

**The Ohio State University
Fisher College of Business**

Finance 8260: Advanced Corporate Finance

Professor Michael Weisbach
Spring 2017, Second Half of Semester

This is an advanced course in corporate finance. Its goal is to bring Ph.D. students to the frontier of knowledge so that they can start doing their own research in this field.

The course will cover seven topics, each of which will take about two sessions. The goal will be to combine theory and empirical work, and to bring students to the state of the art in that subfield, so that they potentially begin to do research in that area.

There will be a **referee report** due on an article that I will hand out in class. Write the report as a reviewer for potential publication in a major academic finance journal, up to three well-spaced pages. Part 1 of each report should succinctly state each of the paper's important contributions in the best possible light. Part 2 should constructively critique any shortcomings. Part 3 should make suggestions for improvements. This report should be accompanied with a short letter to the editor (me), recommending that I reject the paper, request a revision, or accept the paper, and why. The report will count for 20% of the grade.

In addition to the referee report, 20% of the grade will depend on **class participation**. Students are expected to come to class, having read the required readings for that class session. In a small class like this, the quality of the discussion will have a major impact on everyone's learning, so it is particularly essential that you come to class prepared. In addition, since the main goal of this class is prepare you to do research in class, I expect all students to attend the Departmental Finance Seminar each week. Part of your participation grade will be based on your attendance in the weekly Finance Seminar.

There will be an exam given during finals week that will count for the remaining 60% of the grade.

Reading List

Note: Readings with a * will be emphasized in the class discussion. Unless noted in class, these articles should be read prior to the class discussing the relevant topic.

Topic 1. Financial Distress

A. Theory

* Gertner, R. and D. Scharfstein (1991) "A Theory of Workouts and the Effects of Reorganization Law," *Journal of Finance*, 46, 1189-1222.

* Shleifer, A. and R. Vishny (1992) "Liquidation Values and Debt Capacity: A Market Equilibrium Approach," *Journal of Finance*, 47, 1343-1366.

Almeida, H. and T. Philippon (2007) "The Risk-Adjusted cost of Financial Distress".

B. Empirical Evidence

* Pulvino, T. (1998) "Do Asset Fire Sales Exist? An Empirical Investigation of Commercial Aircraft Transactions," *Journal of Finance*, 53, 939-978.

* Benmelech, Efraim (2007) "Asset Salability and Debt Maturity: Evidence from 19th Century American Railroads," *Review of Financial Studies*.

* Andrade, Gregor and Steven N. Kaplan (1998) "How Costly is Financial (not Economic) Distress? Evidence from Highly Leveraged Transactions," *Journal of Finance*, 53, pp. 1443-1493.

Benmelech, Efraim, Mark Garmaise and Tobias Moskowitz (2005), "Do Liquidation Values Affect Financial Contracts? Evidence from Commercial Loan Contracts and Zoning Regulation," *Quarterly Journal of Economics*, 120, 1121-1154.

Warner, J. (1977) "Bankruptcy Costs: Some Evidence," *Journal of Finance*, 32, 337-348.

Cutler, D. and L. Summers (1988) "The Costs of Conflict Resolution and Financial Distress: Evidence from Texaco-Pennzoil Legislation," *RAND Journal of Economics*.

Weiss, L (1990) "Bankruptcy Resolution: Direct Costs and Violation of Priority of Claims," *Journal of Financial Economics*, 27, 419-444.

* Hartzscu, Ali, Gregor Matvos, Chad Syverson and Siriam Venkataraman (2011) "Indirect Costs of Financial Distress in Durable Goods Industries: The Case of Auto Manufacturers," *Review of Financial Studies*, forthcoming.

Lim, Jongha, (2014) "The Role of Activist Hedge Funds in Distressed Firms," *Journal of Financial and Quantitative Analysis*.

