant research, devise testable hypotheses, and design experiments for future research in corporate finance.

**II. Some Philosophy:**

Research questions frequently arise as a result of an in-depth examination of an area of research that has already received attention in the finance literature. The research questions take many forms:

- (1) investigating previously unanswered questions, perhaps with new data, new techniques, or new models,
- (2) corrections of flawed methods,
- (3) investigating new phenomena,
- (4) new approaches to old problems,

- (5) testing implications of theories,
- (6) synthesizing previously unconnected research areas,
- (7) investigating public policy issues,
- (8) improving the measurement of variables, etc.

I believe that by examining how the research has developed in several areas in corporate finance, you can learn how to identify research questions. I also hope that in the process you learn how to decide which research questions merit further consideration and which ones should be dropped.

### **III. Grading and Requirements:**

- (1) Class Participation: 50%.

To get us started, I have selected several subject areas for class discussion. These papers will get us started and illustrate how the research process works. Your responsibility during these and the remaining class discussions is to be prepared to discuss the papers, so that you can exchange ideas. You will have to read the papers very carefully, criticize them, explain their purposes, hypotheses, methods, findings, importance, etc., and suggest future research.

- (2) Research Proposal: 50%.

You are required to submit and present your own research proposal. Your research topic should be in corporate finance. To find a topic, take *recent* journal issues and inspect the publications. Then, decide a topic that is most interesting to you and potentially has significant contribution to the literature. Your proposal should include two parts:

- Provide, in detail, previous *theoretical and/or empirical* studies related to your research topic.
- Propose future *theoretical and/or empirical* research work.

The emphasis in this paper should be on *your own* suggested future research. Be as definite as you can. Sketch out or even develop your ideas for a research paper that takes the literature one step beyond what you have reviewed. It would be better if you can also provide some preliminary results.

#### **IV. Readings:**

\*\* : Papers that I will discuss in detail in the class.

\* : Papers that students will present and criticize.

##### **A. Effects of corporate decisions on rivals, suppliers, and customers:**

\*\* Lang, L. and R. Stulz, 1992, "Contagion and Competitive Intra-Industry Effects of Bankruptcy Announcements," *Journal of Financial Economics* 32, 45-60.

\* Firth, M., 1996, "Dividend Changes, Abnormal Returns, and Intra-Industry Firm Valuations," *Journal of Financial and Quantitative Analysis* 31, 189-211.

\* Song, M. and R. Walkling, 2000, "Abnormal Returns to Rivals of Acquisition Targets: A Test of the 'Acquisition Probability Hypothesis'," *Journal of Financial Economics* 55, 143-172.

\* Shahrur, H., 2005, "Industry Structure and Horizontal Takeovers: Analysis of Wealth Effects on Rivals, Suppliers, and Corporate Customers," *Journal of Financial Economics* 76, 61-98.

\* Hertz, M., Z. Li, M. Officer, and K. Rodgers, 2008, "Inter-Firm Linkages and the Wealth Effects of Financial Distress Along the Supply Chain," *Journal of Financial Economics* 87, 374-387.

Slovin, M., M. Sushka, and Y. Bendeck, 1991, "The Intra-Industry Effects of Going-Private Transactions," *Journal of Finance* 46, 1537-1550.

Szewczyk, S., 1992, "The Intra-Industry Transfer of Information Inferred from Announcements of Corporate Security Offerings," *Journal of Finance* 47, 1935-1945.

Slovin, M., M. Sushka, and J. Polonchek, 1992, "Informational Externalities of Seasoned Equity Issues," *Journal of Financial Economics* 32, 87-101.

Eckel, C., D. Eckel, and V. Singal, 1997, "Privatization and Efficiency: Industry Effects of the Sale of British Airways," *Journal of Financial Economics* 43, 275-298.

Fee, C. and S. Thomas, 2004, "Sources of Gains in Horizontal Takeovers: Evidence from Customer, Supplier, and Rival Firms," *Journal of Financial Economics* 74, 423-460.

Chen, S., K. Ho, and K. Ik, 2005, "The Wealth Effect of New Product Introductions on Industry Rivals," *Journal of Business* 78, 969-996.

Kale, J. and H. Shahrur, 2007, "Corporate Capital Structure and the Characteristics of Suppliers and Customers," *Journal of Financial Economics* 83, 321-365.

