

UNIVERSITY OF TORONTO

Rotman School of Management

RSM 3033

Ph.D. Seminar in Corporate Finance

Winter 2015
RSM 3033
Corporate Finance

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Alexander Dyck

The course

- This is an advanced course in corporate finance. It will introduce you to the main issues in corporate finance, identify principle theoretical tools and empirical approaches, force you to read and understand the “greatest hits” in the field, and foster your thinking about current research questions. The objective is to prepare students to critically evaluate and conduct research in corporate finance.

Class meetings

- Classes are scheduled every Tuesday from 1-4 pm. First class January 13th

Course resources

- There is no required textbook for the course.
- A good reference text for the theory section is
Tirole, J., *The Theory of Corporate Finance*, Princeton University Press
- Most papers that you are required to read can be accessed via the internet.

Class requirements and grading

- After the short introductory session (Jan 6) 8 Regular ~3 hour lectures, one lab session, one proposal presentation brownbag and one final presentation.
- Regular sessions and lab session will be scheduled almost every Tuesday, 1-4pm. Room 470 Rotman
- Classroom participation (20%), two empirical exercises (20%), two referee reports (20%), a paper proposal (20%) and a final exam (20%). **{To be clear, there is no requirement for a paper, but rather a requirement to put together a paper proposal, where you will be asked to outline a research question, lay out how you would think you would proceed with exploring this question}**
- Each class will flag 3-5 key papers and many others. You need to read the flagged papers and be prepared to discuss them for each class.
- Additional papers are listed for each topic, including overview and survey papers. We will not have time to cover these papers in class, but you should make an effort to read them.
- Key dates:
 - Referee report 1 (~ Feb 10))
 - Empirical exercise 1 (~ Feb 24th))
 - Referee Report 2 ((~ March 10))
 - Empirical exercise 2 ((~March 17th))
 - Paper proposal brownbag – March 24th
 - Final Exam – April 7th
 - Paper proposal - April 21st

Class overview

January 6 th	Organizing Session – short, no advance reading
January 13 th	Theory 1 – Frictions and Corporate Finance
January 20 th	Theory 2 – Models of imperfect information, and incomplete contracts and their applications in Corporate Finance
January 27 th	Capital structure – Theory (<i>Referee report 1 dist.</i>)
February 3 rd –	Capital structure – Empirics
February 10 th –	Topics in empirical CF (<i>Empirical exercise 1 dist.</i>)
February 17 th –	<i>No class – reading week</i>
February 24 th -	Corporate Governance 1 * starts later this week (<i>Referee report 1 dist.</i>)
March 3 rd –	Corporate Governance 2 (<i>Empirical exercise. 2 dist.</i>)
March 10 th –	Identification and endogeneity in empirical CF
March 24 th –	Paper proposals ‘brownbag’
April 7 th –	Final Exam
April 21 st –	Paper proposal presentations

Tentative reading list and course schedule

You are required to read all papers marked in bold. Papers marked with a * will be discussed in class. Note that some readings in first two lectures you only need to skim, and they will be more of the focus in the second set of lectures on capital structure.

Organizing Session

In this session, we will review briefly the course organization, assignments and issues to discuss.

In preparation for the class, I am not asking you to read any specific papers, but rather want to encourage you to think broadly about what is corporate finance (and what it is not). To that end, I ask you to do one simple thing, which is to complete a simple excel spreadsheet. Print out a copy of this and bring it to class. We will spend some time in class discussing your lists.

- In one column I want you to identify the *major topics* that are included in corporate finance teaching. Note, I don't want you to cut and paste a detailed list of all topics, but rather what you view to be the most important categories. If you would like you can create an additional column that identifies various subsidiary topics related to the major topic.
- In a separate column I want you to identify the *major topics* in corporate finance research today. Note, again I don't want you to cut and paste a detailed list of all topics, but rather what you view to be the most important categories. If you would like you can create an additional column that identifies various subsidiary topics related to the major topic.
- Are there differences between the lists? Why?

