

Fin 7310 Seminar in Institutions and Markets–Spring 2008

Dr. Alexander W. Butler

Class Time: Tuesdays 10:00am-12:45pm (in SOM 2.901)
Office: SOM 3.809
E-mail: butler@utdallas.edu (the best way to contact me; I check e-mail continually)
Office Hours: Open door policy. (Best availability is Monday during the early afternoon.)
Web page: <http://www.utdallas.edu/~butler/>

Students are responsible for all information in this syllabus.

Course Objectives: The primary objective of this course is to prepare students for a career as a scholar in finance. To do so, we will read and discuss key scholarly papers in the field. Our focus will be on recent research papers in the fields of financial institutions, financial markets, and the connection between political institutions and finance. The course is structured to introduce students to selected areas of research, rather than to be encyclopedic in its coverage.

Readings and materials:

Many seminar courses such as this one cover material that is at the frontier of knowledge in a (somewhat narrow) research field. Thus, there is no textbook that would be adequate for achieving the goals of the course, nor probably will there ever be (the textbook market is too small for anyone to be able to recoup the fixed costs of producing a textbook, and the production process is too long for the resulting textbook to be very useful anyway). Instead, all of the main readings will be journal articles and working papers.

Required materials:

- Various articles listed below (to be supplied electronically by the instructor)

Recommended additional materials:

- Kennedy [A Guide to Econometrics](#), 5th edition. ISBN: 1405115025. I *strongly recommend* that you read (or, if you've already read it, *re-read!*) the book in its entirety before our first class meeting. This book gives a big picture overview of applied econometrics, the bread-and-butter of finance empiricists. (Older editions of the book are fine.)
- Wooldridge [Econometric Analysis of Cross Section and Panel Data](#) ISBN: 0262232197. Strongly recommended as an econometrics reference book.
- Wooldridge [Introductory Econometrics: A Modern Approach](#), 3rd edition. ISBN: 0324289782. Recommended as a thorough introduction to basic econometric techniques. (Older editions of the book are fine.)
- Wall Street Journal subscription (recommended as a source of information about current finance issues; a good source for inspiration for research ideas).

Recommended programming resources:

- If you do not already have access to *Stata*, you can purchase a copy through a “grad plan” (reduces your cost) for UTD. Do not order the “small Stata” flavor; order “intercooled” or better.
- Hamilton’s [Statistics with Stata](#) is a painless introduction to using Stata.
- An interesting mix of econometrics and programming reference is [An Introduction to Modern Econometrics Using Stata](#) by Christopher Baum (available through the Stata bookstore).

Course Expectations:

Seminar courses are an *investment* in your human capital. This is not just a course; this is preparation for the rest of your career. The payoff to the investment in your human capital is increasing and convex in effort throughout the full range of feasible effort. In general, you should expect to spend, at a minimum, 20-25 hours per week outside of the classroom working on this class. If you are struggling, you should invest more time. If you are interested in this course because it relates to your future research agenda, you should invest more time. Because this is a seminar course, active and frequent participation is demanded of all students. You should have read assigned papers thoroughly *prior* to class. A lack of preparation creates negative externalities. No one likes negative externalities. I will try to help students internalize the consequences of their choices and actions.

Grading:

- 25%: Class participation and presentations
- 50%: Term paper
- 25%: Assignments, quizzes, exams

Preparation of presentations:

Students will be assigned to prepare presentations of the papers on the course reading list. Presentations should be in PowerPoint, *reasonably polished*, about 45 minutes long (practice and time yourself!), and flexible enough to accommodate questions from the audience and still finish on time. You are required to post to the course WebCT page the slides you intend to use for your presentation no less than 24 hours prior to the start of class. Generally, the student assigned the paper will also present it. But from time to time I shall call on students *at random* to present a paper based on the posted slides. This practice is to ensure that all students diligently prepare prior to class. This means that every student should be prepared to present every paper every week, given the slides that the originally-assigned presenter posts. The less prepared students seem to be, the more likely this randomized presentation assignment becomes (and vice versa). A lack of adequate preparation will be obvious, and will impose substantial negative externalities on the class, which I will try to help people internalize. Students should strive to avoid this outcome.