B. Operating performance changes following corporate decisions:

- \*\* Healy, P. and K. Palepu, 1990, "Earnings and Risk Changes Surrounding Primary Stock Offers," *Journal of Accounting Research* 28, 25-48.
- \* Jain, B. and O. Kini, 1994, "The Post-Issue Operating Performance of IPO firms," *Journal of Finance* 49, 1699-1726.
- \* Loughran, T. and J. Ritter, 1997, "The Operating Performance of Firms Conducting Seasoned Equity Offerings," *Journal of Finance* 52, 1823-1850.
- \* Lie, E., 2005, "Operating Performance Following Open Market Share Repurchase Announcements," *Journal of Accounting and Economics* 39, 411-436.
- \* Gong, G., H. Louis, and A. Sun, 2008, "Earnings Management and Firm Performance Following Open-Market Repurchases," *Journal of Finance* 63, 947-986.

Healy, P. and K. Palepu, 1988, "Earnings Information Conveyed by Dividend Initiation and Omissions," *Journal of Financial Economics* 21, 149-175.

Dann, L., R. Masulis, and D. Mayers, 1991, "Repurchase Tender Offers and Earnings Information," *Journal of Accounting and Economics* 14, 217-251.

Hertzel, M. and P. Jain, 1991, "Earnings and Risk Changes Around Stock Repurchase Tender Offers," *Journal of Accounting and Economics* 14, 253-274.

Meggison, W. and R. Nash, 1994, "The Financial and Operating Performance of Newly Privatized Firms: An International Empirical Analysis," *Journal of Finance* 49, 403-452.

Shah, K., 1994, "The Nature of Information Conveyed by Pure Capital Structure Changes," *Journal of Financial Economics* 36, 89-126.

Denis, D. and D. Denis, 1995, "Performance Changes Following Top Management Dismissals," *Journal of Finance* 50, 1029-1057.

Barber, B. and J. Lyon, 1996, "Detecting Abnormal Operating Performance: The Empirical Power and Specification of Test Statistics," *Journal of Financial Economics* 41, 359-399.

Nissim, D. and A. Ziv, 2001, "Dividend Changes and Future Profitability," *Journal of Finance* 56, 2111-2133.

Grullon, G., R. Michaely, S. Benartzi, and R. Thaler, 2005, "Dividend Changes Do Not Signal Changes in Future Profitability," *Journal of Business* 78, 1659-1682.

C. Tests of the free cash flow hypothesis:

- \*\* Lang, L., R. Stulz, and R. Walkling, 1991, "A Test of the Free Cash Flow Hypothesis: The Case of Bidder Returns," *Journal of Financial Economics* 29, 315-335.
- \* Yoon, P. and L. Starks, 1995, "Signaling, Investment Opportunities, and Dividend Announcements," *Review of Financial Studies* 8, 995-1019.
- \* Lie, E., 2000, "Excess Funds and Agency Problems: An Empirical Study of Incremental Cash Disbursements," *Review of Financial Studies* 13, 219-248.
- \* Grullon, G. and R. Michaely, 2004, "The Information Content of Share Repurchase Programs," *Journal of Finance* 59, 651-681.
- \* Bates, T., K. Kahle, and R. Stulz, 2009, "Why Do U.S. Firms Hold So Much More Cash than They Used To?" *Journal of Finance* 64, 1985-2021.

Jensen, M., 1986, "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," *American Economic Review* 76, 323-329.

Lang, L. and R. Litzenberger, 1989, "Dividend Announcements: Cash Flow Signaling vs. Free Cash Flow Hypothesis?" *Journal of Financial Economics* 24, 181-191.

Mann, S. and N. Sicherman, 1991, "The Agency Costs of Free Cash Flow: Acquisition Activity and Equity Issues," *Journal of Business* 64, 213-228.

Opler, T., and S. Titman, 1993, "The Determinants of Leveraged Buyouts Activity: Free Cash Flow vs. Financial Distress Costs," *Journal of Finance* 48, 1985-1999.

Denis, D., D. Denis, and A. Sarin, 1994, "The Information Content of Dividend Changes: Cash Flow Signaling, Overinvestment, and Dividend Clienteles." *Journal of Financial and Quantitative Analysis* 29, 567-587.

Nohel, T. and V. Tarhan, 1998, "Share Repurchases and Firm Performance: New Evidence on the Agency Costs of Free Cash Flow," *Journal of Financial Economics* 49, 187-223.

Harford, J., 1999, "Corporate Cash Reserves and Acquisitions," *Journal of Finance* 54, 1969-1998.

Gombola, M. and F. Liu, 1999, "The Signaling Power of Specially Designated Dividends," *Journal of Financial and Quantitative Analysis* 34, 409-425.

