

Finance
Course Number: 26:390:572
Course Title: Corporate Finance

COURSE MATERIALS

Journal articles and working papers. You are responsible for obtaining copies of the articles.

OBJECTIVES

The objective of this course is to introduce doctoral students to research in corporate finance and will cover papers on the topics listed below.

ACADEMIC INTEGRITY

I do NOT tolerate cheating. Students are responsible for understanding the RU Academic Integrity Policy (<http://academicintegrity.rutgers.edu/>)

I will strongly enforce this Policy and pursue *all* violations. On all examinations and assignments, students must sign the RU Honor Pledge, which states, “On my honor, I have neither received nor given any unauthorized assistance on this examination or assignment.” I will screen all written assignments through *SafeAssign* or *Turnitin*, plagiarism detection services that compare the work against a large database of past work. Don’t let cheating destroy your hard-earned opportunity to learn. See business.rutgers.edu/ai for more details.

GRADE AND COURSE REQUIREMENTS

There is one exam, at the end of the course, that accounts for 30% of the grade. There is a literature review and research idea report for the remaining 50% of the grade. The remaining grade is for one or two referee reports that you will be asked to submit.

1. Theory of the Firm

***Jensen, M, and W., Meckling, 1976, Theory of the Firm, Managerial Behavior, Agency Costs and Ownership Structure, Journal of Financial Economics.

Hart, O., and J. Moore, 1990, Property Rights and the Nature of the Firm, Journal of Political Economy.

Jensen, M., 1986, Agency Costs of Free Cash Flow, Corporate Finance and Takeover, American Economic Review.

Fama, E., 1980, Agency Problems and the Theory of the Firm, Journal of Political Economy.

Coase, R. 1937, The nature of the firm, *Economica*, 4, 386-405.

Jensen, M., 1993, The modern industrial revolution, exit, and the failure of internal control systems, *Journal of Finance* 48, 831-880

2. Capital Structure

***Franco Modigliani and Merton Miller, 1958, The cost of capital, corporation finance and the theory of investment, *American Economic Review*.

***Myers, S., 1977, Determinants of Corporate Borrowing, Journal of Financial Economics

***S. Myers and N. Majluf, 1984, Corporate financing and investment decisions when firms have information that investors do not have, *Journal of Financial Economics*, 13, 187-221

***Graham, John and Mark Leary, 2011, A Review of Empirical Capital Structure Research and Directions for the Future, Annual Review of Financial Economics, 2011

3. Product markets

***Fershtman, C, and Kenneth Judd, 1987, Equilibrium incentives in oligopoly, *The American Economic Review*, Vol. 77 927-940.

***Sklivas, S., 1987, The Strategic Choice of Managerial Incentives, *The Rand Journal of Economics*.

Brander, J. A., Lewis, T. R., 1986, Oligopoly and financial structure: the limited liability effect. *American Economic Review* 76, 956-970

Kedia, S., 2006, Estimating Product Market Competition: Methodology and Application” *Journal of Banking and Finance* 30,

Bolton, P, and David Scharfstein, 1990, A theory of predation based on agency problems in financial contracting, *American Economic Review*, 80, 93 - 106.

Hart, O., 1983, The Market Mechanism as an Incentive Scheme, *The Bell Journal of Economics*

Scharfstein, David, 1988, Product market competition and managerial slack, *The Rand Journal of Economics*, Spring 147-155.

Agarwal, Rajesh, and Andrew A. Samwick, 1999, Executive Compensation, Strategic Competition, and Relative Performance Evaluation: Theory and Evidence, *Journal of Finance*, Vol. 54, 1999-2043.

Chevalier, Judith, 1995, Do LBO supermarkets charge more? An empirical analysis of the effects of LBO’s on supermarket pricing, *Journal of Finance*, Vol. 50, 1095-1112.

Fee, E., and S. Thomas, 2004, Sources of Gains in Horizontal Mergers: Evidence from Customers, Suppliers and Rival Firms, *Journal of Financial Economics*.

Kale, J., and H. Shahrur, 2007, Corporate Capital Structure and the Characteristics of Suppliers and Customers, *Journal of Financial Economics*.

Macay and G. Philips, 2005, How does Industry affect Financial Structure, *Review of Financial Studies*.

Fresard, L, 2010, Financial strategy and Product market behavior: The real effects of corporate cash holdings, *Journal of finance*.