Participation and Leadership:

You should treat the course as if you have an equity stake in it. This is a seminar course, so substantial give-and-take from the audience is expected and, indeed, required for the course to proceed as it should. Non-presenters should be able to answer *any basic questions* about the any of the papers scheduled for that day. Leadership means taking an active role in developing the intellectual environment in the class. This includes, but is not limited to, volunteering to present tough papers, asking thoughtful questions during presentations, providing detailed feedback on student papers, and other related organizational and intellectual activities.

Academic Integrity:

As academics, our reputation for integrity and honesty in our work is paramount. As such, in this course cheating and plagiarism will not be tolerated and will be prosecuted to the maximum. While I strongly encourage you to discuss and debate ideas with your colleagues, anything for which you claim credit as your own work product must be your own ideas and words. Plagiarism is a “death penalty” offense for academics. If you do not know whether something is ethical or not, then it is probably not. When in doubt, ask.¹ A typical penalty for plagiarism in a doctoral class is an “F” for the course for a first and relatively minor offense. A course grade of “F” will itself often lead to dismissal from the doctoral program on purely academic grounds. Further, it would be difficult to start a new doctoral program with an academic dishonesty violation on your record and/or an “F” in a course. Thus, being caught plagiarizing is likely to end your academic career permanently.

Term paper minimum requirements:

All students: Paper topics must be approved by the instructor, and must be a project on a topic related to the course content (you will have a lot of latitude here). Your paper should be solo-authored (no collaborative projects with faculty). Your paper must be *new*—not recycled in whole or in part from other courses or other program requirements. You are not precluded from using this paper *subsequently* as part of your dissertation or other program requirements, however. The final draft you submit must be polished, easy to read, and free of grammatical and typographical errors. You should have edited fully the submitted draft *no less than five times*. (I strongly recommend taking turns proof-reading and editing papers with classmates.) Simply put, an unpolished paper will almost always be rejected at any journal. In this class the difference between a polished and an unpolished paper can be a large impact on your course letter grade. I will not read unpolished papers, and if I do not read your paper, it will be very difficult to pass the course. CAUTION: I will deduct up to one-tenth of a letter grade for every grammatical and/or typographical error in the paper for the first ten and up to one-fifth of a letter grade for every grammatical and/or typographical error thereafter.

Your paper should incorporate a thorough and detailed literature review. There are relatively few required papers for this seminar; the reason for this is to shift—via your term paper lit review—the mix of your time toward reading papers that are directly related to your areas of research interest. Although I do not generally advocate a separate literature review section for papers that are being prepared for journal submission, for purposes of this class your paper should indeed contain a lit review with a discussion of papers germane to your research question and *how each relates* to your work (if you do not relate it to your work, it does not count). Your paper should contain a minimum of 20 cites to other papers. If your paper does not contain a lit review meeting these criteria, I will deduct up to a full letter grade.

Students must submit a stand-alone CD-ROM with all the original (raw) data and all the programs, carefully documented, used to manipulate the original data and perform statistical analyses. This requirement is to facilitate replication of the results by others, including the instructor. Some journals have similar requirements for publication. Although you are free to use any programming language or statistical package you like, I very strongly recommend using Stata. I can provide some technical support for Stata, but not for other programs. If you do not submit carefully documented programs, I will deduct up to half a letter grade.

All papers *will* be submitted by the instructor to turnitin.com, a surprisingly effective plagiarism detection service. Papers with substantial content that is not properly attributed to original sources will be turned over to Judicial Affairs for further processing. No one wants this outcome.

¹ Some of this discussion is motivated by and paraphrased from a syllabus that Harley Ryan (Georgia State) prepared for one of his doctoral courses.

First year students: Your standard is to produce a thorough literature review and replication with minor extension of at least one major result in an existing paper using *both* the data in the original paper and some *new* data (an extended and updated sample, a different country, etc.). Note that the replicated paper may be, but need not be, from the course reading list. A sufficient condition for a passing grade on the paper (conditional upon meeting the criteria above) is that the paper would merit inclusion on a major conference program (e.g., could be an FMA meeting paper).