Pinkowitz, L., R. Stulz, and R. Williamson, 2006, "Does the Contribution of Corporate Cash Holdings and Dividends to Firm Value Depend on Governance? A Cross-country Analysis," *Journal of Finance* 61, 2725-2751.

Dittmar, A. and J. Mahrt-Smith, 2007, "Corporate Governance and the Value of Cash Holdings," *Journal of Financial Economics* 83, 599-634.

Harford, J., S. Mansi, and W. Maxwell, 2008, "Corporate Governance and Firm Cash Holdings," *Journal of Financial Economics* 87, 535-555.

D. Insider trading:

- \*\* Lee, I., 1997, “Do Firms Knowingly Sell Overvalued Equity?” *Journal of Finance* 52, 1439-1466.
- \* Allen, J., 2001, “Private Information and Spin-off Performance,” *Journal of Business* 74, 281-306.
- \* Clarke, J., C. Dunbar, and K. M. Kahle, 2001, “Long-Run Performance and Insider Trading in Completed and Canceled Seasoned Equity Offerings,” *Journal of Financial and Quantitative Analysis* 36, 415-430.
- \* Clarke, J., C. Dunbar, and K. M. Kahle, 2004, “The Long-Run Performance of Secondary Equity Issues: A Test of the Windows of Opportunities Hypothesis,” *Journal of Business* 77, 575-584.
- \* Piotroski, J. and D. Roulsto, 2005, “Do Insider Trades Reflect Both Contrarian Beliefs and Superior Knowledge about Future Cash Flow Realizations?” *Journal of Accounting and Economics* 39, 55–81.

John, K., and B. Mishra, 1990, “Information Content of Insider Trading around Corporate Announcements: The Case of Capital Expenditures,” *Journal of Finance* 45, 835-855.

Seyhun, H. N., 1990, “Do Bidder Managers Knowingly Pay Too Much for Target Firms?” *Journal of Business* 63, 439-464.

John, K., and L. Lang, 1991, “Insider Trading around Dividend Announcements: Theory and Evidence,” *Journal of Finance* 46, 1361-1389.

Lee, D. S., W. H. Mikkelsen, and M. M. Partch, 1992, “Managers’ Trading around Stock Repurchases,” *Journal of Finance* 47, 1947-1961.

Seyhun, H., and M. Bradley, 1997, “Corporate Bankruptcy and Insider Trading,” *Journal of Business* 70, 189-216.

Aboody, D., and B. Lev, 2000, “Information Asymmetry, R&D, and Insider Gains,” *Journal of Finance* 55, 2747-2766.

Kahle, K., 2000, “Insider Trading and the Long-Run Performance of New Security Issues,” *Journal of Corporate Finance* 6, 25-53.

Ke, B., S. Huddart, and K. Petroni, 2003, “What Insiders Know about Future Earnings and How They Use It: Evidence from Insider Trades,” *Journal of Accounting Economics* 35, 315-346.

Fidrmuc, J., M. Goergen, and L. Renneboog, 2006, “Insider Trading, News Releases, and Ownership Concentration,” *Journal of Finance* 61, 2931-2973.

E. Focus versus diversification:

- \*\* Berger, P. and E. Ofek, 1995, "Diversification's Effect on Firm Value," *Journal of Financial Economics* 37, 39-65.
- \* Comment, R. and G. Jarrell, 1995, "Corporate Focus and Stock Returns," *Journal of Financial Economics* 37, 67-87.
- \* Schoar, A., 2002, "Effects of Corporate Diversification on Productivity," *Journal of Finance* 57, 2379-2403.
- \* Mansi, S. and D. Reeb, 2002, "Corporate Diversification: What Gets Discounted?" *Journal of Finance* 57, 2167-2183.
- \* Thomas, S., 2002, "Firm Diversification and Asymmetric Information: Evidence from Analysts' Forecasts and Earnings Announcements," *Journal of Financial Economics* 64, 373-396.
- \* Dittmar, A. and A. Shivdasani, 2003, "Divestitures and Divisional Investment Policies," *Journal of Finance* 58, 2711-2743.
- \* Ahn, S. and D. Denis, 2004, "Internal Capital Markets and Investment Policy: Evidence from Corporate Spinoffs," *Journal of Financial Economics* 71, 489-516.
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- Lang, L. and R. Stulz, 1994, "Tobin's  $q$ , Corporate Diversification and Firm Performance," *Journal of Political Economy* 102, 1248-1280.
- John, K. and E. Ofek, 1995, "Asset Sales and Increase in Focus," *Journal of Financial Economics* 37, 105-126.
- Denis, D., D. Denis, and A. Sarin, 1997, "Agency Problems, Equity Ownership, and Corporate Diversification," *Journal of Finance* 52, 135-160.
- Lamont, O., 1997, "Cash Flow and Investment: Evidence from Internal Capital Markets," *Journal of Finance* 52, 83-109.
- Shin, H. and R. Stulz, 1998, "Are Internal Capital Markets Efficient?" *Quarterly Journal of Economics* 113, 531-552.
- Rajan, R., H. Servaes, and L. Zingales, 2000, "The Cost of Diversity: The Diversification Discount and Inefficient Investment," *Journal of Finance* 55, 35-80.
- Scharfstein, D. and J. Stein, 2000, "The Dark Side of Internal Capital Markets: Divisional Rent-Seeking and Inefficient Investment," *Journal of Finance* 55, 2537-2564.
- Khanna, N. and S. Tice, 2001, "The Bright Side of Internal Capital Markets," *Journal of Finance* 56, 1489-1531.
- Hadlock, C., M. Ryngaert, and S. Thomas, 2001, "Corporate Structure and Equity Offerings: Are There Benefits to Diversify?" *Journal of Business* 74, 613-635.

