|  |
| --- |
| **Doctoral Programme** **Course Unit Outline 2020/21** |
| **Unit code:**  | **BMAN80312** |
| **Title:** | **Advanced Corporate Finance** |
| **Credit value:** | 15 |
| **Semester:** | 2 |
| **Course Coordinator** **contact details:** | Stefan PetryRoom 5.021, AMBSstefan.petry@manchester.ac.uk |
| **Other staff involved contact details:** | Ning Gao, Viet Dang, Roberto Mura, Kostas Stathopoulos |
| **Pre-requisites****Co-requisites****Dependent course units****Restrictions** |  |
| **Course unit overview** |
|  |
| **Aims** |
| **The course aims at providing the appropriate instruments to pursue empirical research in Corporate Finance. In particular, it starts with 2 two days training session on STATA, followed by a number of lectures that will cover the following topics in Corporate Finance: capital structure, corporate governance and control, M&A, and risk-taking.** |
| **Objectives (Learning outcomes)** |
| On completion of this unit successful students will be able to:  • Use STATA in its basic and more advanced features to conduct empirical analysis  • Understand the: - financing choices of firms with links to corporate finance and shortselling topics; - monitoring issues within companies (Corporate Governance and control topic); - payout and investment choices of firms (payout policy, M&A and risktaking)   |
| **Syllabus content** |
| The first part of the course is dedicated to build the basic/intermediate knowledge in STATA. In particular:  1. Introduction to STATA (Session leader: Dr. Roberto Mura, 2 6-hours sessions). Session I covers the following subjects: • Starting up • Creating and saving programs and output • Manipulating multiple datasets • “Looping” • Describing the data • Constructing variables • Repeated observations for the same company • Tests of means, medians, and correlation matrices • Graphs • The basic idea underlying linear regression • Single variable OLS • Correctly interpreting the coefficients  Session II covers the following subjects: • Multiple regression • Heteroskedasticity • Correlated errors • Multicollinearity • Panel data analysis: the basic idea; Linear regression, GMM  Please note that the STATA training is a compulsory part for those students enrolled in BMAN80312. Students not enrolled into this module can attend and participate to the training sessions anyway.  The second part of the module is dedicated to the discussion of three specific areas in Corporate Finance. The focus of these lectures will be mainly empirical. Each lecture will provide: - general introduction to a specific topic; - presentation and discussion of very recent empirical papers that are at the frontier of the literature in that specific area - when necessary (at the lecturer’s discretion), detailed discussion of some specific empirical techniques (i.e, event study methodology, dynamic panel data, etc etc) that may complement the STATA training sessions in the first part of the module.  Every lecture will be at least of 3 hours (no more than 5/6 hours, at the discretion of each lecturer).  In particular:  a. How firms raise finance resources:  2. Financial risk (Session leader: Dr. Stefan Petry) The session aims to provide a better understanding of (financial) risk and its proxies used in the empirical finance literature. The session starts with a brief review of the (theoretical) definition of financial risk. It then looks at various research areas that have made recent contributions in terms of methodology and/or by improving our understanding of what the risk proxies measure. It concludes with a discussion of potential directions for future research in these areas.  3. Debt Maturity (Session leader: Dr. Maria Marchica) The use of the agency costs and asymmetric information perspectives as main explanations of maturity choices will be analysed in this section. This session will be devoted to a brief discussion of the theoretical background and a more detailed presentation of the most and recent empirical papers in this area.   b. How firms are monitored in managing their resources:  4. Corporate Governance: (Session leader: Dr. Konstantinos Stathopoulos) This session provides an overview of the latest empirical evidence on Corporate Governance (CG). It summarizes the evidence on the role of the major CG mechanisms, internal and external, and presents current CG systems and practices together with potential future research areas. There will be an extensive discussion of a couple papers primarily focusing on conceptual and methodological issues.  c. How firms invest their resources:  5. Investment decisions and risk-taking (Session leader: Dr. Roberto Mura) This session aims at discussing in detail the most recent developments in the literature about risk-taking. First, it provides a general background about the literature on risktaking from companies. Then, it discusses the recent empirical development in this literature taking into account the international perspective, the link between risk-taking and economic growth and the link between risk-taking and portfolio diversification.  6. M&A (Session leader: Dr. Ning Gao) This session will provide an introduction to research questions in the area of corporate merger and acquisitions (M&A), recent development in this area, and related empirical techniques. It will focus on two specific topics: performance of merging firms and the effects of cash in takeovers.   |
