

Research Seminar ‘Empirical Corporate Finance’ 2 Syllabus

Faculty: Economics
Master program: Strategic Corporate Finance
Year: 2018/19
Course name: Research Seminar ‘Empirical Corporate Finance’
Level: Master, 1Y
Language of instruction: English
Period: January, 10 – June, 22
Workload: 152 hours per group

Short name: ResCF2

Course Description

This course continues the research seminar ‘Empirical Corporate Finance’.
The research seminar is aimed to introduce the master students to the world of research in the area of finance. Research in this area applies specific mathematical and econometrical methods, as well as the perfect data mining skills. The course includes the methodological part and the topic development part. Both parts of the research seminar aim to help students to develop the academic writing skills and a number of soft skills that are useful for a financier (e.g. presentation skills, team work, project management).

The first part of research seminar aims at fostering discussion and interaction on some topics as Omitted variable problem, Simultaneity, Measurement error, Selection, Event Studies etc. with examples of Corporate Finance papers. Key recent papers will be selected and discussed among the participants. The objective is to develop the necessary tools and understanding for future identification and implementing in research. Simulation of real conference/seminar format as well as writing of a short literature review will help participants to get the initial core techniques of scientific work.

The *key goal of this course* is to provide the student with proper tools and skills for starting their own research in the area of finance.

To follow this course the basic courses of finance and microeconomics are the *prerequisites*.

Course Objectives

After the course student will be able to:

- deal with a number of econometric problems frequently faced in financial research (including Omitted variable problem, Simultaneity, Measurement error, Selection Bias)
- explain and demonstrate using empirical data the challenges to the efficient market hypothesis;
- explain the nature of biases rooted in data mining and statistical methods;
- work in the method of Event Study;
- formulate his or her own research question;
- prepare the literature review for his or her master thesis;
- to formulate research hypotheses;
- choose and apply the proper methods to test the hypotheses;
- know how to do the data-mining in financial and investment sphere.

Teaching method: Seminars, Discussions

Assessment: literature reviews, other home assignments, presentations (team work), participation in inclass discussions.

Prerequisites: Basic Finance course, Microeconomics course

Course Teachers and Contact Details:

The Head of research seminar is Assistant Professor Elena Chirkova echirkova@hse.ru

The participant teachers are multiple including Assistant and Associate Professors Madina Karamysheva, PhD, Victoria Dobrynskaya, PhD, Sergey Kuzubov, Anastasia Stepanova in Part 1, and Professor Ivan I. Rodionov, Assistant and Associate Professors Maria Kokoreva, Sergey Stepanov, PhD, Elena Makeeva and Victoria Cherkasova in Part II.

Reading Material:

Reading material consists of following books and papers and a large number of articles from top finance journals (the list by topics is provided below).

1. Roberts, M.R. and Whited, T.M., 2012. Endogeneity in empirical corporate finance.
2. Kothari, S.P. and Warner, J.B., 2004. The econometrics of event studies.
3. Fama E.F., French .R. Testing Trade-Off and Pecking Order Predictions about Dividends and Debt // *Review of Financial Studies*, 2002, 15, pp.1-33.

Preliminary schedule

	Topic	Total hours	Contact hours	Home work
1	Topic 1. How to write a research paper in finance. Formal and informal requirements to master theses.	16	4	12
2	Topic 2. Databases and resources of the HSE library and their use in the studies in corporate finance	4	4	12
3	Topic 3. Econometric problems & Event studies	16	8	12
4	Topic 4. Multifactor asset pricing models.	24	12	24
5	Tema 5. Financial reporting quality: is fair value a plus or a minus	32	4	12
6	Topic 6. The integrated / non-financial reporting of the companies	32	8	12
7	Topic 7. Presentations of the research questions and hypotheses	16	4	24
	Totally Part 1	152	44	108
8	Topic 8. IPO studies	16	8	8
9	Topic 9. Capital structure: modern concepts	24	8	16
10	Topic 10. Evaluation of investment policy of industrial company based on the analysis of dynamics of investment activity index	16	8	8
11	Topic 11. Predicting bankruptcy	16	8	8
12	Topic 12. Research of the Russian	20	8	12

	venture industry taking into account the experience of developed and developing countries			
13	Topic 13. Presentations of the literature reviews and the progress on master thesis	60	24	36
	Total Part 2	152	64	88

Grading

Your grade is based on an average grade for all the tasks accomplished during the course (all weights equal).