Second year students: Your standard is to produce a non-trivial extension of an existing paper (e.g., incorporating a neglected but theoretically important and properly motivated control variable; using a more advanced statistical technique that is *a priori* expected to alter previous results). A sufficient condition for a passing grade on the paper (conditional upon meeting the criteria above) is that the paper would merit a revise and resubmit at a respectable “B” journal (e.g., *Journal of Financial Research*).

Third year+ students: Your standard is to produce an original paper idea or a major extension of an existing paper. A sufficient condition for a passing grade on the paper (conditional upon meeting the criteria above) is that the paper would merit a revise and resubmit at a top field journal (e.g., *Journal of Financial Markets* or *Journal of Financial Intermediation*).

<u>Deliverable</u>	<u>Notes</u>
List of topics	Students will turn in a list of topics they are considering; the instructor will meet with each student to give feedback and steer students toward their more appropriate topics. The best way to make this stage efficient is to submit a list of research questions, along with an informed discussion of <i>how they intend to test their hypotheses and what they anticipate finding</i> . Turn these in <u>as early as possible</u> .
Finalized topic	Students submit a summary of their finalized topic. This is a more detailed discussion than the first round topic list. The best way to make this stage efficient is to submit a statement of what the research question is, what the possible and likely answers are, what we will learn from the project, what the data look like, what tests will be run, etc.
Introduction and Tables	A complete draft of the introduction. <i>A main result should be in place</i> and put in context of other literature. Students submit polished drafts of tables (<i>with</i> results, of course) that they plan to include in the paper. E.g., summary statistics, correlation table, regression results, robustness tests, etc.
Short presentation	Students will do short presentations of their paper’s motivation, data and methods, results, and conclusions/implications. Presentation length is ten minutes, <u>five</u> slides (motivation, contribution, data, tests, results) maximum. The class will discuss and provide further constructive suggestions.
Long Presentation	Students incorporate prior feedback and do a full-blown “conference style” presentation. Students will be allowed 20 uninterrupted minutes, up to 15 slides (plus a title slide), for the presentation. Following each presentation the class will discuss and provide further constructive suggestions. Presenters are expected to be able to answer satisfactorily all germane questions from the audience.
Final Deliverables	Students will turn in a stand-alone CD that contains raw data and the fully documented programs used to analyze the data to produce the results in the paper. The final draft of the paper should be formatted to meet <i>Journal of Finance</i> style requirements, with the additional requirement of <u>1.5 inch</u> margins and 11 point Times New Roman font for the text and no smaller than 10 point Times New Roman font in the tables. An appropriate length for the paper is 10-30 pages of double spaced text, plus 4-10 tables. Due with the final draft is a “response to the referee” memo. This is a point-by-point discussion of what improvements to the paper were suggested during the semester and how those suggestions are addressed in the final draft. If you did not follow a particular suggestion, <i>list it anyway</i> and explain why you did not and/or whether and why you should pursue it.

*Schedule and Reading List**

Date	Week	Topic	Papers / Readings	Event
1/1	(0)	Pre-course reading assignments	Li-Prabhala (2005 wp) Read the abstract of <i>every</i> assigned paper	
1/8	1	Do legal origin and legal institutions matter economically?	LLSV (1997 JF) Butler-Fauver (2006 FM)	
1/15	2	How do institutions affect economic and financial market development?	Acemoglu-Johnson (2004 JPE) Levine-Zervos (1998 AER)	
1/22	3	Why are banks special?	Allen (2001 JF) Allen-Santomero (2001 JBF) Carey-Post-Sharpe (1998 JF)	
1/29	4	How does geography affect bank activities?	Petersen-Rajan (2002) Black-Strahan (2002 JF) Becker (2007 JFE)	<i>Final topic</i>
2/5	5	What are the alternatives to traditional banks?	Morse (2007 wp) Fisman-Love (2003 JF)	
2/12	6	What are the salient features of the venture capital market?	Gompers-Lerner (1996 JLE) Gompers (1996 JFE)	
2/19	7	What is the role and impact of investment banks in security offerings?	Chen-Ritter (2000) Butler (forth RFS)	<i>Intro and tables</i>
2/26	8	What are the effects of conflicts of interest on analysts?	Malloy (2004 JF) Ljungqvist, Malloy, Marston (2007 wp)	
3/4	9	(Short Presentations)	n/a	<i>Short Presentations</i>
3/11	10	SPRING BREAK	SPRING BREAK	SPRING BREAK
3/18	11	Why might prices be inefficient in a market that should be efficient?"	Lamont-Thaler (2003) Lesmond et al (2004 JFE)	
3/25	12	Why do firms list where they do and what impact on the economy does an exchange have?	Becker (2006 wp) Cheng (2005 JCF) Clayton et al. (2005 JCF)	
4/1	13	What does microstructure mean for traders?	Weston (2000) Christie-Schultz (1999 JFE) Eleswarapu-Venkataraman (2005 RFS)	
4/8	14	What does microstructure mean for investors?	Acharya-Pedersen (2005) Watanabe-Watanabe (2007 RFS forth)	
4/15	15	(Long Presentations) <i>Note: Class starts early this day</i>	n/a	<i>Long Presentations</i>
4/22	16	(Group paper editing)	n/a	<i>Paper editing</i>
4/29	(17)	What does microstructure mean for corporate managers?	OddersWhite-Ready (2006) Butler-Wan (2007 wp)	<i>Paper and Final Deliverables Due</i>
5/6	(18)	(Final Exam)		<i>Final Exam</i>

