

# Fin 7310 Empirical Corporate Finance–Spring 2007

## Dr. Alexander W. Butler

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Class Time: Mondays 2:30pm-5:15pm (in SOM 2.801)  
Office: SOM 3.229  
E-mail: **butler@utdallas.edu** (the best way to contact me; I check e-mail continually)  
Office Hours: Open door policy. (Best availability is Tuesday during the early afternoon.)  
Web page: <http://www.utdallas.edu/~butler/>

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**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 very recent empirical research papers in the field of corporate finance. The course is not intended to be encyclopedic in its coverage of corporate finance topics. Indeed, entire sub-fields are omitted due to the lack of time we have for the course and the breadth of corporate finance as a field. Many classic and very important papers will not be explicitly covered in the course. Nonetheless, a firm knowledge of these papers is critical for your professional development. Thus you will have a final exam that covers a list of some classic empirical papers as well as topics we cover explicitly in class.

### Readings and materials:

Required materials:

- Various articles listed below (to be supplied electronically by the instructor)
- Kennedy [A Guide to Econometrics](#), 5th edition. ISBN: 1405115025. *Required*; read the book in its entirety before our first class meeting. (Older editions of the book are fine.) There will be a quiz at the beginning of the first class meeting.

Recommended materials:

- Wooldridge [Econometric Analysis of Cross Section and Panel Data](#) (strongly recommended as an econometrics reference book)
- Tirole [The Theory of Corporate Finance](#) (recommended as a reference book)
- Smith [The Modern Theory of Corporate Finance](#) (recommended as a reference book for older papers)
- 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 for Stata:

- 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).

### Grading:

In-class presentations	20%
Term paper	40%
Final exam	20%
Participation and Leadership	20%

### Presentations:

Students will be assigned to present the papers on the course reading list. Presentations should be in PowerPoint, *reasonably polished*, about 40-50 minutes long (practice and time yourself!), and flexible enough to accommodate questions from the audience and still finish on time. Email to all class participants a soft copy of your slides by midnight the night before class meeting. You may additionally distribute hard copy handouts of your slides in class (especially things like tables that might be hard to see on the overhead projector), but this does not take the place of the soft copy to be emailed. The presenter is expected to be sufficiently prepared as to be an *expert* on the paper he/she is presenting, to lead the class in discussion of the paper, and should be able to answer any and all germane questions from the audience. A lack of adequate preparation will be obvious, and will impose substantial negative externalities on the class. Students should strive to avoid this outcome.

### Participation and Leadership:

You should treat the course as if you have an equity stake in it. All students are expected to have read prior to class in detail all the papers scheduled for discussion that day. 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.<sup>1</sup>

### **Term paper minimum requirements:**

First year students: a thorough literature review and *replication* 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 is that the paper would merit inclusion on a major conference program (e.g., could be an FMA meeting paper).

Second year students: an *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 is that the paper would merit a revise and resubmit at a respectable “B” journal (e.g., *Journal of Financial Research*).

Third year+ students: an *original* paper idea or a *major extension* of an existing paper. A sufficient condition for a passing grade on the paper is that the paper would merit a revise and resubmit at a top field journal (e.g., *Journal of Corporate Finance* or *Journal of Financial Intermediation*).

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

*All students:* Paper topics must be approved by the instructor, and must be an empirical project on a corporate finance topic (very broadly defined). Your paper must be solo-authored (no collaborative projects with faculty). I will consider proposals for joint work with other students who are also enrolled in the course on a case-by-case basis. The expectations for the resulting output become significantly higher, of course. 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, 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 with classmates proof-reading and editing each others' papers.) I will not read unpolished papers, and if I do not read your paper, it will be very difficult to pass the course.

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 25 cites to other papers, at least 20 of which are not explicitly presented in class, and any paper you cite is fair game for a final exam question for you.

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.

To produce successfully a complete paper in one semester, students will need to be very efficient in the use of their time. There are many deliverables for the paper to help create this needed efficiency. To get the best feedback, each document you turn in should be accompanied by a brief memo outlining the following (this is adapted from advice given to a late dissertator on the Chronicle of Higher Education on-line discussion forums); note, a more detailed version is mandatory for the final draft:

1. what the piece is (“these are preliminary tables with full legends”)
2. what state of completeness you view it to be (“this is an edited but incomplete draft”)
3. what you’ve done to it since last round (“since you read the last version of this, I’ve updated X, edited Y, and addressed your concern about A”)
4. salient, directed questions (“Is my literature review packed enough for you?” “Does the argument of section 2 address ...”).

Dates for the following deliverables are listed on the course schedule.

- 1) Students will first turn in a list of topics they are considering; the instructor will meet with each student to give feedback on the topics and steer students toward their more appropriate topics. The best way to make this stage efficient is for students to submit a list of research questions, along with an informed discussion of how they intend to test their hypotheses and what they anticipate finding.
- 2) Students will submit a summary of their finalized topic. This will be a more detailed discussion than the first round topic list.
- 3) Students will submit a bullet point outline of their introduction (more details to be discussed in class). Students will pitch their paper topic to the class in three minutes or less, no more than one slide (motivation and potential contribution), and the class will discuss and provide constructive feedback.

By this point, students should have done a literature review, collected their data, and run some preliminary tests.