To help you with identifying corporate finance for teaching, I encourage you to consult the Table of Contents of a typical textbook for corporate finance for undergraduates or MBA students. Consult your favourite book to come up with a list (e.g. Brealey, Myers and Allen, *Principles of Corporate Finance*; Rosse, Westerfield, Jaffe and Roberts, *Corporate Finance*; Booth and Cleary, *Introduction to Corporate Finance*, etc.)

What are the topics on the frontier of corporate finance research today? To help you to identify this, here are some links to recent meetings of the NBER corporate finance group

<http://conference.nber.org/confer/2014/CFf14/CFf14prg.html>
<http://users.nber.org/~confer/2014/SI2014/CF/CFprg.html>

And here is a link to a list of papers at the AFA annual meetings that just took place in Boston:

<http://www.afajof.org/details/page/6815081/2015-Meeting-Program.html>

For the AFA meetings, which of these topics would you classify as corporate finance? (and why?) Do the topics align well with the categories used in

Lectures 1 & 2 – Frictions and Corporate Finance (Alexander Dyck)

Required Reading for both sessions

- *Tirole, Jean, *The Theory of Corporate Finance*, Introduction, p 1.-11
- *Coase, R., 1937, “Nature of the Firm,” *Economica* 4, 386-405.
- *Jensen, Michael and William Meckling, 1976 “Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure, *Journal of Financial Economics*, 3: 305-360.
- * Myers, S.C. and N.S. Majluf, 1984, “Corporate Financing and Investment Decisions when Firms have Information that Investors do not Have,” *Journal of Financial Economics*, 13, 187-222.
- * Hart, Oliver, 2001, “Financial Contracting,” *Journal of Economic Literature* 39, 1079-1100
- * Diamond, D. (1984) “Financial Intermediation and Delegated Monitoring,” *Review of Economic Studies*, 51, 393-414.
- * Zingales, Luigi, 2000, “In Search of New Foundations,” *Journal of Finance*

2. *The Firm as a Nexus of Explicit Contracts and Its Implications*

Alchian, A. and H. Demsetz 1972, Production, Information Costs and Economic Organization, *American Economic Review*, 777-705.

- *Jensen M. C. and W. Meckling 1976, **Theory of the Firm: Managerial Behavior, Agency Costs and Capital Structure, *Journal of Financial Economics*, 3, 305-360.**

3. *The Firm as a Nexus of Explicit and Implicit Contracts and Its Implications*

Baker, George, Robert Gibbons, and Kevin J. Murphy, 2001, Relational Contracts and the Theory of the Firm, *Quarterly Journal of Economics*.

Titman, S. 1984, The Effect of Capital Structure on a Firms Liquidation Decision, *Journal of Financial Economics* 13, 137 - 151.

Shleifer, Andrei, and Lawrence Summers, 1988, Breach of trust in hostile takeovers, in A. J. Auerbach, ed.: *Corporate Takeovers: Causes and Consequences* (University of Chicago Press, Chicago).

4. *The Firm as a Collection of Growth Options and Its Implications*

Myers, S.C., 1977, The Determinants of Corporate Borrowing, *Journal of Financial Economics*, 5, 146-175.

- *Myers, S.C. and N.S. Majluf, 1984, **Corporate Financing and Investment Decisions when Firms have Information that Investors do not Have *Journal of Financial Economics*, 13, 187-222.**

5. *The Firm as a Collection of Assets and Its Implications*

- *Hart, Oliver, 2001, **Financial Contracting, *Journal of Economic Literature* 39, 1079-1100**

Klein, B., Crawford, and A. Alchian, 1978, Vertical Integration, Appropriable Rents and the Competitive Contracting Process, *Journal of Law and Economics*, 297-326.

Grossman, S. and Hart, O. 1986, The Costs and the Benefits of Ownership: A Theory of Vertical and Lateral Integration, *Journal of Political Economy*, 691-719.

Hart, O. and J. Moore, 1990, Property Rights and the Nature of the Firm *Journal of Political Economy*, 1119-1158.

Aghion, P. and P. Bolton, 1992, An Incomplete Contract Approach to Financial Contracting *Review of Economic Studies* 59, 473-494.

Hart, Oliver, and John Moore, 1994, Debt and the inalienability of human capital, *Quarterly Journal of Economics* 109, 841-879.

