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**BOSTON COLLEGE**  
**Wallace E. Carroll School of Management**  
**MF895: Advanced Topics in Corporate Finance**

**Course Objective:** The objective of this course is to introduce Ph.D. students to current research issues and tools in corporate finance and financial intermediation, which will be of interest in their dissertation research (thus, in some sense, the course can also be called, “dissertation topics in corporate finance:” many papers that will be discussed are papers from the current or previous year’s academic job market). The course will be based primarily on research papers from theoretical and empirical corporate finance, theoretical and empirical financial intermediation, and advanced game theory. There are also papers in the current year in areas related to information economics and asset pricing; and also areas at the interface of corporate finance and accounting research. The students who can benefit the most from this course are those who plan to write their dissertations in corporate finance, financial institutions (and intermediation), and in related areas in finance and economics (e.g., industrial organization, applied game theory, privatization). However, students planning to write their dissertations in other areas (e.g., market microstructure, asset pricing, or accounting) may also benefit from the course.

**Pre-requisites:** Normally I expect students to have already taken MF891: Ph.D. seminar in Corporate Finance (or have equivalent knowledge), and an introductory doctoral-level course in game theory (or have equivalent knowledge). This year, however, I am encouraging students

who are taking MF891 (the introductory Ph.D. class in corporate finance) to sit in this class: this class covers topics not covered in the introductory class, so students can view this as a continuation of that class. Students attending this class will definitely have an advantage when it comes to corporate finance. For game theory, there have been numerous excellent and easily accessible textbooks written in the last four or five years. I will mention only three of these below:

**Game Theory Text Books:**

1. Eric Rasmusen, Games and Information: An introduction to game theory, Basil Blackwell. (A basic book)
2. Gibbons, R., Game Theory for Applied Economists, Princeton University Press, Princeton, New Jersey (intermediate level).
3. Fudenberg, D., and J. Tirole, Game Theory, M.I.T Press, Cambridge Massachusetts. (Fairly advanced)

**Corporate Finance Text Books:** Corporate Finance, by Jean Tirole.

**Course materials:** Most of the classes will be based on academic papers. I plan to make these available to you as we go along. This term, I am including a number of review articles on each topic, which students should read carefully in advance (and digging up and reading specific references wherever appropriate). Articles (other than review articles) have been included in this seminar for several reasons. Most are recent; all are provocative; and some are substantial contributions to the literature. Many of the papers are recent job market papers, which should prove particularly instructive to students. My own articles on this syllabus are all co-authored with

Boston College students (or previous students who are now Assistant Professors at other universities), so that each of you can aspire to doing similar or higher quality research.

Unfortunately, the limited time available precludes including all the interesting papers on each topic. However, the papers that are included should provide students with an entry into each research topic, which they can follow up on if they are interested in doing research in that area.

**Course Requirements:** Since the objective of this course is to read and understand recent work in Corporate Finance (theory and empirical) participants (both presenters and non-presenters) are expected to spend adequate time giving careful attention to the assigned readings before coming to class. Other than papers on which I choose to lecture, each paper will be presented by one participant nominated in advance for this purpose. All participants will have to take responsibility for one or two lectures each, depending on the size of the class. A critique of the paper(s) being presented by each presenter has to be turned in by two previous selected non-presenters on the day of the paper presentation, prior to the presentation (if one student presents two papers, I require only one critique to be handed in, but covering both papers presented). This will work out to about five or six critiques for each participant in the seminar to hand in.

**Presentation Format:** Each presentation must adhere strictly to the following format (1) Statement of the problem studied; (2) Brief survey of the literature; (3) Concise, intuitive, explanation of the argument producing the major results (for theory papers) or empirical methodology; (4) Summary of main results; (5) Critical examination of the paper; (6) Sketch of major extensions to the paper with specific suggestions about possible solution techniques (for theory) or empirical methodology/data for these extensions (**students who can effectively accomplish the last point will get extra credit**). Most important, each presentation must be both

informative and entertaining.

**Critique Format:** Critiques must be between three to six pages in length (depending on the paper).

The format of the critiques should be roughly along the following lines: (1) Statement of the problem studied; (2) Brief survey of the literature; (3) Concise, intuitive explanation of the argument producing the major results (for theory papers) or empirical methodology; (4) Summary of results; (5) Critical examination of the paper.

**Course Evaluation and Grading:** The course grade is determined as follows:

- a. Class presentations: 40%
- b. Critiques of papers: 40%
- c. Class Participation: 20%

**Office Hours:** For brief discussions, you can meet with me right after class. Longer office hours can be scheduled by appointment (send me e-mail if you wish to make an appointment or wish to contact me for any other reason; I prefer e-mail to phone).