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

Gertner, R., E. Powers, and D. Scharfstein, 2002, "Learning about Internal Capital Markets from Corporate Spin-offs," *Journal of Finance* 57, 2479-2506.

Graham, J., M. Lemmon, and J. Wolf, 2002, "Does Corporate Diversification Destroy Value?" *Journal of Finance* 58, 695-720.

Denis, D., D. Denis, and K. Yost, 2002, "Global Diversification, Industrial Diversification, and Firm Value," *Journal of Finance* 57, 1951-1979.

Aggarwal, R., and A. Samwick, 2003, "Why Do Managers Diversify Their Firms? Agency Reconsidered," *Journal of Finance* 58, 71-118.

Motta, A., 2003, "Managerial Incentives and Internal Capital Markets," *Journal of Finance* 58: 1193-1220.

Billett, M. and D. Mauer, 2003, "Cross-Subsidies, External Financing Constraints, and the Contribution of the Internal Capital Market to Firm Value," *Review of Financial Studies* 16, 1167-1201.

Martin, J. and A. Sayrak, 2003, "Corporate Diversification and Shareholder Value: A Survey of Recent Literature," *Journal of Corporate Finance* 9, 37-57.

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

Laeven, L., and R. Levine, 2007, "Is There a Diversification Discount in Financial Conglomerates?" *Journal of Financial Economics* 85, 331-367.

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

Maksimovic, V. and G. Phillips, 2008, "The Industry Life Cycle, Acquisitions and Investment: Does Firm Organization Matter?" *Journal of Finance* 63, 673-708.

Santalo, J. and M. Becerra, 2008, "Competition from Specialized Firms and the Diversification-Performance Linkage," *Journal of Finance* 63, 851-883.



F. Corporate investment decisions:

- \*\* Brailsford, T. and D. Yeoh, 2004, "Agency Problems and Capital Expenditures Announcements," *Journal of Business* 77, 223-257.
- \* Titman, S., K. Wei, and F. Xie, 2004, "Capital Investments and Stock Returns," *Journal of Financial and Quantitative Analysis* 39, 677-700.
- \* Eberhart, A., W. Maxwell, and A. Siddique, 2004, "An Examination of Long-Term Abnormal Stock Returns and Operating Performance Following R&D Increases," *Journal of Finance* 59, 623-650.
- \* Masulis, R., C. Wang, and F. Xie, 2007, "Corporate Governance and Acquirer Returns," *Journal of Finance* 62, 1851-1889.
- \* Wang, C. and F. Xie, 2009, "Corporate Governance Transfer and Synergistic Gains from Mergers and Acquisitions," *Review of Financial Studies* 22, 829-858.
- Chan, S., J. Martin, and J. Kensinger, 1990, "Corporate Research and Development Expenditures and Share Value," *Journal of Financial Economics* 26, 255-276.
- Chaney, P., T. Devinney, and R. Winer, 1991, "The Impact of New Product Introductions on the Market Value of Firms," *Journal of Business* 64, 573-610.
- Chan, S., G. Gau, and K. Wang, 1995, "Stock Market Reaction to Capital Investment Decisions: Evidence from Business Relocations," *Journal of Financial and Quantitative Analysis* 30, 81-100.
- Kelm, K., V. Narayanan, and G. Pinches, 1995, "Shareholder Value Creation During R&D Innovation and Commercialization Stages," *Academy of Management Journal* 38, 770-786.
- Sundaram, A., T. John, and K. John, 1996, "An Empirical Analysis of Strategic Competition and Firm Values: The Case of R&D Competition," *Journal of Financial Economics* 40, 459-486.
- Chan, S., J. Kensinger, A. Keown, and M. Martin, 1997, "Do Strategic Alliances Create Value?" *Journal of Financial Economics* 46, 199-222.
- Johnson, S. and M. Houston, 2000, "A Reexamination of the Motives and Gains in joint ventures," *Journal of Financial and Quantitative Analysis* 35, 67-86.
- Gomes-Casseres, B., J. Hagedoorn, and A. Jaffe, 2006, "Do Alliances Promote Knowledge Flows," *Journal of Financial Economics* 80, 5-33.
- Lindsey, L., 2008, "Blurring Firm Boundaries: The Role of Venture Capital in Strategic Alliances," *Journal of Finance* 63, 1137-1168.

