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Spring 2007

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 willing to admit students who have not taken MF891. 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 Blackell. (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. Papers 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. 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.

Topic One: (Jan 23 and Jan 30) Type of Venture Capital, Syndication, Staging, and Venture Capital Productivity (Two Classes)

Chemmanur, T., and E. Loutskina, 2006, “What is Special about Corporate Venture Capital?”
Working Paper, Boston College.

Ueda and Hirukawa, “Venture Capital and Productivity.”

Ueda and Hirukawa, “Venture Capital and Industrial Innovation.”

Puri, Hellman, and Lindsay, 2006, “Building Relationship Early: Banks in Venture Capital.”

Casamatta, C., and C. Haritchabalet, 2003, “Learning and Syndication in Venture Capital Investments,” *CEPR Discussion Paper* no. 3867.

Cestone, G., J. Lerner, and L. White, 2005, “The Design of Syndicates in Venture Capital,”
Working Paper, Harvard University.

Rebecca Zarutskie , “Do Venture Capitalists Affect Investment Performance? Evidence from First-time

Funds” Working Paper, Duke University

Victor Franco M Calanog, Philipp Krohmer and Rainer Lauterbach, “The Bright and Dark Side of Staging: Investment Performance and the Varying Motivations of Private Equity Firms,” Working Paper, Wharton School.

Topic Two: (Feb 6) Management of Innovation and the Theory of the Firm (One Class)

Amador, M., and A. Landier, 2003, “Entrepreneurial Pressure and Innovation”

Hellman, 2002, “When do employees become entrepreneurs? Incentives, Corporate Strategy, and Intellectual Property Rights.”

Rajan, R., and L. Zingales, 2001, “The Firm as a Dedicated Hierarchy: A Theory of the Origin and Growth of Firms,” Quarterly Journal of Economics.

Rajan, R., and Zingales, 2001, “The Influence of the Financial Revolution on the Nature of Firms,” American Economic Review Papers and Proceedings.

Topic Three: (Feb 13) IPOs (One Class)

Johnson, W., “Underpricing, IPO Wealth Losses, and Underwriter Wealth Gains.” (presented by W. Johnson).

Goldstein, M., Irvine, P., and Puckett, A., 2006, “Purchasing IPOs with commissions: Theoretical predictions and empirical results,” Working paper, University of Georgia.

Ray, R., 2006, “Directed Share Programs in IPO Underwriting and Agency Problems,” **Job Market Paper**, Indiana University.

Tim Jenkinson , and Howard Jones “IPO Pricing and Allocation: A Survey of the Views of Institutional Investors,” Working Paper, University of Oxford

Topic Four: (Feb 20) Cross Listing of Exchanges (One Class)

Chemmanur, T., and P. Fulghieri 2006, "Competition and Co-operation among Exchanges: A Theory of Cross Listing and Endogenous Listing Standards," *Journal of Financial Economics*,

Pirrong, C., 1999, "The Organization of Financial Exchange Markets, Theory and Evidence," *Journal of Financial Markets* 2, 329-357.

Zingales, L., 2006, "Is the U.S. Capital Market Losing its Competitive Edge?"

Bailey, W., G. Karolyi, and Carolina Salva, 2006, "The economic consequences of increased disclosure: Evidence from international cross listings," *Journal of Financial Economics*, 81, 175-213.

Rochet, Jean-Charles and Jean Tirole, 2004, "Two-sided markets: An Overview, manuscript," IDEI Toulouse (Survey Paper).

Topic Five: (Feb 27) Stock Splits (One Class)

Brennan, M., and T. Copeland, 1988, "Stock Splits, Stock Prices, and Transaction Costs," *Journal of Financial Economics*.

Brennan, M., and P. Hughes, 1991, "Stock Prices and the Supply of Information," *Journal of Finance*.

Schultz, P., 2000, "Stock Splits, Tick Size, and Sponsorship," *Journal of Finance*, 55, 429-450.

Ikenberry, D., and S. Ramnath, 2002, "Underreaction to Self-Selected News Events: The Case of Stock Splits," *The Review of Financial Studies*.