### **Outline of Topics**

The main papers that will be used in the discussion of each topic are listed below. Students are expected to read the review articles listed under each topic before they come to class: Review articles are NOT TO BE PRESENTED IN CLASS.

**Topic One: Product and Financial Market Interactions, The Private versus Public Decision, and Hot and Cold IPO Markets (Two Classes)**

REVIEW ARTICLE: Ritter, Jay, and Ivo Welch, 2002, "A Review of IPO Activity, Pricing, and Allocations", *The Journal of Finance* 57 (4): 1795–1828.

Chemmanur, Thomas and An Yan, "Product Market Advertising and Initial Public Offerings: Theory and Empirical Evidence" Boston College working paper.

Spiegel, Matthew, and Heather Tookes, 2006, "Dynamic competition, innovation and strategic financing", Yale University Working paper.

Helwege, Jean, and Nellie Liang, 2004, "Initial public offerings in hot and cold markets", *Journal of Financial and Quantitative Analysis* 39: 541-569.

Alti, Aydogan, 2005, "IPO market timing", *Review of Financial Studies* 18: 1106-1138.

Banerjee, Hansen, and Hrnjic, "IPO Underpricing to Buy Holding," Tulane University Working paper.

Morrison, A. and W. Wilhelm, "The Demise of Investment Banking Partnerships, Theory and Evidence," Oxford University Working paper.

Pastor, Lubos, and Pietro Veronesi, 2005, "Rational IPO waves", *Journal of Finance*, LX, 1713-1757.

### **Topic Two: Mergers and Firm Valuation (One Class)**

Jensen, Michael C., 2005, "Agency Costs of Overvalued Equity", Harvard NOM Working Paper No. 04-26; ECGI - Finance Working Paper No. 39/2004.

Jensen, Michael C., "The Agency Cost of Overvalued Equity and the Current State of Corporate

Finance", Harvard NOM Working Paper No. 04-29.

Shleifer, Andrei and Vishny, Robert W., 2003, "Stock Market Driven Acquisitions", *Journal of Financial Economics* 70(3), December 2003: 295-311.

Matthew, Rhodes-Kropf and S Viswanathan, 2004, "Market Valuation and Merger Waves", *Journal of Finance* 59 (6): 2685–2718.

Matthew Rhodes–Kropf, David T. Robinson, and S. Viswanathan, 2005, "Valuation waves and merger activity: The empirical evidence", *Journal of Financial Economics* 77 (3): 561-603.

Bouwman, Christa H.S., Kathleen Fuller, and Amrita S. Nain, 2006, "Market valuation and acquisition quality: Empirical evidence", *Review of Financial Studies*, *Forthcoming*.

### **Topic Three: Private Equity and Venture Capital Contracting (Two Classes)**

REVIEW ARTICLE: Phalippou, Ludovic, 2004, "Investing in Private Equity Funds: A Survey" University of Amsterdam.

Metrick, A. and A. Yasuda, 2007, "The Economics of Private Equity Funds", The Wharton School, University of Pennsylvania Working paper.

Kaplan, Steven N. and Schoar, Antoinette, 2005, "Private Equity Performance: Returns, Persistence and Capital Flows", *Journal of Finance* 60 (4): 1791-1823.

Gottschalg, Olivar and Ludovic Phalippou, 2007, "The Performance of Private Equity Funds" AFA 2008 New Orleans Meetings.

Lerner, Joshua, Antoinette Schoar, and Wan Wong, 2005, "Smart Institutions, Foolish Choices? The Limited Partner Performance Puzzle", MIT Sloan Research Paper 4523-05, January 2005.

Gompers, P and Josh Lerner, 1999, “An analysis of compensation in the U.S. venture capital partnership”, *Journal of Financial Economics* 51: 3-44.

Litvak Kate, 2004, “Venture Capital Limited Partnership Agreements: Understanding Compensation Arrangements”, American Law and Economic Association Annual Meetings.

#### **Topic Four: Hedge Funds and Money Manager Compensation Contracts (Two Classes)**

REVIEW ARTICLE: Livio, Stracca, “Delegated Portfolio Management: A Survey of the Theoretical Literature”, *Journal of Economic Surveys* 20(5): 823-48.

Garcia, Diego and Joel M Vanden, 2005, “Information acquisition and mutual funds”, Dartmouth College (Tuck School) working paper.

Admati, A. R. and Pfleiderer, P., 1997, “Does it all add up? Benchmarks and the Compensation of Active Portfolio Managers”, *Journal of Business* 70, pages 323-350.