Fluck, S. 1998, The optimality of debt vs outside equity, *Review of Financial Studies* 11, 383-418.

Myers, Stewart, 2000, Outside Equity, *Journal of Finance*.

Shleifer, A., and R. Vishny, 1997, A survey of corporate governance, *Journal of Finance* 52, 2, 737-783.

Shleifer, A. and R. Vishny, 1992, Liquidation Value and Debt Capacity: A Market Equilibrium Approach, *Journal of Finance* 42, 1343-1365.

6. *Financial Intermediation*

***Diamond, D. (1984) “Financial Intermediation and Delegated Monitoring,” Review of Economic Studies, 51, 393-414.**

Diamond, D. and P. Dybvig (1983) “Bank Runs, Deposit Insurance, and Liquidity,” Journal of Political Economy, 91, 401-419.

Rajan, R. (1992) “Insiders and Outsiders: The Choice between Informed and Arm’s Length Debt,” Journal of Finance, 47, 1367-1400.

Holmstrom, B. and J. Tirole (1997) “Financial Intermediation, Loanable Funds, and the Real Sector,” Quarterly Journal of Economics, 112, 663-691.

Lectures 3 & 4 – Capital Structure (Sergei Davydenko)

Capital structure, taxes, and valuation

Modigliani, F., and M. Miller, 1958, The cost of capital, corporation finance and the theory of investment, American Economic Review 48, 261-297.

Miller, M., 1977, Debt and taxes, Journal of Finance 32, 261-275.

Modigliani, F., and M. Miller, 1963, Corporate income taxes and the cost of capital, American Economic Review 53, 433-443.

Graham, J., 2003, Taxes and corporate finance: a review, Review of Financial Studies 16, 1075-1121.

Capital Structure and signaling

Leland, H. and D. Pyle, 1977, Informational asymmetries, financial structure, and financial intermediation, Journal of Finance 32, 371-387.

Ross, S., 1977, The determination of financial structure: the incentive signaling approach, Bell Journal of Economics 8, 23-40.

Capital structure and agency costs

***Jensen, M, and W. Meckling, 1976, Theory of the firm: managerial behavior, agency costs and ownership structure, Journal of Financial Economics 3, 305-360.**

***Myers, S., 1977, Determinants of corporate borrowing, Journal of Financial Economics 5, 147-175.**

Parrino, R., and M. Weisbach, 1999, Measuring investment distortions arising from stockholder-bondholder conflicts, Journal of Financial Economics 53, 3-42.

Jensen, M., 1986, Agency costs of free cash flow, corporate finance, and takeovers, American Economic Review 76, 323-329.

Zwiebel, J., 1996, Dynamic capital structure under managerial entrenchment, American Economic Review 86, 1197-1215

Pecking order theory of capital structure

***Myers, S., 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.**

Myers, S., 1984, The capital structure puzzle, Journal of Finance 39, 575-592.

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

Shyam-Sunder, L, and S. Myers, 1999, Testing static tradeoff against pecking order models of capital structure, Journal of Financial Economics 51, 219-244.

Capital structure and product markets

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.

Chevalier, J., 1995, Capital structure and product market competition: empirical evidence from the supermarket industry, American Economic Review 85, 206-256.

Phillips, G., 1995, Increased debt and industry product markets: an empirical analysis, Journal of Financial Economics 37, 189-238.

Capital structure and bankruptcy

Gertner, R. and D. Scharfstein, 1991, A theory of workouts and the effects of reorganization law, Journal of Finance 46, 1189-1222.

***Shleifer, A., R. Vishny, 1992, Liquidation values and debt capacity: a market equilibrium approach, Journal of Finance 47, 1343-1366.**

Asquith, P., R. Gertner, and D. Scharfstein, 1994, Anatomy of financial distress: an examination of junk-bond issuers, Quarterly Journal of Economics 109, 625-658.

Warner, J., 1977, Bankruptcy costs: some evidence, Journal of Finance 32, 337-348.

Franks, J., and W. Torous, 1989, An empirical investigation of United States firms in reorganization, Journal of Finance 44, 747-769.

Pulvino, Todd C., 1998, Do asset fire sales exist? An empirical investigation of commercial aircraft transactions, Journal of Finance 53, 939-978.

