HUMBOLDT UNIVERSITÄT ZU BERLIN

Master Thesis Seminar Corporate Finance

SS 2018: Tuesdays 14:00-18:00, Room: DOR1-005

Prof. Tim Adam

The purpose of this seminar is to prepare students for writing a Master thesis at the Institute of Corporate Finance. In the first part of the seminar we will review some of the main econometric techniques such as regression analysis, time series models, panel data estimation, and event studies. A main emphasis is on how to establish causal relationships in empirical research. The second part of the seminar consists of student presentations of important research papers in the area of corporate finance. In addition, students are required to replicate an empirical research paper with new data.

Prerequisites

Participants should have a good understanding of the principles of corporate finance and be comfortable with standard econometric techniques. Before enrolling in the Master Thesis Seminar you should have successfully completed Finance Theory, Advanced Corporate Finance and the Case Seminar Advanced Corporate Finance. The seminar has a strong quantitative focus. Therefore, a good econometric background is necessary to successfully complete the Master Thesis Seminar. You also need to be familiar with STATA® or R to complete the replication exercise.

Registration

Please submit your CV and evidence of completed relevant courses to the secretary, Mrs. Bulwahn, in hard copy (copies only, no originals) by 13. April 2018.

Evaluation

Presentation of a research paper (100%), replication of an empirical study (0%).

References

- Jeffrey Wooldridge, *Introductory Econometrics: A Modern Approach,* 2nd – 4th edition, Thomson South-Western.[1]
- Craig MacKinlay, 1997, *Event studies in economics and finance*, Journal of Economic Literature, Vol. 35, pp. 13-39.

All readings are available from Moodle. Key: thesis2017

Seminar Outline

[1] Students intending to write a Master thesis at the Institute of Corporate Finance should be in possession of a standard econometrics book such as the one above.

Date	Topics	Readings
17.04.	Introduction, seminar overview, intro to scientific writing, the problem of causality	Wooldridge 19
24.04.	The linear regression model, multiple regression analysis, binary variables	Wooldridge 1-2, 3-4, 6-7
01.05.	No class	
08.05.	Estimation problems in the standard regression model	Wooldridge 9
15.05.	Time series models and panel data analysis	Wooldridge 10, 13-15
22.05.	Event studies in finance R.A. Heron and E. Lie, 2007, *Does backdating explain the stock price pattern around executive stock option grants?* Journal of Financial Economics 83 (2), 271-295	MacKinlay (1997)
29.05.	Bae, Kang, and Wang (2010) *Employee Treatment and Firm Leverage - A Test of the Stakeholder Theory of Capital Structure*, Journal of Financial Economics	
05.06.	Jenter and Kanaan (2015) *CEO Turnover and Relative Performance Evaluation*, Journal of Finance 70 (5)	
12.06.	Glaser, Lopez-de-Silanes, and Sautner (2013) *Opening the Black Box: Internal Capital Markets and Managerial Power*, Journal of Finance 68 (4), 1577-1631	
19.06.	Bertrand, and Schoar (2003) *Managing with Style: The Effect of Managers on Firm Policies*, Quarterly Journal of Economics 118, 1169-1208	
26.06.	Malmendier and Tate (2008) *Who makes acquisitions?* Journal of Financial Economics	
03.07.	Denis and Mihov (2003) *The choice among bank debt, non-bank private debt, and public debt: evidence from new corporate borrowings*, Journal of Financial Economics 70, 3–28	
10.07.	Hale and Santos (2009) *Do banks price their information monopoly*, Journal of Financial Economics	
17.07.	Cai, Helwege, and Warga (2007) *Underpricing in the Corporate Bond Market*, Review of Financial Studies	

Paper presentations

Each student must present one research paper during the course of the seminar. Papers will be assigned on a first-come-first-serve basis.

Presentations should be conducted in English and last for 90 minutes, including answering questions from the audience. As a general rule, presenting one slide requires at least 3 minutes on average. Thus, your presentation should not exceed 30 slides. The presentation should first present the main research question and then provide an overview of the general research area, in order to better understand the importance of the main research question and its contribution to the literature. For this it may be necessary to read more than just the assigned paper. It may also be helpful to consult an advanced textbook of corporate finance to familiarize yourself with the necessary background. Spend some time developing good intuition for the theoretical model and the empirical hypotheses. This requires you to have a good understanding of the main ideas of the paper. The presentation should also explain the econometric design used to establish causality. Focus on the main innovation/results of the paper. Extensive robustness checks or secondary results of the paper are of less importance.

If you think there are flaws with a paper's methodology, econometric technique, or interpretation of the results, make this clear in your presentation. It is not necessary to vigorously defend obvious errors or inconsistencies of the presented research.

Students should submit their presentation slides one day prior to the presentation. Tables and graphs should be formatted so that their contents are readable to the audience (minimum font size 16 pt). It is highly recommendable to start reading a paper several weeks before the scheduled presentation.

Homework

Every student, except for the paper presenter, must post 1-3 relevant questions about the paper in the discussion forum on Moodle three days prior to the paper presentation in class.

Research project

Each student needs to replicate the following empirical study with a new data set.

Frank, M., and V. Goyal, 2003, *Testing the pecking order theory of capital structure*. Journal of Financial Economics 67 (2), 217-248.

Students should form teams of 2 people, and submit one research report per team. The main task is to replicate Figure 1 and Tables 1-7 of the paper. The hold-out sample analysis can be ignored. All necessary data will be provided. The research report should briefly discuss the main findings of the replication exercise, i.e., highlight and interpret differences in findings if any, **and** discuss each major step of the Stata code.[2] The Stata code should also be commented so that a third person can easily understand each major programming step taken. The final research reports are due in hard copy on 28.02.2017. The Stata code should be e-mailed as an attachment. It must run with the original, unaltered dataset. Cases of plagiarism will be treated with zero credit.

For the replication exercise I recommend you to use STATA®, a simple but powerful statistical software package from StataCorp LP (http://www.stata.com). STATA® is available in the PC Pool. Individual student licenses can be borrowed from our institute for the duration of the Master Thesis Seminar for a small fee.

Each submitted report must contain the following statement:

I, <forename surname>, hereby declare that I have not previously submitted the present work for other examinations. I wrote this work independently. All sources, including sources from the Internet, that I have reproduced in either an unaltered or modified form (particularly sources for texts, graphs, tables and images), have been acknowledged by me as such. I understand that violations of these principles will result in proceedings regarding deception or attempted deception.

[2] Definition of *no-gap companies*: Firms need to report assets in each of the years during the sample period for it to be in the "no gaps permitted" sample. It is still possible that in some years the observations are dropped because of missing debt issuance or deficit. Definition of outliers: Trim the ratios at the 0.05th and the 99.5th percentiles.