*Note: Dates and assigned papers may change.

Additional boilerplate information that goes into every UTD syllabus:

Student Conduct & Discipline

The University of Texas System and The University of Texas at Dallas have rules and regulations for the orderly and efficient conduct of their business. It is the responsibility of each student and each student organization to be knowledgeable about the rules and regulations which govern student conduct and activities. General information on student conduct and discipline is contained in the UTD publication, *A to Z Guide*, which is provided to all registered students each academic year.

The University of Texas at Dallas administers student discipline within the procedures of recognized and established due process. Procedures are defined and described in the *Rules and Regulations, Series 50000, Board of Regents, The University of Texas System*, and in Title V, Rules on Student Services and Activities of the university's *Handbook of Operating Procedures*. Copies of these rules and regulations are available to students in the Office of the Dean of Students, where staff members are available to assist students in interpreting the rules and regulations (SU 1.602, 972/883-6391).

A student at the university neither loses the rights nor escapes the responsibilities of citizenship. He or she is expected to obey federal, state, and local laws as well as the Regents' Rules, university regulations, and administrative rules. Students are subject to discipline for violating the standards of conduct whether such conduct takes place on or off campus, or whether civil or criminal penalties are also imposed for such conduct.

Academic Integrity

The faculty expects from its students a high level of responsibility and academic honesty. Because the value of an academic degree depends upon the absolute integrity of the work done by the student for that degree, it is imperative that a student demonstrate a high standard of individual honor in his or her scholastic work.

Scholastic dishonesty includes, but is not limited to, statements, acts or omissions related to applications for enrollment or the award of a degree, and/or the submission as one's own work or material that is not one's own. As a general rule, scholastic dishonesty involves one of the following acts: cheating, plagiarism, collusion and/or falsifying academic records. Students suspected of academic dishonesty are subject to disciplinary proceedings.

Plagiarism, especially from the web, from portions of papers for other classes, and from any other source is unacceptable and will be dealt with under the university's policy on plagiarism (see general catalog for details). This course will use the resources of turnitin.com, which searches the web for possible plagiarism and is over 90% effective.

Email Use

The University of Texas at Dallas recognizes the value and efficiency of communication between faculty/staff and students through electronic mail. At the same time, email raises some issues concerning security and the identity of each individual in an email exchange. The university encourages all official student email correspondence be sent only to a student's U.T. Dallas email address and that faculty and staff consider email from students official only if it originates from a UTD student account. This allows the university to maintain a high degree of confidence in the identity of all individual corresponding and the security of the transmitted information. UTD furnishes each student with a free email account that is to be used in all communication with university personnel. The Department of Information Resources at U.T. Dallas provides a method for students to have their U.T. Dallas mail forwarded to other accounts.