Topic 2. IPOs and Capital Raising

Overview:

Ritter, J. (2003) "Investment Banking and Securities Issuance," forthcoming in *Handbook of the Economics of Finance*, edited by Constantinescu, Harris, and Stulz. Downloadable from <http://bear.cba.ufl.edu/ritter> .

A. Initial Public Offerings

* Rock, K (1986) "Why New Issues are Underpriced?" *Journal of Financial Economics*, 15, 187-212.

* Benveniste, L, and Spindt (1989) "How Investment Bankers Determine the Offer Price and Allocation of New Issues," *Journal of Financial Economics*, 24, 343-362.

* Pagano, M., F. Panetta, and L. Zingales (1998) "Why do Companies Go Public? An Empirical Analysis" *Journal of Finance*.

* J. Ritter (1991) "The Long Run Performance of Initial Public Offerings," *The Journal of Finance*.

Zingales, L., (1995) "Insider Ownership and the Decision to go Public," *Review of Economic Studies*, 62, 425-448.

Brav, Alon and Paul Gompers, (1997), "Myth or Reality? The Long-Run Underperformance of Initial Public offerings," *Journal of Finance* 55, 1979-2016.

B. Issuing other Securities

Asquith, P. and D. Mullins (1986) "Equity Issues and Offering Dilution," *Journal of Financial Economics*, 15, 61-89.

Henderson, B., N. Jegadeesh, and M. Weisbach (2006) "World Markets for Raising New Capital" (with Brian J. Henderson and Narasimhan Jegadeesh), *Journal of Financial Economics*, Vol. 82, pp. 63-101.

Kim, W. and M. Weisbach (2008) "Motivations for Public Equity Offers: An International Perspective," *Journal of Financial Economics*, Vol. 87. pp. 281-307.

* Erel, I., B. Julio, W. Kim and M. Weisbach (2012), "Macroeconomic Conditions and Capital Raising," *Review of Financial Studies*.

Topic 3. Private Equity/Venture Capital

Gompers, P. and J. Lerner (1999) *The Venture Capital Cycle*, MIT Press.

Sahlman, W. (1990) "The Structure and Governance of Venture-Capital Organizations," *Journal of Financial Economics*, 473-521.

Kaplan, S. (1989) "The Effects of Management Buyouts on Operating Performance and Value," *Journal of Financial Economics*, 24, 581-618.

* Kaplan, S. and P. Stromberg (2003) "Financial Contracting meets the Real World: Evidence from Venture Capital Contracts," *Review of Economic Studies*.

Lerner, J. (1994) "Venture Capitalists and the Decision to Go Public," *Journal of Financial Economics*, 293-216.

* Kaplan, S. and A. Schoar (2005) "Private Equity Performance: Returns, Persistence and Capital Flows," *Journal of Finance*, 60, 1791-1823.

* Axelson, U., P. Stromberg, and M. Weisbach (2009), "Why are Buyouts Levered? The Financial Structure of Private Equity Funds," *Journal of Finance*.

* Axelson, U., T. Jenkinson, P. Stromberg, and M. Weisbach (2013) "Borrow Cheap, Buy High? The Determinants of Leverage and Pricing in Buyouts" *Journal of Finance*.

Topic 4. Corporate Governance and Control

* Shleifer, A. and R. Vishny, (1997) "A Survey of Corporate Governance," *Journal of Finance*, 52, 737-783.

A. The Entrenchment Problem

Demsetz, H. (1983) "The Structure of Ownership and the Theory of the Firm," *Journal of Law and Economics*.

Shleifer, A. and R. Vishny (1989) "Managerial Entrenchment: The Case of Firm-Specific Assets," *Journal of Financial Economics*.

* Morck, R., Shleifer, A. and R. Vishny (1988) "Management Ownership and Market Valuation: An Empirical Analysis," *Journal of Financial Economics*.

Holderness, C., R. Kroszner, and D. Sheehan (1999) "Were the Good Old Days that Good? Changes in Managerial Stock Ownership Since the Great Depression," *Journal of Finance*, 54, 435-469.