Andrade, Gregor, and Steven N. Kaplan, 1998, How costly is financial (not economic) distress? Evidence from highly leveraged transactions that became distressed, Journal of Finance 53, 1443-1493.

Asquith, Paul, Robert Gertner, and David Scharfstein, 1994, Anatomy of financial distress: an examination of junk-bond issuers, Quarterly Journal of Economics 109, 625-657.

Gilson, Stuart C., Kose John and Larry H. P. Lang, 1990, Troubled debt restructurings: An empirical study of private reorganization of firms in default, Journal of Financial Economics 27, 315-353.

General empirical evidence

Bradley, M., G. Jarrell, and E. Kim, 1984, On the existence of an optimal capital structure: theory and evidence, Journal of Finance 39, 857-878.

***Rajan, R., and L. Zingales, 1995, What do we know about capital structure? Some evidence from international data, Journal of Finance 50, 1421-1460.**

Titman, Sheridan, and Roberto Wessels, 1988, The Determinants of Capital Structure Choice, Journal of Finance 43, 1-19.

***Graham, J., 2000, How big are the tax benefits of debt?, Journal of Finance 55, 1901-1941.**

MacKie-Mason, J., 1990, Do taxes affect corporate financing decisions? Journal of Finance 45, 1471-1493.

Shyam-Sunder, L. and S. Myers, 1999, Testing Static Tradeoff Against Pecking Order Models of Capital Structure, Journal of Financial Economics 51, 219-244.

***Baker, M., and J. Wurgler, 2002, Market timing and capital structure, Journal of Finance 57, 1-32.**

Fama E. and K. French, 2002, Testing Tradeoff and Pecking Order Predictions About Dividends and Debt, Review of Financial Studies 15, 1-33.

Rauh J., and A. Sufi, 2010, Capital Structure and Debt Structure, Review of Financial Studies 23, 4242-4280.

Capital structure dynamics

Leland, Hayne E., 1994, Corporate debt value, bond covenants, and optimal capital structure, Journal of Finance 49, 1213-1252.

***Welch, Ivo, 2004, Capital Structure and Stock Returns, Journal of Political Economy 112, 106-131.**

***Leary, Mark T. and Michael R. Roberts, 2005, Do Firms Rebalance Their Capital Structures?, Journal of Finance 60, 2575-2619.**

Strebulaev, Ilya A., 2007, Do Tests of Capital Structure Theory Mean What They Say? Journal of Finance 62, 1747-1787.

Hennessy, C. and T. Whited, 2005, "Debt Dynamics," Journal of Finance 60, 1129-1165.

Lemmon, M., M. Roberts, and J. Zender, 2008, Back to the Beginning: Persistence and the Cross-Section of Corporate Capital Structure, Journal of Finance 63, 1575-1608.

Korteweg, A., 2010, The Net Benefits to Leverage, Journal of Finance 65, p. 2137-2170.

Welch, Ivo, 2012, A Critique of Recent Quantitative and Deep-Structure Modeling in Capital Structure Research and Beyond. UCLA Working paper.

Lecture 5 – Topics in empirical corporate finance (Sergei Davydenko)

Costs of financial distress

Weiss, Lawrence A. 1990. Bankruptcy resolution: Direct costs and violation of priority of claims. *Journal of Financial Economics* 27, 285–314.

Bris, Arturo, Ivo Welch, and Ning Zhu, 2006. The costs of bankruptcy. *Journal of Finance* 61, 1253–303.

***Pulvino, Todd C., 1998, Do asset fire sales exist? An empirical investigation of commercial aircraft transactions. *Journal of Finance* 53, 939-978.**

***Andrade, Gregor, and Steven N. Kaplan, 1998, How costly is financial (not economic) distress? Evidence from highly leveraged transactions that became distressed. *Journal of Finance* 53, 1443-1493.**

Davydenko, Sergei A., Ilya A. Strebulaev, and Xiaofei Zhao, 2012, A market-based study of the cost of default. *Review of Financial Studies* 25, 2959-2999.

Benmelech, Efraim, and Nittai K. Bergman, 2011. Bankruptcy and the collateral channel. *Journal of Finance* 66, 337-378.

