

Rutgers Business School

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Corporate Finance  
26:390:572  
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1WP – 502, 2:30 to 5.20

This is a tentative Syllabus

**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.

**Course Materials:** Journal articles and working papers. You are responsible for obtaining copies of the articles.

**Grade and Course Requirements:**

The midterm and final exam each account for 30% of the grade. There is a literature review and research idea report for the remaining 40% of the grade.

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.

\*\*\*Skliwas, 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*.

#### 4. Internal Capital Market and Diversification

\*\*\*J. Stein, Internal capital markets and the competition for corporate resources, *Journal of Finance*, 52 (1997) 111-133.

\*\*\*P. Berger and E. Ofek, Diversification's effect on firm value, *Journal of Financial Economics*, 37 (1995) 39-65

\*\*\*Campa, J., and S. Kedia, 2002, Explaining the diversification discount, *Journal of Finance* 57, 1731-1762.

Lang, Larry, and Rene Stulz, 1994, Tobin's q, corporate diversification and firm performance, *Journal of Political Economy* 102: 6, 1248-1280.

R. Comment and G. Jarrell, Corporate focus and stock returns, *Journal of Financial Economics*, 37 (1995) 67-87

Fluck, Zsuzanna, and Anthony Lynch, 1999, Why do firms merge and then divest? A theory of financial synergies, *Journal of Business* 72: 3, 319-346.

Graham, John R., Michael Lemmon, and Jack Wolf, 2002, Does corporate diversification destroy value? *Journal of Finance* 57, 695-720.

Villalonga, B., 2004, Diversification discount or premium? New evidence from the business information tracking series, *Journal of Finance* 59, 479-506.

Lamont, Owen A. and Christopher Polk, Does diversification destroy value? Evidence from the industry shocks, *Journal of Financial Economics* 63 (2002) 51-78

O. Lamont, Cash flow and investments: evidence from internal capital markets, *Journal of Finance*, 52 (1997) 83-109

D. Sharfstein and J. Stein, The dark side of internal capital markets: Divisional rent-seeking and efficient investment, *Journal of Finance*, 55 (forthcoming December 2000)

Khanna, Tarun, and Krishna Palepu, 2000, Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups, *Journal of Finance* 55, 867-891.

Dimitrov, V. and S. Tice, 2006, "Corporate Diversification and Credit Constraints: Real Effects Across the Business Cycle" *Review of Financial Studies*, Vol. 19, Issue 4, pp. 1465-1498.

Khanna, N., and S. Tice, 2001, "The Bright Side of Internal Capital Markets," *Journal of Finance*, Vol. 56, No. 4, pp.1489-1531.

## 5. Initial public offerings

\*\*\* Rock, K., 1986, Why are new issues underpriced. *Journal of financial economics*.

Benveniste, Lawrence M. and Paul A. Spindt, 1989, How investment bankers determine the offer price and allocation of new issues, *Journal of Financial Economics* 24, 343-361.

Ljungqvist, A., 2004, IPO Underpricing: Chapter 3 in *Handbooks in Finance: Empirical Corporate Finance*. Available on SSRN.

Ljungqvist, A and W. Wilhelm, 2004, Does Prospect Theory Explain IPO Market Behavior, *Journal of Finance*.

Ritter, J and Ivo, Welch, 2002, A review of IPO Activity, Pricing and Allocations, *Journal of Finance*.

Welch, Ivo, 1989, Seasoned offerings, imitation costs, and underpricing of initial public offerings, *Journal of Finance* 44, 421-449.

Beatty, Randolph P and Jay R. Ritter, 1986, Investment banking, reputation, and the underpricing of initial public offerings, *Journal of Financial Economics* 15, 213-232.

Loughran T. and J. R. Ritter, 1995, The new issues puzzle, *The Journal of Finance* 50, 23-52.

Ritter, J., 1991, The long-run performance of initial public offerings, *Journal of Finance* 46, 3-27.

Hanley, K., and W. Wilhelm 1995, Evidence on the Strategic Allocation of Initial Public Offerings, *Journal of Financial Economics*.

Krigman, L., W. Shaw, and K. Womack, 1994, The Persistence of IPO Mispricing and the Predictive Power of Flipping, *Journal of Finance*.

