

# HUMBOLDT UNIVERSITÄT ZU BERLIN

## Hauptseminar Corporate Finance

WS 2010/11: Mondays 16:00-18:00, Room DOR1-05

Prof. Tim Adam, Ph.D.

The purpose of this seminar is to introduce students to a major research topic and empirical methods in corporate finance, in order to prepare them 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. You will also learn how to analyze this data with STATA<sup>®</sup>, a simple but powerful statistical software package. The second part of the seminar consists of student presentations of important research papers in area of behavioral 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 Hauptseminar you should have successfully completed Introduction to Finance I & II, and Advanced Corporate Finance I and the Case Seminar Corporate Finance. The seminar has a strong quantitative orientation. Therefore, a sound econometric background is necessary to successfully complete the Hauptseminar.

### Registration

Please submit your CV and evidence of completed relevant courses to the secretary, Mrs. Haberzettel, in hard copy (copies only, no originals) by 31. July 2010, and indicate which paper you would like to present. Preference will be given to those applicants with the strongest background in corporate finance and econometrics.

### Evaluation

Class participation (20%), presentation of a research paper (40%), replication of an empirical study (40%). Seminar attendance is obligatory.

### References

Jeffrey Wooldridge, *Introductory Econometrics: A Modern Approach*, 2<sup>nd</sup> – 4<sup>th</sup> edition, Thomson South-Western.<sup>1</sup>

A. Craig MacKinlay (May 1997) *Event studies in economics and finance*, Journal of Economic Literature, Vol. 35, pp. 13-39.

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<sup>1</sup> Students intending to write a Diplom or Master thesis at the Institute of Corporate Finance should be in possession of a standard econometrics book such as the one above.

Baker Ruback Wurgler, *Behavioral Corporate Finance*, Handbook of Corporate Finance: Empirical Corporate Finance, Volume A, Chapter 4, 2006.

Barberis, Nicholas, and Richard Thaler, 2003, *A Survey of Behavioral Finance*, Handbook of the Economics of Finance, 1052-1114.

### Preliminary Outline

<b>Date</b>	<b>Topics</b>	<b>Readings</b>
Oct. 25	Introduction, seminar overview, intro to scientific writing	Wooldridge 19
Nov. 1	The linear regression model, multiple regression analysis, binary variables	Wooldridge 1-2, 3-4, 6-7
Nov. 8	Estimation problems in the standard regression model	Wooldridge 9
Nov.15	Time series models and panel data analysis	Wooldridge 10, 13-15
Nov. 22	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)
Nov. 29	Introduction to STATA <sup>®</sup>	
Dec. 6	TBA	
Dec. 13	Jenter, Dirk, 2005, Market timing and managerial portfolio decisions, Journal of Finance 60, 1903-1949.	
Jan. 3	Baker, Malcolm, Jeremy Stein and Jeffrey Wurgler, 2003, When Does the Market Matter? Stock Prices and the Investment of Equity-Dependent Firms, Quarterly Journal of Economics 118, 969-1006.	
Jan. 10	Polk, Christopher, and Paola Sapienza, 2004, The real effects of investor sentiment, NBER working paper no. 10563.	
Jan. 17	Dong, Ming, David Hirshleifer, Scott Richardson, and Siew Hong Teoh, Does Investor Misvaluation Drive the Takeover Market?, Journal of Finance, 61, 725-762.	
Jan. 24	Bertrand, Marianne and Antoinette Schoar, 2003, Managing with Style: The Effect of Managers on Firm Policies, Quarterly Journal of Economics 118: 1169-1208.	
Jan. 31	Ljungqvist, Alexander, and William Wilhelm, 2005, Does Prospect Theory Explain IPO Market Behavior?, Journal of Finance 60, 1759-1790.	
Febr. 7	Malmendier, Ulrike, and Geoffrey Tate, 2008, Who makes acquisitions? CEO overconfidence and the market's reaction, Journal of Financial Economics 89, 20-43.	
Febr. 14	Landier, Augustin, and David Thesmar, 2009, Financial contracting with optimistic entrepreneurs, Review of Financial Studies 22, 117-150.	

## **Paper presentations**

Each student must present one research paper during the course of the seminar. The papers cover three major areas in corporate finance: capital structure, dividend policy, and corporate governance. Papers will be assigned on a first-come-first-serve basis. Please indicate your preferences when applying for the Hauptseminar.

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, the presentation should not exceed 30 slides. The presentation should first provide an overview of the research area, i.e., discuss the main theories that are relevant to a particular topic, and the importance of the research question. 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. Second the presentation should focus on the main innovation/result of the paper. Spend some time developing good intuition for the theoretical model or the econometric technique used. This requires you to have a good understanding of the main ideas of the paper. Extensive robustness checks or secondary results of the paper are of secondary importance.

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.

## **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 Tables 2 and Tables 4-7 of the paper. All necessary data will be provided. The research report should discuss the main findings of the replication exercise, i.e., highlight and interpret differences in findings if any, and also contain the computer code used. Intermediate results are due at several times during the course. The final research reports are due in hard copy on 31.07.2010. Cases of plagiarism will be treated with zero credit.

For the replication I strongly recommend you to use STATA<sup>®</sup>, a simple but powerful statistical software package from StataCorp LP (<http://www.stata.com>). STATA<sup>®</sup> is available in the PC Pool. Individual student licenses can also be purchased from the German distributor DPC ([www.dpc.de](http://www.dpc.de)) for €89. Alternatively, you can borrow a license from the Institute of Corporate Finance for the duration of the Hauptseminar by paying a refundable deposit of €20.