- 4) After spring break, a complete draft of the introduction to the paper is due.
- 5) Students will submit preliminary drafts of all tables (*with* results, of course) that they plan to include in the paper. E.g., summary statistics, correlation table, regression results, robustness tests, etc.
- 6) Students will do short presentations of their paper's motivation, data and methods, results, and conclusions/implications. Eight minutes, five slides (motivation, contribution, data, tests, results) maximum. The class will discuss and provide further constructive suggestions.
- 7) After incorporating prior feedback, near the end of the term students will do a full-blown "conference style" presentation. Students will be allowed 20 uninterrupted minutes, up to 15 slides (plus a title slide), for their 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.
- 8) 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.
- 9) On the final exam date, the final draft of the paper is due. It should be formatted to meet *Journal of Finance* style requirements. An appropriate length for the paper is 10-30 pages of double spaced text, plus 4-10 tables. Style will not make up for a lack of substance, but substance without style is not acceptable either. Also 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 by the class and instructor and how those suggestions are addressed in the final draft. If you did not follow a particular suggestion, *list it anyway* and explain why you did not and/or whether and why you should pursue it.

## *Schedule and Reading List\**

<b>Date</b>	<b>Week</b>	<b>Topic</b>	<b>Papers / Readings</b>	<b>Event</b>
1/8	1	Event studies	Fisman (2001 AER) Busse & Green (2002 JFE)	
1/15		MLK DAY	Read the <u>abstract and introduction</u> of every paper on the syllabus	
1/22	2	Long-run performance	Mitchell & Stafford (2000 JB) Eckbo Masulis Norli (2000 JFE) Schultz (2003 JF)	DUE: List of possible paper topics
1/29	3	Behavioral corporate finance	Baker Greenwood Wurgler (2003 JFE) Butler Grullon Weston (2006 JF) [ <i>professional development workshop</i> ]	
2/5	4	Raising capital: private sources	Berger et al. (2005 JFE) Denis & Mihov (2003 JFE) Lee & Wahal (2004 JFE)	
2/12	5	Raising capital: public sources	Cliff & Denis (2004 JF) Corwin & Schultz (2004 JF) Lowry & Schwert (2004 JFE)	DUE: Finalized paper topic
2/19	6	Raising capital: public sources	Altinkilic & Hansen (2003 JFE) Butler Grullon Weston (2005 JFQA)	
2/26	7	Capital structure	Baker & Wurgler (2002 JF) Faulkender & Petersen (2006 RFS) <b>Student presentations</b>	DUE: Bullet-point outline of introduction; 3 mins presentation of topic
3/5		SPRING BREAK		
3/12	8	Capital structure	Kahan & Titman (2006 JFE) Lemmon Roberts Zender (2006 wp)	DUE: Complete draft of introduction
3/19	9	Payout policy	Baker & Wurgler (2004 JFE) Hoberg & Prabhala (2005 wp) Grullon & Michaely (2002 JF)	DUE: Preliminary tables
3/26	10	Feedback on works in progress	<b>Student presentations</b>	DUE: Short presentations (8 mins)
4/2	11	Corporate governance	Gompers Ishii Metrick (2003 QJE) Daouk Lee Ng (2005 JCF)	
4/9	12	Financial contracting & Law and finance	La Porta et al. (2006 JF) Mian & Khwaja (2006 QJE)	
4/16	13	Student paper presentations	TBA	DUE: Presentation (20 mins)
4/23	14	Student presentations (continued) and/or current research topic to be chosen and organized by students	TBA	DUE: Data and programs CD
4/30	15	Take-Home Final Exam		DUE: Final paper & “referee” response (9:00am on 4/29) DUE: Exam (5:00pm on 4/30)

\* Note: Dates and assigned papers may change.

List of some classic empirical papers (for final exam):

1. Ritter (1991 JF) – long run performance of IPOs
2. Brav & Gompers (1997 JF) – long run performance of IPOs
3. James (1987 JFE) – banks are special
4. Hanley (1993 JFE) – partial adjustment
5. Titman & Wessels (1988 JF) – capital structure determinants
6. Weiss (1990 JFE) – distress and APR
7. Korajczyk, Lucas, & McDonald (1991 RFS) – timing of security offerings
8. Mikkelson & Partch (1986 JFE) – price reaction to security offerings
9. Smith & Warner (1979 JFE) – contracting and covenants
10. Bradley, Desai, & Kim (1988 JFE) – division of M&A gains
11. Mitchell & Lehn (1990 JPE) – bad bidders, good targets
12. Jegadeesh, Weinstein, & Welch (1993 JFE) – SEOs and IPOs
13. Asquith & Mullins (1986 JFE) – equity issues and dilution
14. Carter & Manaster (1990 JF) – underwriter reputation
15. Gompers (1996 JFE) – VC grandstanding
16. Asquith (1995 JF) – convertible call policy
17. LLSV (1997 JF) – legal origins and finance
18. Petersen & Rajan (1994 JF) – relationship lending
19. Morck, Shleifer, Vishny (1988 JFE) – ownership and valuation
20. Brown & Warner (1985 JFE) – event study methodology
21. Dewald, Thursby & Anderson (1986 AER) – replication

## **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.*