Withdrawal from Class

The administration of this institution has set deadlines for withdrawal of any college-level courses. These dates and times are published in that semester's course catalog. Administration procedures must be followed. It is the student's responsibility to handle withdrawal requirements from any class. In other words, I cannot drop or withdraw any student. You must do the proper paperwork to ensure that you will not receive a final grade of "F" in a course if you choose not to attend the class once you are enrolled.

Student Grievance Procedures

Procedures for student grievances are found in Title V, Rules on Student Services and Activities, of the university's *Handbook of Operating Procedures*.

In attempting to resolve any student grievance regarding grades, evaluations, or other fulfillments of academic responsibility, it is the obligation of the student first to make a serious effort to resolve the matter with the instructor, supervisor, administrator, or committee with whom the grievance originates (hereafter called "the respondent"). Individual faculty members retain primary responsibility for assigning grades and evaluations. If the matter cannot be resolved at that level, the grievance must be submitted in writing to the respondent with a copy of the respondent's School Dean. If the matter is not resolved by the written response provided by the respondent, the student may submit a written appeal to the School Dean. If the grievance is not resolved by the School Dean's decision, the student may make a written appeal to the Dean of Graduate or Undergraduate Education, and the dean will appoint and convene an

Academic Appeals Panel. The decision of the Academic Appeals Panel is final. The results of the academic appeals process will be distributed to all involved parties.

Copies of these rules and regulations are available to students in the Office of the Dean of Students, where staff members are available to assist students in interpreting the rules and regulations.

Incomplete Grade Policy

As per university policy, incomplete grades will be granted only for work unavoidably missed at the semester's end and only if 70% of the course work has been completed. An incomplete grade must be resolved within eight (8) weeks from the first day of the subsequent long semester. If the required work to complete the course and to remove the incomplete grade is not submitted by the specified deadline, the incomplete grade is changed automatically to a grade of F.

Disability Services

The goal of Disability Services is to provide students with disabilities educational opportunities equal to those of their non-disabled peers. Disability Services is located in room 1.610 in the Student Union. Office hours are Monday and Thursday, 8:30 a.m. to 6:30 p.m.; Tuesday and Wednesday, 8:30 a.m. to 7:30 p.m.; and Friday, 8:30 a.m. to 5:30 p.m.

The contact information for the Office of Disability Services is:

The University of Texas at Dallas, SU 22

PO Box 830688

Richardson, Texas 75083-0688

(972) 883-2098 (voice or TTY)

Essentially, the law requires that colleges and universities make those reasonable adjustments necessary to eliminate discrimination on the basis of disability. For example, it may be necessary to remove classroom prohibitions against tape recorders or animals (in the case of dog guides) for students who are blind. Occasionally an assignment requirement may be substituted (for example, a research paper versus an oral presentation for a student who is hearing impaired). Classes enrolled students with mobility impairments may have to be rescheduled in accessible facilities. The college or university may need to provide special services such as registration, note-taking, or mobility assistance.

It is the student's responsibility to notify his or her professors of the need for such an accommodation. Disability Services provides students with letters to present to faculty members to verify that the student has a disability and needs accommodations. Individuals requiring special accommodation should contact the professor after class or during office hours.

Religious Holy Days

The University of Texas at Dallas will excuse a student from class or other required activities for the travel to and observance of a religious holy day for a religion whose places of worship are exempt from property tax under Section 11.20, Tax Code, Texas Code Annotated.

The student is encouraged to notify the instructor or activity sponsor as soon as possible regarding the absence, preferably in advance of the assignment. The student, so excused, will be allowed to take the exam or complete the assignment within a reasonable time after the absence: a period equal to the length of the absence, up to a maximum of one week. A student who notifies the instructor and completes any missed exam or assignment may not be penalized for the absence. A student who fails to complete the exam or assignment within the prescribed period may receive a failing grade for that exam or assignment.

If a student or an instructor disagrees about the nature of the absence [i.e., for the purpose of observing a religious holy day] or if there is similar disagreement about whether the student has been given a reasonable time to complete any missed assignments or examinations, either the student or the instructor may request a ruling from the chief executive officer of the institution, or his or her designee. The chief executive officer or designee must take into account the legislative intent of TEC 51.911(b), and the student and instructor will abide by the decision of the chief executive officer or designee.

These descriptions and timelines are subject to change at the discretion of the Professor.