| **Methods of delivery** |
| **Lectures** | 12 (Section I)+15(Section II) |
| **Seminar/Tutorial/Workshop/Lab Hours** | Where appropriate, indicate how many hours per week, number of weeks teaching |
| **Independent Study** | 73 |
| **Total Study Hours** | 100 |
| **Reading List** |
| Pre-requisites  BMAN71152 Corporate Finance or equivalent. Students are expected to be familiar with the fundamental theories on capital structure: Modigliani-Miller Theorem, Static Trade-off theory and Pecking Order theory. Relevant readings are Modigliani and Miller (1958, AER), Myers (1984, JF) and Myers and Majluf (1984, JFE).  Preliminary (provisional) reading for each topic:   1. Financial risk  Augustin, P., Subrahmanyam, M.G., Tang, D.Y., Wang, S.Q., 2014. Credit Default Swaps: A Survey. Foundations and Trends in Finance 9, 1—196. Bartram, S.M., Brown, G.W., Waller, W., 2015. How important is financial risk? Journal of Financial and Quantitative Analysis 50, 801–824. Choi, J. and M. Richardson, 2016. The volatility of a firm’s assets and the leverage effect. Journal of Financial Economics 121, 254—277. Dyer, T., Lang, M., Stice-Lawrence, L., 2017. The evolution of 10-K textual disclosure: Evidence from Latent Dirichlet Allocation. Journal of Accounting and Economics 64, 221–245. Fracassi, C., Petry, S., Tate, G., 2016. Does rating analyst subjectivity affect corporate debt pricing? Journal of Financial Economics 120, 514—538. Modigliani, F. and M. Miller. The Cost of Capital, Corporation Finance and the Theory of Investment, American Economic Review 48, 261—297.   2. Debt Maturity  a) Theoretical papers Diamond, D.W., (1991), ‘Debt maturity structure and liquidity risk‘, Quarterly Journal of Economics 106, 709-737 (For liquidity risk perspective). Flannery, M., (1986), ‘Asymmetric information and risky debt maturity choice‘, Journal of Finance 41, 19-37. (For asymmetric information perspective). Myers, S.C., (1977), ‘Determinants of corporate borrowing‘, Journal of Financial Economics 5, 147-175. (For agency costs of debt perspective).  b) Empirical papers Barclay, M.J., Marx, L.M., Smith, C.W., (2003), ‘The joint determination of leverage and maturity‘, Journal of Corporate Finance 9, 149-167. Brockman, P., X. Martin, and E. Unlu, (2010), ”Executive Compensation and the Maturity Structure of Corporate Debt”, Journal of Finance, fortchcoming. Datta, S., Iskandar-Datta, M., Raman, K., (2005), ‘Managerial stock ownership and the maturity structure of corporate debt‘, Journal of Finance LX, 2333-2350. Guedes, J., Opler, T., (1996), “The determinants of the maturity of corporate debt issues”, Journal of Finance 51, 1809-1833. Johnson, S.A., (2003), “Debt maturity and the effects of growth opportunities and liquidity risk on leverage”, Review of Financial Studies 16, 209-236. Kim, W.S., Sorenson, E.H., (1986), “Evidence on the impact of the agency costs of debt on corporate debt policy”, Journal of Financial and Quantitative Analysis 3, 131144. Stohs, M., Mauer, D., (1996), “The determinants of corporate debt maturity structure”, Journal of Business 69, 279-312.  3. Corporate Governance  Bebchuk, L. A., J. M. Fried, and D. I. Walker, (2002), “Managerial power and rent extraction in the design of executive compensation”, The University of Chicago Law Review 69, 751-846. Demsetz, H. and K. Lehn, (1985), “The Structure of Corporate Ownership: Causes and Consequences”, Journal of Political Economy 93, 1155-1177. Denis, Diane K. and McConnell, John J., "International Corporate Governance" (January 2003). ECGI - Finance Working Paper No. 05/2003; and Tuck-JQFA Contemporary Corporate Governance Issues II Conference. http://ssrn.com/abstract=320121 Jensen, M., and W. H. Meckling, (1976), “Theory of the firm: managerial behaviour, agency costs and ownership structure”, Journal of Financial Economics 3, (4) 305-360. Murphy, K. J., (2002), ”Explaining executive compensation: Managerial power versus the perceived cost of stock options”, The University of Chicago Law Review 69, 846869. Shleifer, A., and R. W. Vishny, (1997), ”A Survey of Corporate Governance”, Journal of Finance 52, 737-783.    