You should work in teams of 3-5 on the assignments. It is the responsibility of a student to form a team or to join to a team. The student cannot complete the assignments individually.

Number of presentations, the amount of time for presentation and discussion may vary depending on the number of seminars and number of participants. All seminar participants are expected to engage in discussion. The presentations are held during the whole course at the beginning of class. In case of non coming and being late for more than 15 minutes for the seminar the student does not get a positive grade for the presentation.

Extended Course Outline and Reference list by Topics Part 2. Second semester.

Topic 8. IPO studies. Sergei Stepanov

This part of the research seminar will be dealing with initial public offerings (IPO). We will try to cover the following questions. Why does a firm decide to go public? How do firms choose the timing of an IPO? What is the optimal procedure? What is the role of intermediaries (underwriters) in the process? What is the short- and long-run performance of IPO firms (both operating and stock price) and why?

Literature:

1. Bodnaruk, A., E. Kandel, M. Massa, and A. Simonov. 2008. "Shareholder Diversification and the Decision to Go Public." *The Review of Financial Studies* 21:6, 2779-2825.
2. Brau, James C., 2012, Why do firms go public?, in: D. Cumming (ed.), Handbook of Entrepreneurial Finance (Oxford, Oxford University Press).
3. Brau, James C., and Stanley E. Fawcett, 2006, Initial public offerings: An analysis of theory and practice, *Journal of Finance* 59, 399-436.
4. Chemmanur, T.J., Fulghieri, P., 1999. "A theory of the going public decision." *Review of Financial Studies* 12, 249-279.
5. Jenkinson, Tim, and Howard Jones. "IPO pricing and allocation: a survey of the views of institutional investors." *Review of Financial Studies* 22.4 (2009): 1477-1504.
6. Jain, Bharat A., and Omesh Kini. "The post-issue operating performance of IPO firms." *The journal of finance* 49.5 (1994): 1699-1726.
7. Loughran, Tim, and Jay R. Ritter. "Why Has IPO Underpricing Changed Over Time?." *Financial Management* 33.3 (2004).
8. Loughran, Tim, and Jay R. Ritter. "The new issues puzzle." *The Journal of Finance* 50.1 (1995): 23-51.
9. Mello, A.S., Parsons, J.E., 1998. "Going public and the ownership structure of the firm." *Journal of Financial Economics* 49, 79-109.

10. Pagano, M., Panetta, F., Zingales, L., 1998. "Why do companies go public? An empirical analysis." *Journal of Finance* 53, 27–64.
11. Ritter, Jay R. "Equilibrium in the Initial Public Offerings Market." *Annual Review of Financial Economics* 3.1 (2011): 347-374.
12. Ritter, Jay R., and Ivo Welch. "A review of IPO activity, pricing, and allocations." *The Journal of Finance* 57.4 (2002): 1795-1828.
13. Schultz, Paul, 2003, "Pseudo market timing and the long-run underperformance of IPOs," *Journal of Finance* 58.2: 483-518.
14. Teoh, Siew Hong, Ivo Welch, and Tak J. Wong. "Earnings management and the long-run market performance of initial public offerings." *The Journal of Finance* 53.6 (1998): 1935-1974.
15. Woojin Kim, Michael S. Weisbach, 2008, "Motivations for public equity offers: An international perspective," *Journal of Financial Economics* 87: 281–307
16. Zingales, L., 1995. "Insider ownership and the decision to go public." *Review of Economic Studies* 62, 425–448.

Topic 9. Capital structure: modern concepts. Maria Kokoreva

Methods of testing the crucial capital structure hypotheses and model. What is new about capital structure concepts in the financial world after 2000s.