Ljungqvist, A and W. Wilhelm, 2003, IPO Pricing in the Dot Com Bubble, *Journal of Finance*.

## 6. Dividend policy & Cash Holding

- \*\*\*Allen, Franklin, and Roni Michaely, 2005, Payout Policy, in *North Holland Handbook of Economics*, edited by George Constantinides, M. Harris, and Rene Stulz.
- \*K. John and J. Williams, "Dividends, Dilution, and taxes: A Signalling Equilibrium," *Journal of Finance* 40 (1985), 1053-70.
- \*Almeida, H., M. Campello and M. Weisbach, 2004, "The Cash Flow Sensitivity of Cash," *Journal of Finance*, Vol. 59, pp. 1777-1804.
- \*Retzl, Danile, 2012, Growth Opportunities, Cash Holdings and Payout Policy, Working paper Vienna Graduate School of Finance
- \*Blanchard, O., F. deSilanes, and A. Shleifer, 1994, What do Firms do with Cash Windfall? *Journal of Financial Economics*.
- \*Masulis, R., C. Wang and F. Xie, 2009, "Agency Problems at Dual-Class Companies," *Journal of Finance*
- Benartzi, S., R. Michaely and R. Thaler, 1997, Do changes in Dividends signal the future or the past, *Journal of Finance*
- Grullon, G., R. Michaely and B. Swaminathan, 2002, Are Dividend Changes a sign of firm maturity, *Journal of Business*.
- Ofer, A., and D. Siegel, 1987, Corporate Financial Policy, Information and Market Expectations: An Empirical Investigation of Dividends, *Journal of Finance*.
- M. Miller and K. Rock, "Dividend Policy under Asymmetric Information," *Journal of Finance*, 40 (1985), 1031-51.
- Allen, F.; A. Bernardo; and I. Welch. "A Theory of Dividends Based on Tax Clienteles." *Journal of Finance*, 55 (2000), 2499-2536
- Fama, E., and K. French, 2001, Disappearing dividends: Changing firm characteristics or lower propensity to pay? *Journal of Financial Economics* 60, 3-44.
- Grullon, Gustavo and Roni Michaely, 2002, "Dividends, share repurchases and the substitution hypothesis," *The Journal of Finance* 62 (4).
- Michaely, Roni, Richard H. Thaler and Kent Womack, 1995, "Price Reactions to Dividend Initiations and Omissions: Overreaction or Drift?," *Journal of Finance* 50 (2), 573-608.
- Faulkender, M., and R. Wang, 2006, "Corporate Financial Policy and the Value of Cash," *Journal of Finance*, Vol. LXI.
- Opler, T., L. Pinkowitz, R. Stulz, and R. Williamson, 1999, "The Determinants and Implications of Cash Holdings," *Journal of Financial Economics*, Vol. 52, pp. 3-46.

Dittmar, A. and J. Mahrt-Smith, 2007, "Corporate Governance and the Value of Cash Holdings," *Journal of Financial Economics*, Vol. 83, pp. 599-634.

Mikkleson W., and M. Partch, 2003, "Do Persistent Large Cash Reserves Hinder Performance?" *Journal of Financial and Quantitative Analysis*.

Dittmar, A., and R. Duchin, 2010, Dynamics of Cash, University of Michigan, Working Paper.

Acharya, V., H. Almeida, and M. Campello, 2007, "Is Cash Negative Debt? A Hedging Perspective on Corporate Financial Policies," *Journal of Financial Intermediation*, pp. 515-554.

Bates, T. W., K. Kahle, and R. Stulz, 2009, "Why Do U.S. Firms Hold so Much More Cash than They Used to?" *Journal of Finance*, Vol. 64, pp. 1985-2021.

Harford, J., S. Mansi, and W. Maxwell, 2008, "Corporate Governance and Firm Cash Holdings," *Journal of Financial Economics*, Vol. 87, pp. 535-555.

## 7. 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

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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*.

## 8. 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, Nagpuranand, 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

### 9. 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.

## 10. 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

## 11. 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*

## 12. Networks

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

\*Hochberg, Y., A. Linqvist., 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>.