4. Risk-taking  Acemoglu, Daron, and Fabrizio Zilibotti, 1997, “Was Prometheus Unbound by Chance? Risk, Diversification, and Growth,” Journal of Political Economy, 105: 709-751. Agrawal, Anup, and Gershon N. Mandelker, G., 1987, “Managerial Incentives and Corporate Investment and Financing Decisions,” Journal of Finance, 42(4): 823– 837. Amihud, Yakov, and Baruch Lev, 1981, “Risk Reduction as a Managerial Motive for Conglomerate Mergers,” The Bell Journal of Economics, 12(2): 605-617. Anderson, Ronald C., and David M. Reeb, 2003, “Founding-Family Ownership, Corporate Diversification, and Firm Leverage,” Journal of Law and Economics, 46: 653-684. Coles, Jeffrey L., Naveen D. Daniel, and Lalitha Naveen, 2006, “Managerial Incentives and Risk-Taking,” Journal of Financial Economics, 79: 431-468. Faccio, M., Marchica, M.T., and R. Mura, 2010, Large shareholder diversification and corporate risk-taking, working paper. John, Kose, Lubomir Litov, and Bernard Yeung, 2008, “Corporate Governance and RiskTaking,” Journal of Finance, 63(4): 1679-1728. Kempf, Alexander, Stefan Ruenzi, and Tanja Thiele, 2009, “Employment Risk, Compensation Incentives, and Managerial Risk Taking: Evidence From the Mutual Fund Industry,” Journal of Financial Economics, 92: 92-108. Saunders, Anthony, Elizabeth Strock, and Nickolaos G. Travlos, 1990, “Ownership Structure, Deregulation, and Bank Risk Taking,” Journal of Finance, 45: 643-654.   5. M&A a. Performance of merging firms  Martin, K. J., 1996. The method of payment in corporate acquisitions, investment opportunities, and management ownership. Journal of Finance 51, 1227–1246. Travlos, N. G., 1987. Corporate takeover bids, methods of payment and bidding firms’ stock returns. Journal of Finance 42, 943–963. Gao, N. and W. Liu, 2016. Liquidity benefits and acquirer long-term performance. Working paper, the University of Manchester. Serveas, H., 1991. Tobin’s Q and the gains from takeovers. Journal of Finance 46, 409– 419. Rau, P.R. and T. Vermaelen, 1998. Glamour, value and the post-acquisition performance of acquiring firms. Journal of Financial Economics 49, 223–253.  b. The effects of cash in takeovers  Harford, J., 1999. Corporate cash reserves and acquisitions. Journal of Finance 54, 1969– 1997. Harford, J., S.A.Mansi, and W.F.Maxwell, 2008. Corporate governance and firm cash holdings in the US. The Journal of Financial Economics 87, 535–555. Gao, N., 2009. The adverse selection effect of corporate cash reserve: Evidence from acquisitions solely finance by stock. Journal of Corporate Finance 17(4), 798– 808. Gao N. and A. Mohammed, 2016. Cash-rich acquirers do not make bad acquisitions: new evidence. Working paper.  c. Additional readings  Merger Waves Rhodes-Kropf, M., D. T. Robinson and S. Viswanathan, 2005. Valuation waves and merger activity: the empirical evidence. Journal of Financial Economics 77, 561– 603. Mitchell and Mulherin, 1996. The impact of industry shocks on takeover and restructuring activity. Journal of Financial Economics 41, 193–229. Shleifer, A. and R. W. Vishny, 2003. Stock market driven acquisitions. Journal of Financial Economics 70, 295–311. Rhodes-Kropf, M. and S. Viswanathan, 2004. Market valuation and merger waves. The Journal of Finance 60, 2685–2718.  Agency, antitakeover and the market for corporate control  Gompers, P., J. Ishii, and A. Metrick, 2003. Corporate governance and equity prices. The Quarterly Journal of Economics 118, 107–155. Bebchuk, Cohen, and Ferrel, 2009. What matters in corporate governance? Review of Financial Studies 22, 783–827. Morck, R., A. Shleifer and R. W. Vishny, 1990. Do managerial objectives drive bad acquisitions? Journal of Finance 45, 31–48. Jensen and Ruback, 1983. The market for corporate control: the scientific evidence. Journal of Financial Economics 11, 5–50. Schlingemann, F. P., 2004. Financing decisions and bidder gains. Journal of Corporate Finance 10, 683–701.  Means of payment Faccio and Masulis, 2005. The choice of payment method in European merger and acquisitions. The Journal of Finance 60, 1345–1388. Hansen, Robert G., 1987, A theory for the choice of exchange medium in mergers and acquisitions, Journal of Business 60, 75-95. Fishman, M.J., 1989. Preemptive bidding and the role of the medium of exchange in acquisitions. J. Finance 44, 41–57.    |
| **Assessment** |

|  |  |  |
| --- | --- | --- |
| **Mode of Assessment** | **Length required** | **Weighting within unit** |
| As the focus of this module is mainly empirical, students will be required: - to replicate the results of existing empirical papers (or some parts of them) in a specific topic (conditional on the availability of data and/or complexity of the analysis) AND/OR - to critical discuss existing empirical papers (other than those presented during the class).  Assessment will be via two term papers of 2,000 words each. Each term paper should include the relevant reference list (which is not taken into account in the words count). Suggested topics and reading will be set by the lecturers of the course, and assessed by them. All papers must be submitted by the 17th of April 2020 to Mark Falzon (mark.falzon@manchester.ac.uk). Each term paper should be sent in a separate file. Give clear and exact deadline dates for submission of coursework. Indicate any formative assessment, as appropriate.  |  |  |
| **Resits**: by coursework |  |  |

|  |
| --- |
| **Feedback methods** |
| Informal advice and discussion will be provided during lectures.Written comments will be provided on the term paper. These will be available either via Turnitin on Blackboard or from the Doctoral Programmes Office. |