Financing frictions and investment

***Fazzari, Steven M., R. Glenn Hubbard, and Bruce C. Petersen, 1988. Financing constraints and corporate investment. *Brooking Papers on Economic Activity* 1, 141-195.**

***Kaplan, Steven N., and Luigi Zingales, 1997. Do investment-cash flow sensitivities provide useful measures of financing constraints. *Quarterly Journal of Economics* 112, 169-215.**

Fazzari, Steven M., R. Glenn Hubbard, and Bruce C. Petersen, 2000. Investment-Cash Flow Sensitivities are Useful: A Comment on Kaplan and Zingales. *Quarterly Journal of Economics* 115, 695-705.

Kaplan, Steven N., and Luigi Zingales, 2000. Investment-Cash Flow Sensitivities Are Not Valid Measures of Financing Constraints. *Quarterly Journal of Economics* 115, 707-712.

Alti, Aydogan, 2003. How sensitive is investment to cash flow when financing is frictionless? *Journal of Finance* 58, 707-722.

Moyen, Nathalie, 2004, Investment-cash flow sensitivities: Constrained versus unconstrained firms. *Journal of Finance* 59, 2061-2092.

Hennessy, Christopher A., 2004. Tobin's Q, debt overhang, and investment. *Journal of Finance* 59, 1717-1742.

***Almeida, Heitor, Murillo Campello, and Michael S. Weisbach, 2004. The cash flow sensitivity of cash. *Journal of Finance* 59, 1777-1804.**

Rauh, Joshua D., 2006. Investment and Financing Constraints: Evidence from the Funding of Corporate Pension Plans. *Journal of Finance* 61, 33-71.

Chava, Sudheer, and Michael R. Roberts, 2008. How Does Financing Impact Investment? The Role of Debt Covenants. *Journal of Finance* 63, 2085-2121.

Hadlock, Charles J., and Joshua R. Pierce, 2010. New evidence on measuring financial constraints: Moving beyond the KZ index. *Journal of Finance* 23, 1909-1940.

Lectures 6 & 7 Corporate Governance (Alexander Dyck)

I – What is the ‘Governance Problem’, and is it a Big Problem?

Berle, Adolf and Gardiner Means. 1932. *The Modern Corporation and Private Property*. Macmillan, New York.

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

A – Capitalized Estimates of the Governance Problem

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

Nenova, Tatiana. 2003. The Value of Corporate Voting Rights and Control: A Cross-Country Analysis. *Journal of Financial Economics* 68(3) 325–51.

Dyck, Morse and Zingales, "How Pervasive is Corporate Fraud?"

B – Specific Types of Governance Problems: Entrenchment, etc.

Slovin, Myron and Marie Sushka. 1993. Ownership Concentration, Corporate-Control Activity, and Firm Value - Evidence from the Death of Inside Blockholders. *Journal of Finance* 48(4) 1293-1321.

David Yermack, "Flights of Fancy: Corporate Jets, CEO Perquisites, and Inferior Shareholder Returns,"

II - Addressing the Governance Problem

A – Internal to the Firm

A.1 Ownership: Management, Institutional, Activist

* Morck, Randall, Andrei Shleifer and Robert Vishny. 1988. Management Ownership and Market Valuation: An Empirical Analysis. *Journal of Financial Economics* 20(1/2) 293-315.

Carleton, Willard, James Nelson and Michael Weisbach. 1998. The Influence of Institutions on Corporate Governance through Private Negotiations: Evidence from TIAA-CREF. *Journal of Finance* 53 1335-1362.

* Gillan and Starks, "The Evolution of Shareholder Activism in the United States,"

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

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.

* Bebchuk, Brav and Jiang, "The Long-Term Effects of Hedge Fund Activism," ssrn.

A.2 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.

Murphy, Kevin, "Executive Compensation: Where We are, and How We Got There"

Jeff Coles, Naveen Daniel and Lalitha Naveen “Executive Compensation and Managerial Risk-Taking,” *Journal of Financial Economics* 79 (2006), 431-468.