B. Incentive Contracts and Other Direct Incentives

* Jensen, M. and K. Murphy (1990) "Performance Pay and Top-Management Incentives," *Journal of Political Economy*, 98, 225-264.

* Hall, B. and J. Liebman (1998) "Are CEOs Really Paid Like Bureaucrats?" *Quarterly Journal of Economics*, 113, 653-691.

Haubrich, J. (1994) "Risk Aversion, Performance Pay, and the Principal-Agent Problem," *Journal of Political Economy*.

Hall, B. and K. Murphy (2003) "The Trouble with Stock Options," *Journal of Economic Perspectives*, 17, (Number 3), 49-70.

Bebchuk, L. and J. Fried (2003) "Executive Compensation as an Agency Problem," *Journal of Economic Perspectives*, 17, (Number 3), 71-92.

Kaplan, Steven and Joshua Rauh (2010) "Wall Street and Main Street: What contributes to the Rise in the Highest Incomes," *Review of Financial Studies*.

C. Boards of Directors

* Hermalin, B. and M. Weisbach (1998) "Endogenously Chosen Boards of Directors and Their Monitoring of Management", *American Economic Review*, Vol. 88 (March, 1998), pp. 96-118.

* Weisbach, M. (1988) "Outside Directors and CEO Turnover," *Journal of Financial Economics*, 20, 431-460.

Hermalin, B. and M. Weisbach (2003) "Boards of Directors as an Endogenously-Determined Institution: A Survey of the Economic Evidence," *Economic Policy Review*, 9, Number 1.

Adams, R., B. Hermalin and M. Weisbach, (2010) "Boards of Directors and their Role in Corporate Governance: A Conceptual Framework and Survey", *Journal of Economic Literature*, 48, 58-107.

Shivdasani, A. and David Yermack (1999) "CEO Involvement in the Selection of New Board Members: An Empirical Analysis," *Journal of Finance*, 54, pp. 1829-1854.

D. Management Turnover

Bertrand, M. and A. Schoar (2003) "Managing with Style: The Effect of Managers on Firm Policies," *Quarterly Journal of Economics*, 118, 1169-1208.

Pan, Yihui, Tracy Wang, and M. Weisbach (2015) "Learning About CEO Ability and Stock Return Volatility," *Review of Financial Studies*.

Pan, Yihui, Tracy Wang, and M. Weisbach (2016) "CEO Investment Cycles," *Review of Financial Studies*.

E. Proxy Voting and Institutional Activism

* Zingales, L. (1995) "What Determines the Value of Corporate Votes?" *Quarterly Journal of*

Economics, 110, 1047-1073.

Zingales, L. (1994) "The Value of the Voting Right: A Study of the Milan Stock Exchange," *Review of Financial Studies*, 7, 125-148.

* Del Guercio, D. and J. Hawkins (1999) "The Motivation and Impact of Pension Fund Activism," *Journal of Financial Economics*, 52, 293-340.

Carleton, W., J. Nelson, and M. Weisbach (1998) "The Influence of Institutions on Corporate Governance through Private Negotiations: Evidence from TIAA-CREF" *The Journal of Finance*, 53, pp. 1335-1362.

Brav, A., W. Jiang, F. Partnoy, and R. Thomas (2008) "Hedge Fund Activism, Corporate Governance, and Firm Performance" *The Journal of Finance*, Vol. 63. pp. 1729-1775.

Topic 5. International Corporate Governance and Protection of Shareholders' Interests

* La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny (1998) "Law and Finance," *Journal of Political Economy*, 52, 1131-1150.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R., (1997). "Legal Determinants of External Finance" *Journal of Finance* 52, 1131-50.

La Porta, R., F. Lopez-de-Silanes, A. Shleifer and R. Vishny (2000) "Agency Problems and Dividend Policies around the World," *Journal of Finance*, 55, 1-33.