4. Executive Compensation

***Murphy, Kevin, 1999, Executive Compensation, Available on SSRN

***Bertrand, M., and Mullainathan, S., Are CEOs rewarded for luck? The ones without principals are. Quarterly Journal of Economics, August 2001, 901-932.

***M. Jensen and K. Murphy, Performance pay and top management incentives, Journal of Political Economy, 98 (1990), 225-264

***Yermack, D., Do corporations award CEO stock options effectively? Journal of Financial Economics, 39 (1995) 237-269

**Sundaram, R., and D. Yermack, 2007, Pay me Later: Inside Debt and Its Role in Managerial Compensation, Journal of Finance

B. Holmstrom, Moral hazard and observability, Bell Journal of Economics, 10 (1979) 74-91

Gabaix, X. and A. Landier, 2008, Why Has CEO Pay increased so Much? Quarterly Journal of Economics

Edmans, A., and X. Gabaix, 2011, Is CEO Pay Really Inefficient? A Survey of New Optimal Contracting Theories, European Financial Management

Coles, J., N. Daniel, and L. Naveen, 2006, Managerial incentives and risk-taking, Journal of Financial Economics 79, 431-468.

Aggarwal, R., and A. Samwick, 1999, The other side of the tradeoff: The impact of risk on executive compensation, Journal of Political Economy 107, 65-105.

Mehran, H, Executive compensation structure, ownership, and firm performance, *Journal of Financial Economics*, 38 (1995) 163-184

Hall, B., and K. Murphy, 2003. The trouble with stock options. *Journal of Economic Perspectives*, 17 49-70.

Bebchuk, L., and J. Fried, 2003. Executive compensation as an agency problem. *Journal of Economic Perspectives* 17, 71-92.

Rajgopal, S., Shevlin, T., and Valentina, Zamora., 2006, CEOs' Outside Employment Opportunities and the Lack of Relative Performance Evaluation in Compensation Contracts, *Journal of Finance* 61, 1813–1844

Garvey, G., and T. Millbourn, 2003, Incentive Compensation when Executives can hedge the market: Evidence of RPE in the Cross-Section, *Journal of Finance*.

5. Employee Compensation

***Oyer, P., 2004, Why do firms use incentives that have no incentive effects? *Journal of Finance* 59, 1619-1650.

*Kedia, S. and S. Rajgopal, 2009, Neighborhood Matters: The impact of Location of Broad-based Option Plans”, Co-authored with Shivaram Rajgopal. *Journal of Financial Economics*.

*Bergman, N.K and D. Jenter. 2007. Employee sentiment and stock option compensation. *Journal of Financial Economics* 84(3): 667-712.

*Hochberg, Y., and L. Lindsey, 2011, Incentives, Targeting and Firm Performance: An Analysis of Non-Executive Stock Options, Forthcoming *Review of Financial Studies*

*Core, J.E. and W. Guay, Stock option plans for non-executive employees, *Journal of Financial Economics* 57 (2001) 129-154

Lazear, E., 2000, The power of incentives, *American Economic Review* 90, 410-414.

Oyer, P., and S. Schaefer, 2005, Why do some firms give stock options to all employees? An empirical examination of alternative theories, *Journal of Financial Economics* 76, 99-133

Call, A., S. Kedia, and S. Rajgopal, 2011, Incentives for Silence? The Impact of Rank and File Employee Stock Options on Whistle-Blowing, Working Paper.

Acharya, Viral V., Kose John, and Rangarajan K. Sundaram, On the optimality of resetting executive stock options, *Journal of Financial Economics* 57 (2000) 65-101

Chidambaran, N.K., and Prabhala, Nagpurnanand, Executive stock option repricing, internal governance mechanisms, and management turnover, forthcoming in the *Journal of Financial Economics* (2002)

Carter, M.E., and L.J. Lynch, 2001, An examination of executive stock option repricing, *Journal of Financial Economics* 61 (2001) 207-225

6. Networks

*Granovetter, M., 1985, "Economic action and social structure: The problem of embeddedness," *American Journal of Sociology*, 91, 481-510.

*Hochberg, Y., A. Ljungqvist, and Y. Lu, 2007, "Whom You Know Matters: Venture Capital Networks and Investment Performance," *The Journal of Finance*, 62

**Cohen, L., A. Frazzini, and C. Malloy, 2008, "The Small World of Investing: Board Connections and Mutual Fund Returns," *Journal of Political Economy*, 116

Cai, Y., and M. Sevilir, 2009, "Board Connections and M&A Transactions," Working Paper, University of North Carolina.