Chhaochharia, Vidhi; Grinstein, Yaniv. "CEO Compensation and Board Structure" *Journal of Finance* 64.1 (2009): 231-261.

Holmstrom and Milgrom “Aggregation and Linearity in the Provision of Intertemporal Incentives”, *Econometrica*, March 1987.

Edmans, Alex, Xavier Gabaix, Tomasz Sadzik, and Yuliy Sannikov, 2012, “Dynamic CEO Compensation,” *Journal of Finance* 67, 1593-1637.

A.3 Boards of Directors

*Weisbach, Michael. 1988. Outside Directors and CEO Turnover. *Journal of Financial Economics* 20(1/2) 431-460.

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.

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.

B – External to the Firm

B.1 Gatekeepers

Coffee, John, *Gatekeepers: The Professions and Corporate Governance*,” Oxford Press, 2006.

B.2 Takeover Markets and Private Equity

*Grossman, Sanford and Oliver Hart. 1980. Take-Over Bids, the Free Rider Problem and the Theory of the Corporation. *Bell Journal of Economics* 11 42-64.

Jensen, Michael, 1986. Agency Costs of Free Cash Flows, *Corporate Finance and Takeovers*. *American Economic Review*. 76 323-329.

* Gompers, Paul, Joy Ishii and Andrew Metrick. 2003. Corporate governance and equity prices. *Quarterly Journal of Economics* 118 107–155

Hartzell, Jay, Eli Ofek and David Yermak. 2004. What's In It for Me? CEOs Whose Firms Are Acquired. *Review of Financial Studies* 17(1) 37

Shleifer, Andrei and Lawrence Summers. 1988. Breach of Trust in Hostile Takeovers. In Allan Auerbach, ed. *Corporate Takeovers: Causes and Consequences*. University of Chicago Press.

Jensen, “Eclipse of the Public Corporation,” ssrn has recent update from 1989 Harvard Business Review Article

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

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

Harris, Jenkinson and Kaplan (2014) “Private Equity Performance: What do We Know, et al. Forthcoming in *Journal of Finance*,

Harris, Jenkinson, Kaplan and Stucke (2013), “Has Persistence Persisted in Private Equity? Evidence from Buyout and Venture Capital Funds,” ssrn

B.3 Law and Corporate Governance

La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny (1998) “Law and Finance,”

Journal of Political Economy, 52, 1131-1150.

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

*Rafael LaPorta, Florencio Lopez-de-Silanes, and Andrei Shleifer, "The Economic Consequences of Legal Origins," in *Journal of Economic Literature*, 2008, 46:2 285-332.....21

Craig Doidge, Andrew Karolyi, and Rene Stulz "Has New York Become Less Competitive Than London in Global Markets? Evaluating Foreign Listing Choices Over Time," *Journal of Financial Economics* 91, 253-287

B.4 Non-Market actors: Whistleblowers, Media and Tax Authorities

*Dyck, Alexander, Adair Morse and Luigi Zingales, "Who Blows the Whistle on Corporate Fraud?", *Journal of Finance*. 2010, Vol. 65, No. 6, 2213-2254.

Dyck, Alexander, Natalya Volchkova and Luigi Zingales, "The Corporate Governance Role of the Media: Evidence from Russia," *Journal of Finance*, Vol. 63, No. 3, pp 1093-1136, 2008

*Dyck, Alexander, Mihir Desai and Luigi Zingales, "Theft and Taxes," *Journal of Financial Economics*, Vol. 84, Issue 3, (2007), 591-623.

Lecture 8 – Endogeneity and identification in empirical corporate finance research (Sergei Davydenko)

Review articles

Roberts, Michael R., and Toni M. Whited, 2012. Endogeneity in Empirical Corporate Finance. in George Constantinides, Milton Harris, and Rene Stulz, eds. Handbook of the Economics of Finance Volume 2, 2012, Elsevier.

Angrist, Joshua D., and Jorn-Steffen Pischke, 2010. The credibility revolution in empirical economics: How better research design is taking the con out of econometrics. *Journal of Economic Perspectives*, 2, 3-30.

Lee, David S., and Thomas Lemieux, 2010. Regression Discontinuity Design in Economics. *Journal of Economic Literature* 48, 281-355.