Johnson, S., La Porta, R., Lopez-de-Silanes, F., Shleifer, A., (2000) "Tunneling" *American Economic Review Papers and Proceedings*, 90, 22-27.

Dyck, A., and L. Zingales (2004) "Private Benefits of Control: An International Comparison," *Journal of Finance*.

Reese, W. and M. Weisbach (2002) "Protection of Minority Shareholder Interests, Cross-Listings in the United States, and Subsequent Equity Offerings," *Journal of Financial Economics*.

Doidge, C., Karolyi, G.A., Stulz, R.M., 2001. "Why are foreign firms listed in the U.S. worth more?" *Journal of Financial Economics*.

Lombardo, D., Pagano, M., 2000. "Law and Equity Markets: A Simple Model." Working Paper, CSEF and University of Salerno.

Topic 6. Interactions of Product Market and Capital Market

A. Theory

* Brander, J. and T. Lewis (1986) "Oligopoly and Financial Structure: The Limited Liability

Effect," *American Economic Review*, 76, 956-970.

Maksimovic, V. (1988) "Capital Structure in Repeated Oligopolies," *RAND Journal of Economics*, 19, 389-402.

B. Empirical Tests

* Chevalier, J. (1995) "Capital Structure and Product-Market Competition: Empirical Evidence from the Supermarket Industry," *American Economic Review*.

* Chevalier, J. (1995) "Do LBO Supermarkets Charge More? An Empirical Analysis of the Effects of LBOs on Supermarket Pricing," *Journal of Finance*.

Phillips, G. (1995) "Increased Debt and Industry Product Markets: An Empirical Analysis," *Journal of Financial Economics*, 37, 189-238.

* Campello, M. (2003) "Capital structure and product markets interactions: Evidence from business cycles," *Journal of Financial Economics*.

Topic 7. Allocation and Misallocation of Internal Resources

A. Survey.

Stein, J. (2001) "Agency, Information and Corporate Investment," (read part 2), forthcoming in *Handbook of the Economics of Finance*, edited by G. Constantinides, M. Harris, and R. Stulz. North-Holland: Amsterdam.

B. Theory.

* Stein, J. (1989) "Efficient capital markets, inefficient firms: A model of myopic corporate behavior," *Quarterly Journal of Economics*, 104, 655-669.

* Stein, J. (1997) "Internal Capital Markets and the Competition for Corporate Resources," *Journal of Finance*, 52, 111-133.

* Scharfstein, D. and J. Stein (2000) "The Dark Side of Internal Capital Markets: Divisional Rent-Seeking and Inefficient Investment," *Journal of Finance*, 55, 2537-2564.

C. Evidence:

Lamont, O. (1997) "Cash Flow and Investment: Evidence from Internal Capital Markets," *Journal of Finance*, 52, 83-109.

* Stulz, R and H. Shin (1998) "Are Internal Capital Markets Efficient?" *Quarterly Journal of Economics*, 113, 531-552.

* Chevalier, J. "What do we know about cross-subsidization? Evidence from the Investment Policies of Merging Firms," *Advances in Economic Analysis and Policy*, 4, Article 3.

Lang, L. and R. Stulz (1998) "Tobin's q, Corporate Diversification, and Firm Performance," *Journal of Political Economy*, 102-1248-1280.

Campa, J. and S. Kedia (2002) "Explaining the Diversification Discount," *Journal of Finance*.

Rajan, R., H. Servaes, and L. Zingales (2000) "The Cost of Diversity: The Diversification and Inefficient Investment," *Journal of Finance*, 55, 35-84.

* Schoar, A. (2002) "Effects of Corporate Diversification on Productivity," *Journal of Finance*, 62, 2379-2403.

Lamont, O. and C. Polk (2002) "Does Diversification Destroy Value: Evidence from Industry Shocks," *Journal of Financial Economics*.