G. Corporate capital structure:

- \*\* Harris, M. and A. Raviv, 1991, "The Theory of Capital Structure," *Journal of Finance* 46, 297-356.
  - \* Graham, J. and C. Harvey, 2001, "The Theory and Practice of Corporate Finance: Evidence from the Field," *Journal of Financial Economics* 60, 187-244.
  - \* Baker, M. and J. Wurgler, 2002, "Market Timing and Capital Structure," *Journal of Finance* 57, 1-32.
  - \* Flannery, M. and K. Rangan, 2006, "Partial Adjustments toward Target Capital Structures," *Journal of Financial Economics* 79, 469-506.
  - \* Henderson, B., N. Jegadeesh, and M. Weisbach, 2006, "World Markets for Raising New Capital," *Journal of Financial Economics* 82, 63-101.
  - \* Kayhan, A. and S. Titman, 2007, "Firms' Histories and Their Capital Structures," *Journal of Financial Economics* 83, 1-32.
  - \* Lemmon, M., M. Roberts, and J. Zender, 2008, "Back to the Beginning: Persistence and the Cross-Section of Corporate Capital Structure," *Journal of Finance* 63, 1575-1608.
  - \* Ovtchinnikov, A., 2010, "Capital Structure Decisions: Evidence from Deregulated Industries," *Journal of Financial Economics* 95, 249-274.
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- Johnson, S., 2003, "Debt Maturity and the Effects of Growth Opportunities and Liquidity Risk on Leverage," *Review of Financial Studies* 16, 209-236.
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Mackay, P., 2003, "Real Flexibility and Financial Structure: An Empirical Analysis," *Review of Financial Studies* 16, 1131-1165.

Green, R. and B. Hollifield, 2003, "The Personal-Tax Advantages of Equity," *Journal of Financial Economics* 67, 175-216.

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Hovakimian, A., 2004, "The Role of Target Leverage in Security Issues and Repurchases," *Journal of Business* 77, 1041-1072.

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#### H. Corporate payout policy:

- \*\* Jagannathan, M., C. Stephens, and M. Weisbach, 2000, "Financial Flexibility and the Choice between Dividends and Stock Repurchases," *Journal of Financial Economics* 57, 355-384.
  - \* Grullon, G. and R. Michaely, 2002, "Dividends, Share Repurchases and the Substitution Hypothesis," *Journal of Finance* 62, 1649-1684.
  - \* DeAngelo, H., L. DeAngelo and D. Skinner, 2004, "Are Dividends Disappearing? Dividend Concentration and the Consolidation of Earnings," *Journal of Financial Economics* 72, 425-456.
  - \* Baker, M. and J. Wurgler, 2004, "A Catering Theory of Dividends," *Journal of Finance* 59, 1125-1165.
  - \* Brav, A., J. Graham, C. Harvey, and R. Michaely, 2005, "Payout Policy in the 21<sup>st</sup> Century," *Journal of Financial Economics* 77, 483-527.
  - \* Massa, M., Z. Rehman, and T. Vermaelen, 2007, "Mimicking Repurchases," *Journal of Financial Economics* 84, 624-666.
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  - \* Peyer, U. and T. Vermaelen, 2009, "The Nature and Persistence of Buyback Anomalies," *Review of Financial Studies* 22, 1693-1745.
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- Denis, D. and I. Osobov, 2008, "Why Do Firms Pay Dividends? International Evidence on the Determinants of Dividend Policy," *Journal of Financial Economics* 89, 62-82.