Li, Kai, and Nagurnanand R. Prabhala, 2007. Self-Selection Models in Corporate Finance, in *Handbook of Corporate Finance: Empirical Corporate Finance Vol. I*, ed. B.E.Eckbo, Elsevier Science B.V.,

Strebulaev, Ilya A., and Tony M. Whited, 2011. Dynamic models and structural estimation in corporate finance. *Foundations and Trends in Finance* 6, 1-163.

Welch, Ivo, 2013, A critique of recent quantitative and deep-structure modeling in capital structure research and beyond. *Critical Finance Review* 2, 131-172.

Strebulaev, Ilya A., and Tony M. Whited, 2012. Dynamic corporate finance is useful: A comment on Welch (2013). *Critical Finance Review* 2, 173-191.

Bowen Don, Fresard, and Jerome P. Taillard, 2014. What's your identification strategy? Working Paper.

Common pitfalls

Petersen, Mitchell, 2009. Estimating Standard Errors in Finance Panel Data Sets: Comparing Approaches, Review of Financial Studies 22, 435-480.

Gormley, Todd and David Matsa, 2014. Common Errors: How to (and Not to) Control for Unobserved Heterogeneity. Review of Financial Studies 27, 617-661.

Bertrand, Marianne, Esther Duflo, and Sendhil Mullainathan, 2004. How Much Should We Trust Difference-in-Difference Estimates? Quarterly Journal of Economics 119, 249-275.

Instrumental variables

***Bennedsen, Morten, Kasper Meisner Nielsen, Francisco Perez-Gonzalez, and Daniel Wolfenzon, 2007. Inside the Family Firm: The Role of Families in Succession Decisions and Performance. Quarterly Journal of Economics 647-691.**

Giroud, Xavier, 2013. Proximity and investment: Evidence from plant-level data. Quarterly Journal of Economics 128:2, 861-915.

Natural experiments and Diff-in-Diff

Gormley, Todd A., and David Matsa, 2011. Growing Out of Trouble? Corporate Responses to Liability Risk. Review of Financial Studies 24, 2781-2821.

***Chava, Sudheer, and Michael R. Roberts, 2008. How Does Financing Impact Investment? The Role of Debt Covenants. Journal of Finance 63, 2085-2121.**

Jayaratne, Jith, and Philip E. Strahan, 1996. The Finance-Growth Nexus: Evidence from Bank Branch Deregulation. Quarterly Journal of Economics 111, 639-670.

Agarwal, Lucca, Seru, Trebbi, 2013. Inconsistent Regulators: Evidence from Banking. Quarterly Journal of Economics

Regression Discontinuity Design

Keys, Benjamin J., Tanmoy Mukherjee, Amit Seru, and Vikrant Vig, 2010. Did Securitization Lead to Lax Screening? Evidence from Subprime Loans. Quarterly Journal of Economics 307-362.

Cunat, Vicente, Mireia Gine, Maria Guadalupe, 012. The Vote Is Cast: The Effect of Corporate Governance on Shareholder Value. Journal of Finance 67, 1943-1977.

***Popadak, Jillian, 2014. A Corporate Culture Channel: How Increased Shareholder Governance Reduces Firm Value. Working Paper.**

David Card, David Lee, Zhuan Pei, Andrea Weber, 2012. Nonlinear Policy Rules and the Identification and Estimation of Causal Effects in a Generalized Regression Kink Design. Working Paper.

Matching

***Villalonga, Belén, 2004. Does diversification cause the “diversification discount? Financial Management 5-27.**

Morse, Adair, 2011. Payday Lenders: Heroes or Villains? Journal of Financial Economics 102, 28-44.

Michaely, Roni and Michael R. Roberts, 2012. Corporate Dividend Policies: Lessons from Private Firms. *Review of Financial Studies* 25, 711-746.

Structural estimation

***Taylor, Lucian, 2010. Why are CEOs Rarely Fired? Evidence from Structural Estimation. *Journal of Finance* 55, 2051-2087.**

Hennessy, Christopher A., and Toni M. Whited, 2007. How Costly Is External Financing? Evidence from a Structural Estimation. *Journal of Finance* 62, 1705-1745.