Schmidt, B., 2009, "Costs and Benefits of Friendly Boards during Mergers and Acquisitions," Working Paper, Emory University.

*Cohen, L., A. Frazzini, and C. Malloy, 2008, "Sell Side School Ties," The Journal of Finance.

*Engelberg, J., P. Gao, and C. Parsons, 2009, The Value of a Rolodex: CEO Pay and Personal Networks," Working Paper, University of North Carolina.

*Hwang, B., and S. Kim, 2009, "It Pays to have Friends," Journal of Financial Economics,

Liu, Y., 2009, Employment Networks and the CEO Labor Market," Working Paper, University of California, Riverside, SSRN: <http://ssrn.com/abstract=1361776>.

7. Do CEO and their Preferences Matter?

***Bertrand, M., and A. Schoar, 2003. Managing with style: The effect of managers on firm policies, Quarterly Journal of Economics 118, 1169-1208.

**Malmendier, U., and G. Tate, 2005, CEO overconfidence and corporate investment, Journal of Finance 60, 2661-2700.

*Cronqvist, H., A. Makhija, and S. Yonkers, 2012, Behavioral Consistency in Corporate Finance: CEO Personal and Corporate Leverage. January 2012, Journal of Financial Economics, 103 (1), 20-40.

Baker, M., and Jeffrey Wurgler, 2011, Behavioral Corporate Finance: An Updated Survey, NBER working Paper.

Malmendier, U., and G. Tate, 2008, Who makes acquisitions? CEO overconfidence and the market's reaction, *Journal of Financial Economics* 89, 20-43.

Gervais, Simon, J.B, Heaton, Terrence Odean, 2011, Overconfidence, Compensation Contracts, and Capital Budgeting, *Forthcoming Journal of Finance*

Landier, Augustin and David Thesmar, 2009, Financial Contracting with Optimistic Entrepreneurs, *Review of Financial Studies*

Kaplan, S., Klebanov, M., Sorensen, M., 2011. Which CEO characteristics and abilities matter? *Journal of Finance*, forthcoming.

Hutton, I., D. Jiang, and A. Kumar, 2012, Corporate Policies of Republican Managers, Working Paper, University of Miami.

Graham, J., C. Harvey, and M. Puri, 2009, Managerial attitudes and corporate actions. Working paper, Duke University.

Ben-David, I., J. Graham, and C. Harvey, 2010, Managerial Miscalibration. SSRN Working paper.

8. Role of the Press

***Ahern and Sosyura, 2014, Who Writes the News? Corporate Press Releases During Merger Negotiations, *Journal of Finance*

**Tetlock, 2007, Giving content to Investor Sentiment: The Role of Media in stock Market, *Journal of Finance*

**Engelberg and Parsons, 2011, The causal impact of media in financial markets, *Journal of Finance*

*Fang and Peress, 2009, Media Coverage and the cross-section of stock returns, Journal of Finance

*Hanley and Hoberg, 2014, The Information content of IPO prospectus, Review of Financial Studies

*Jensen, 1979, Towards a theory of the press

Lott and Hassett, 2004, Is Newspaper coverage of Economic events politically biased

Mullainathan and Shleifer, 2002, Media Bias

9. Shareholder Activism

***Brav, Alon, Wei Jiang and H.Kim, 2010, Hedge Fund Activism: A Review, SSRN working paper.

Bebchuk, L., Alon Brav and Wei Jiang, 2013, “The Long term Effects of Hedge Fund Activism.

Gantchev, N. and C. Jotikasthira, 2013, Hedge Fund Activists: Do they take cues from Institutional exit? Available at SSRN

*Gantchev, N., 2012, The Costs of Shareholder Activism: Evidence from a Sequential Decision Model. Available at SSRN.

*Greenwood, R., and M. Schor, 2009, Investor Activism and Takeovers, Journal of Financial Economics.

Boyson, N. and R. Moordian, 2012, Experienced Hedge Fund Activists, Available on SSRN.

Gison, R., and J. Gordon, 2013, The Agency cost of Agency Capitalism: Activist Investors and the Revaluation of Governance Rights, Available on SSRN.

Gillan, S and L. Starks, 1998, A survey of Shareholder Activism: Motivation and Empirical Evidence. Available on SSRN .

*Shleifer, A., and R. Vishny, 1986, Large Shareholders and Corporate Control, Journal of Political Economy

*Maug, E., 1998, Large Shareholders as Monitors: Is there a Trade-off between Liquidity and Control, Journal of Finance.