Literature:

1. Bhaduri S. Determinants of Capital Structure Choice: a Study of Indian Corporate Sector – *Applied Financial Economics*, 2002, n.12, pp.655-665
2. Chirinko, R. S., Singha, A. R. Testing Static Trade-off Against Pecking Order Models of Capital Structure: a Critical Comment. - *Journal of Financial Economics* , 2000, n. 58, pp. 417-425
3. Fama E.F., French .R. Testing Trade-Off and Pecking Order Predictions about Dividends and Debt. - *Review of Financial Studies*, 2002, n.15, pp.1-33
4. Hart O., Moor J. A Theory of Debt Based on the Inalienability of Human Capital.- *Quarterly Journal of Economics*, 1994, n.109, 841-879
5. Hart O., Moor J. Default and Renegociation: A Dynamic Model of Debt.- *Quarterly Journal of Economics*, 1998, n.113, pp.1-41
6. Hennessy/ Whited, 2004
7. Goldstein R.N, Ju and H.Leland. An EBIT-Based Model of Dynamic Capital Structure. – *Journal of Business*, 2001, n.74, pp.483-512
8. Hovakimian A., Hovakimian G. and H.Tehrani, Determinants of target capital structure: The case of dual debt and equity issues - *Journal of Financial Economics*, 2004 Vol 71, P 517-540
9. Hovakimian A., Opler T.C., Titman S. The Debt-Equity Choice. *Journal of Financial and Quantitative Analysis*. 2001, vol.36, pp.1-24
10. Kayhan, A., and S. Titman (2007), "Firms' histories and their capital structures", *Journal of Financial Economics* 83 (1), pp.1-32
11. Opler T.C., Titman S. Designing Capital Structure to Create Shareholder Value. - *Journal of Applied Corporate Finance*, 1997, vol.10, n.1
12. Glen J and Singh A. Comparing capital structures and rates of return in developed and emerging markets, *Emerging Markets Review* , Volume 5, Issue 2, June 2004, Pages 161-192
13. Chui C.W., Lloyd Alison.E., Kwok C.Y. The Determination of Capital Structure: Is National Culture a Missing Piece to the Puzzle? *Journal of International Business Studies*, Vol. 33, No. 1. (1st Qtr., 2002), pp. 99-127.
14. Baker M., Wurgler J. Market Timing and Capital Structure. *The Journal of Finance*, Vol. 57, No. 1. (Feb., 2002), pp. 1-32.
15. Vicente-Lorente D. Specificity and Opacity as Resource-Based Determinants of Capital Structure: Evidence for Spanish Manufacturing Firms. *Strategic Management Journal*, Vol. 22, No. 2. (Feb., 2001), pp. 157-177.