Henock, L., and D. Robinson, 2005, "Do managers credibly use accruals to signal private information? Evidence from the pricing of discretionary accruals around stock splits," *Journal of Accounting and Economics* 39, 361-380.

Topic Six: (March 13) Dividend Policy, Signaling, Corporate Governance, and Catering (One Class)

Knyazeva, A., 2006, "Delivering on the Dividend Promise: Corporate Governance, Managerial Incentives, and Dynamic Dividend Behavior," **Job Market Paper**, New York University.

Pan, C., 2006, "Why are Firms with Entrenched Managers More Likely to Pay Dividends?" **Job Market Paper**, Ohio State University.

Gerard Hoberg, and Nagpurnanand R. Prabhala, "Dividend Policy, Risk, and Catering," Working Paper, University of Maryland.

Michael R., and Roberts M., "Dividend Smoothing, Agency costs, and Information Asymmetry: Lessons from the Dividend Policies of Private Firms," Working Paper, Cornell University and Wharton School.

Topic Seven: (March 20 and March 27) Voting Structures, Corporate Governance, and Private Benefits of Control (Two Classes)

Chemmanur, T., and Y. Jiao, 2005, "Dual Class IPOs, Share Recapitalizations, and Unifications: A theoretical Analysis" Working Paper, Boston College and RPI

Chemmanur, T., K. Simonyan, and I. Paeglis, "Management Quality, Anti-takeover provisions,

and performance in IPOs,” Boston College Working paper.

Stuart L. Gillan , Jay C. Hartzell , and Laura T. Starks , “Evidence on Corporate Governance: The Joint Determination of Board Structures and Charter Provisions,” Working Paper, Texas Tech University,

Ulf Axelson , and Sandeep Baliga , “ Optimal Executive Compensation with Renegotiation: Explaining Earnings Manipulation and Vesting Schedules,” Working Paper, Swedish Institute for Financial Research (SIFR), presented at the AFA 2007.

Joao A.C. Santos , and Kristin E. Wilson, “Does Banks' Corporate Control Benefit Firms? Evidence from US Banks' Control Over Firms' Voting Rights,” Working Paper, Federal Reserve Banks, presented at the AFA 2007.

Maria Guadalupe, and Francisco Perez-Gonzalez, “The Impact of Product Market Competition on Private Benefits of Control,” Working Paper, Columbia University, presented at the AFA 2007.

Topic Eight: (April 3 and April 10) Takeovers, Mechanisms for Selling Target Firms, and Merger Waves (Two Classes)

Povel, P., and R. Singh, 2006, “Takeover Contests with Asymmetric Bidders,” forthcoming, *Review of Financial Studies*.

Boone and Mulherin, 2006, “How are Firms Sold?” forthcoming, *Journal of Finance*.

Liu, T., 2006, “Takeover Bidding with Signaling Incentives” **Job Market Paper**, Carnegie

Mellon University.

Yan, J., “Merger Waves: Theory and Evidence,” **Job Market Paper**.

Ulrike Malmendier , and Enrico Moretti , “Winning by Losing: Evidence on Overbidding in Mergers,”
Working Paper, University of California Berkeley (AFA 2007 Paper).

Topic Nine: (April 17 and April 24) Financial Analysts, Reputation, and Herding (Two Classes)

Scharfstein and Stein, 1990, Herd Behavior and Investment, *American Economic Review* 80, 465-479.

Prendergast, C., and L. Stole, 1996, “Impetuous youngsters and jaded old timers: Acquiring a Reputation for Learning,” *Journal of Political Economy*, 104, 1105-1134.

Trueman, B., 1994, “Analyst Forecasts and Herding Behavior,” *Review of Financial Studies* 7, 97-124.

Bernhardt, D., M. Campello, and E. Kutsoati, 2006, “Who herds?,” *Journal of Financial Economics* 80, 657-675.

Jackson A., 2005, “Trade generation, reputation, and sell side analysts,” *Journal of Finance* 60, 673-717.

Fang, L., and A. Yasuda, 2006, The effectiveness of reputation as a disciplinary device in sell-side research, Working paper, The Wharton School.