*Klein, A., and E. Zur, 2011, The Impact of Hedge Fund Activism on Target Firm’s Existing Shareholders, Review of Financial Studies.

Klein, A., and E. Zur, 2009, Entrepreneurial Shareholder Activism: Hedge Funds and other Private Investors, Journal of Finance

Corporate boards

Labor

Gender

SUPPORT SERVICES

If you need accommodation for a *disability*, obtain a Letter of Accommodation from the Office of Disability Services. The Office of Disability Services at Rutgers, The State University of New Jersey, provides student-centered and student-inclusive programming in compliance with the Americans with Disabilities Act of 1990, the Americans with Disabilities Act Amendments of 2008, Section 504 of the Rehabilitation Act of 1973, Section 508 of the Rehabilitation Act of 1998, and the New Jersey Law Against Discrimination. More information can be found at ods.rutgers.edu.

[Rutgers University-New Brunswick ODS phone (848)445-6800 or email dsoffice@echo.rutgers.edu]

[Rutgers University-Newark ODS phone (973)353-5375 or email ods@newark.rutgers.edu]

If you are *pregnant*, the Office of Title IX and ADA Compliance is available to assist with any concerns or potential accommodations related to pregnancy.

[Rutgers University-New Brunswick Title IX Coordinator phone (848)932-8200 or email jackie.moran@rutgers.edu]

[Rutgers University-Newark Office of Title IX and ADA Compliance phone (973)353-1906 or email TitleIX@newark.rutgers.edu]

If you seek *religious accommodations*, the Office of the Dean of Students is available to verify absences for religious observance, as needed.

[Rutgers University-New Brunswick Dean of Students phone (848)932-2300 or email deanofstudents@echo.rutgers.edu]

[Rutgers University-Newark Dean of Students phone (973)353-5063 or email DeanofStudents@newark.rutgers.edu]

If you have experienced any form of *gender or sex-based discrimination or harassment*, including sexual assault, sexual harassment, relationship violence, or stalking, the Office for Violence Prevention

and Victim Assistance provides help and support. More information can be found at <http://vpva.rutgers.edu/>.

[Rutgers University-New Brunswick incident report link: <http://studentconduct.rutgers.edu/concern/>. You may contact the Office for Violence Prevention and Victim Assistance at (848)932-1181]

[Rutgers University-Newark incident report link: https://cm.maxient.com/reportingform.php?RutgersUniv&layout_id=7 . You may also contact the Office of Title IX and ADA Compliance at (973)353-1906 or email at TitleIX@newark.rutgers.edu. If you wish to speak with a staff member who is confidential and does **not** have a reporting responsibility, you may contact the Office for Violence Prevention and Victim Assistance at (973)353-1918 or email run.vpva@rutgers.edu]

If students who have experienced a temporary condition or injury that is adversely affecting their ability to fully participate, you should submit a request via <https://temporaryconditions.rutgers.edu>.

If you are a military **veteran** or are on active military duty, you can obtain support through the Office of Veteran and Military Programs and Services. <http://veterans.rutgers.edu/>

If you are in need of **mental health** services, please use our readily available services.

[Rutgers University-Newark Counseling Center: <http://counseling.newark.rutgers.edu/>]

[Rutgers Counseling and Psychological Services–New Brunswick: <http://rhscaps.rutgers.edu/>]

If you are in need of **physical health** services, please use our readily available services.

[Rutgers Health Services – Newark: <http://health.newark.rutgers.edu/>]

[Rutgers Health Services – New Brunswick: <http://health.rutgers.edu/>]

If you are in need of **legal** services, please use our readily available services: <http://rusls.rutgers.edu/>

Students experiencing difficulty in courses due to **English as a second language (ESL)** should contact the Program in American Language Studies for supports.

[Rutgers–Newark: PALS@newark.rutgers.edu]

[Rutgers–New Brunswick: eslpals@english.rutgers.edu]

If you are in need of additional *academic assistance*, please use our readily available services.

[Rutgers University-Newark Learning Center: <http://www.ncas.rutgers.edu/rlc>

[Rutgers University-Newark Writing Center: <http://www.ncas.rutgers.edu/writingcenter>]

[Rutgers University-New Brunswick Learning Center: <https://rlc.rutgers.edu/>]

[Optional items that many faculty include:

- Students must sign, date, and return a statement declaring that they understand the RU Academic Integrity Policy.

- Students must sign, date, and return a statement declaring that they understand this syllabus.]