16. Leland H.E. Agency Costs, Risk Management, and Capital Structure. *The Journal of Finance*, Vol. 53, No. 4, Papers and Proceedings of the Fifty-Eighth Annual Meeting of the American Finance Association, Chicago, Illinois, January 3-5, 1998. (Aug., 1998), pp. 1213-1243.
17. Brick I.E., Frierman M., Kim Y.K., Asymmetric Information Concerning the Variance of Cash Flows: The Capital Structure Choice. *International Economic Review*, Vol. 39, No. 3. (Aug., 1998), pp. 745-761.
18. Kovenock D., Phillips G.M. Capital Structure and Product Market Behaviour: An Examination of Plant Exit and Investment Decisions. *The Review of Financial Studies*, Vol. 10, No. 3. (Autumn, 1997), pp. 767-803.
19. Berger P.G., Ofek E., Yermack D.L. Managerial Entrenchment and Capital Structure Decisions. *The Journal of Finance*, Vol. 52, No. 4. (Sep., 1997), pp. 1411-1438.
20. Spiegel Y., Spulber D.F. Capital Structure with Countervailing Incentives. *The RAND Journal of Economics*, Vol. 28, No. 1. (Spring, 1997), pp. 1-24.
21. Zwiebel J. Dynamic Capital Structure under Managerial Entrenchment. *The American Economic Review*, Vol. 86, No. 5. (Dec., 1996), pp. 1197-1215.
22. Kochhar R. Explaining Firm Capital Structure: The Role of Agency Theory vs. Transaction Cost Economics. *Strategic Management Journal*, Vol. 17, No. 9. (Nov., 1996), pp. 713-728.
23. Berens J.L. Cuny C.J. The Capital Structure Puzzle Revisited. *The Review of Financial Studies*, Vol. 8, No. 4. (Winter, 1995), pp. 1185-1208.
24. Lewis T.R. Sappington E.M. Optimal Capital Structure in Agency Relationships. *The RAND Journal of Economics*, Vol. 26, No. 3. (Autumn, 1995), pp. 343-361.
25. Firth M. The Impact of Institutional Stockholders and Managerial Interests on the Capital Structure of Firms. *Managerial and Decision Economics*, Vol. 16, No. 2. (Mar. - Apr., 1995), pp. 167-175.
26. Harris H.B. Asset Specificity, Capital Intensity and Capital Structure: An Empirical Test. *Managerial and Decision Economics*, Vol. 15, No. 6. (Nov. - Dec., 1994), pp. 563-576.
27. Berglof E., Thadde E. Short-Term Versus Long-Term Interests: Capital Structure with Multiple Investors. *The Quarterly Journal of Economics*, Vol. 109, No. 4. (Nov., 1994), pp. 1055-1084.
28. Spiegel Y., Spulber D.F. The Capital Structure of a Regulated Firm. *The RAND Journal of Economics*, Vol. 25, No. 3. (Autumn, 1994), pp. 424-440.
29. Leland H.E. Corporate Debt Value, Bond Covenants, and Optimal Capital Structure. *The Journal of Finance*, Vol. 49, No. 4. (Sep., 1994), pp. 1213-1252.
30. Moore R.R. Asymmetric Information, Repeated Lending, and Capital Structure. *Journal of Money, Credit and Banking*, Vol. 25, No. 3, Part 1. (Aug., 1993), pp. 393-409.
31. Chang C. Capital Structure as an Optimal Contract Between Employees and Investors. *The Journal of Finance*, Vol. 47, No. 3, Papers and Proceedings of the Fifty-Second Annual Meeting of the American Finance Association, New Orleans, Louisiana January 3-5, 1992. (Jul., 1992), pp. 1141-1158.
32. Raymar S. A Model of Capital Structure when Earnings are Mean-Reverting. *The Journal of Financial and Quantitative Analysis*, Vol. 26, No. 3. (Sep., 1991), pp. 327-344.

Topic 10. Evaluation of investment policy of industrial company based on the analysis of dynamics of investment activity index. Victoria Cherkasova

Methods of quantitative estimation of investment activity. Valuation of investment activity of the companies at different stages of the life cycle. Modeling of the empirical dependence of investment activity on the integrated assessment of corporate life cycle stage. Diagnostic matrix of the choice of a rational investment policy based on the analysis of actual values of investment activity index deviations from its natural level, which enables to control and to adjust investment policy of the company in accordance with development strategy. Analysis of the investment policy type and of the strategy of its shifting. Methods of types of strategic changes assessment in the process of company development. The algorithm of investment policy creation.

Literature:

1. Danielova A., Sudipto S., Gwangheon H. (2013) «Empirical Evidence on Corporate Risk-Shifting» *The Financial Review*, 48, pp. 443–460.
2. La Rocca M., La Rocca T., Gerace D. (2008) «A survey of the relation between capital structure and corporate strategy», *Australasian Accounting Business and Finance Journal*, 2(2), pp.23-34.
3. Edward T. Jackson. (2013) «Interrogating the theory of change: evaluating impact investing where it matters most», *Journal of Sustainable Finance & Investment*, [Volume 3](#) (2), pp. 95-110.
4. Igor Stubelj. (2014) «Investment and Profits: Causality Analysis in Selected eu Countries», *Managing Global Transitions*, 12 (4), 2014, pp. 395–413.
5. Alan Carruth, Andrew Dickerson, and Andrew Henley. (1998) «Econometric modelling of uk aggregate investment: The role of profits and uncertainty», *University of Kent at Canterbury and † University of Wales, Aberystwyth*.
6. H. Loewendahl. (2001) «A framework for FDI promotion», *Transnational Corporations*, vol. 10, no. 1 (April 2001), pp. 1-42.

Topic 11. Predicting Bankruptcy.