Agarwal, V, N. Daniel, and N. Naik, 2005, “Role of managerial incentives, flexibility and ability: evidence from hedge funds”, working paper London Business School.

Ibbotson, Roger and Peng Chen, 2006, “The A, B, Cs of Hedge Funds: Alphas, Betas, and Costs”, Working Paper, Yale School of Management.

Gervais, S., Lynch, A. W., and Musto, D. K., 2005, “Fund families as delegated monitors of money managers,” *Review of Financial Studies* 18, pages 1139-1169.

#### **SYMPOSIUM ON CORPORATE GOVERNANCE: INSTITUTIONAL TRADING AND ACTIVIST INSTITUTIONAL INVESTORS, EXECUTIVE COMPENSATION, AND CORPORATE BOARDS (SIX CLASSES)**

REVIEW ARTICLE: Gillian, S., 2006, “Recent Developments in Corporate Governance: An

Overview”, *Journal of Corporate Finance* 12: 381-402.

**Topic Five: Institutional Trading and Activist Institutional Investors (Two Classes)**

REVIEW ARTICLE: Gillian, S. and Laura Starks, 2007, “The Evolution of Shareholder Activism in the United States”, *Journal of Applied Corporate Finance* 19(1): 55-73.

Chemmanur, Thomas and Yawen Jiao, 2006, “Institutional Trading, Information Production, and the SEO Discount: A Model of Seasoned Equity Offerings”, Boston College Working Paper.

Chemmanur, Thomas, S. He, and G. Hu, 2006, “The Role of Institutional Investors in Seasoned Equity Offerings”, Boston College Working Paper.

Ashraf, Rasha and Narayanan Jayaraman, 2007, “Institutional Investors’ Trading Behavior in Mergers and Acquisitions”, Georgia Institute of Technology Working paper.

Chen, X., Jarrad Harford, and Kai Li, 2007, “Monitoring: Which institutions matter?”, *Journal of Financial Economics*.

Qiu, Lily, 2005, “Which institutional investors monitor? Evidence from acquisition activity”, Brown University working paper.

Parrino, Robert, Richard W. Sias, and Laura T. Starks, 2003, “Voting with their feet: institutional ownership changes around forced CEO turnover”, *Journal of Financial Economics* 68 (1): 3–46.

Klein, April and Emanuel Zur, 2006, “Hedge Fund Activism”, Stern School of Business, NYU Working paper.

**Topic Six: Executive Compensation (Two Classes)**

REVIEW ARTICLE: Bebchuk, L and J. Fried, 2005, “Pay without Performance: An Overview of the issues”, *Journal of Applied Corporate Finance* 17(4): 8 – 23.

REVIEW ARTICLE: Weisbach, M., 2007, “Optimal Executive Compensation versus managerial Power: A Review of Lucian Bebchuk and Jesse Fried’s Pay without Performance: the Unfulfilled Promise of Executive Compensation”, *Journal of Economic Literature*, XLV: 419-428.

Bertrand, M and Sendhil Mullainathan, 2001, “Are CEOs Rewarded for Luck? The Ones without Principals are”, *Quarterly Journal of Economics*, August, 2001.

Baker, G, R. Gibbons, and Kevin Murphy, 2002, “Relational Contracts and the Theory of the Firm”, *Quarterly Journal of Economics* 117(1): 39-84.

Jensen, Michael and Kevin Murphy, 1990, “Performance Pay and Top-Management Incentives”, *Journal of Political Economy* 98(2): 225-64.

Gabaix, Xavier and Augustin Landier, 2006, “Why has CEO pay increased so much?”, NBER Working Paper 12365.

Gillian, Stuart, Jay Hartzell, and Robert Parrino, 2006, “Explicit vs. implicit contracts: evidence from CEO employment agreements”, University of Texas at Austin working paper.

Hartzell, Jay C and Laura T. Starks, 2003, “Institutional Investors and Executive Compensation”, *Journal of Finance* 58 (6): 2351–2374.

### **Topic Seven: Corporate Boards: Theory and Evidence (Two Classes)**

Harris, M. and A. Raviv, 2006, “A Theory of Board Control and Size”, *Review of Financial Studies*, July 2006.

Boone, Audra L., Laura Casares Field, Jonathan M. Karpoff, and Charu G. Raheja, 2007, “The determinants of corporate board size and composition: An empirical analysis”, *Journal of Financial Economics* 85(1):66-101.

Adams, R and Daniel Ferreira, 2007, “A Theory of Friendly Boards” *Journal of Finance* 62 (1): 217–250.