Classic models predicting bankruptcy (Tafler, Altman, Fulmer, Russian models). The accuracy of prediction models bankruptcy. The influence of external factors on predicting bankruptcy. Russian legislation and regulations of financial stability. Sectoral differences in predicting bankruptcy. Review of methods of predicting bankruptcy. The use of econometric methods to develop predictive models. Using Rstudio to build predictive models.

Literature:

1. Altman E.I. Financial ratios, discriminant analysis, and the prediction of corporate bankruptcy // *The Journal of Finance*. – 1968. – №4. – C. 589–609.
2. Beaver W. H. Financial ratios As predictors of failure // *Journal of Accounting Research*. – 1966. – №4. – C. 71–111.
3. Chen, J., Zhang, J., 2006. Financial distress prediction in China. *Review of Pacific Basin Financial Markets and Policies* 9 (2), 317–336.
4. Eklund, T., Back, B., Vanharanta, H., 2003. Using the self-organizing maps as a visualization tool in financial benchmarking. *Journal of Information Visualization* (2), 171–181.
5. Emel, A., Oral, M., Reisman, A., Yolalan, R., 2003. A credit scoring approach for the commercial banking sector. *Socio-Economic Planning Sciences* (37), 103–123.
6. Fedorova E., Gilenko E., Dovzhenko S. BANKRUPTCY PREDICTION FOR RUSSIAN COMPANIES: APPLICATION OF COMBINED CLASSIFIERS Expert Systems with Applications. 2013. T. 40. № 18. C. 7285-7293.
7. Fulmer J.G. Jr., Moon J. E., Gavin T.A., Erwin M.J. A Bankruptcy Classification Model for small firms // *Journal of Commercial Bank Lending*. – 1984. – №7. – C. 25–37.
8. Sen, T., Stivason, Ch., 2004. Improving prediction of neural networks — a study of two financial prediction tasks. *Journal of Applied Mathematics and Decision Sciences* 8 (4), 219–233.
9. Taffler R.J., Tisshaw H. Going, Going, Gone —Four Factors which Predict // *Accountancy*. – 1977. – №3. – C. 50–54.
10. Yu, L., Wang, S., & Lai, K. K. (2008). Credit risk assessment with a multistage neural network ensemble learning approach. *Expert Systems with Applications*, 34, 1434–1444.
11. Yu, L., Yue, W., Wang, S., & Lai, K. K. (2010). Support vector machine based multiagent ensemble learning for credit risk evaluation. *Expert Systems with Applications*, 37(2), 1351–1360.

Topic 12. Research of the Russian venture industry taking into account the experience of

developed and developing countries.

Model of the national innovation system(NIS) in Russia: institutes, infrastructure, investments. Genesis of the NIS concept in 1970s and its development as a mainstream of the modern economy theory; NIS and developed countries and BRICS countries; origins of the NIS in Russia and realization of the necessity to switch to the innovation growth model at the top political level. Russian venture industry in comparison to the Europe and USA: including the role and position in the public production system, the sources of the capital, types of the fund manager companies, stages of investments and regional development. Position of the development institutes of innovation economy and venture industry in the system of the institution of the state in developed and developing countries. Venture industry development models based on public-private partnership in the developed countries (USA, Europe, Israel) and developing countries (China). Models and role of the governments in the development of financial institutes, infrastructure and venture investments. Legal environment of the venture industry in developed and developing countries: intellectual property regulation, legal forms for the venture funds and the fund manager companies, corporate law as an instrument of the risk reduction, specific of taxation for venture investments. Creation of the legal base for venture investments in Russia.

Topic 13. Presentations of the literature reviews and the progress on master thesis

List of self-control questions:

What is the difference between expected utility and prospect theories?

Describe the three steps of efficient market hypothesis. How it deals with rational investors? How it deals with irrational investors?

Does efficient market hypothesis work if in case of correlated trading strategies? Explain the conditions.

How to test the semi-strong form of efficient market hypothesis?

What are the key phenomena challenging the efficient market hypothesis?

Which seasonal anomalies do you know?

What are the most popular behavioral biases for individual investors?

Try to describe the potential consequences of every bias.

Which corporate decisions are mostly affected by behavioral biases of top managers? Why?