

PGR Course unit outline 2022/23

Unit code:	BMAN80312
Title:	Advanced Corporate Finance
Credit value:	15
Semester:	2
Course Coordinator contact details:	Stefan Petry Room 5.021, AMBS stefan.petry@manchester.ac.uk
Other staff involved contact details:	Ning Gao, Viet Dang, Roberto Mura, Kostas Stathopoulos, Emiel Jerphanion, Ellen Ye
Pre-requisites Co-requisites Dependent course units Restrictions	BMAN71152 Corporate Finance or equivalent.

Course unit overview

Aims

The course aims at providing the appropriate instruments to pursue empirical research in Corporate Finance. In particular, it includes several lectures that will cover the following topics in Corporate Finance: capital structure, corporate governance and control, M&A, and risk-taking. There will be also a lecture related to Household of Finance that will complement the corporate investment decisions

Objectives (Learning outcomes)

On completion of this unit successful students will be able to:

- 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) and, as complement, saving (investment) choices of households
- understand the advanced features on how to conduct empirical analysis

Syllabus content

The module is dedicated to the discussion of three broad areas in Corporate Finance and Household of 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 included in BMAN80711 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:

1. 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.

2. Capital Structure (Session leader: Prof. Viet Dang) 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:

3. Corporate Governance: (Session leader: Prof. 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.

4. Institutional investors and corporate governance: (Session leader: Dr. Ellen Ye). This session will start from the ideas of voice and exit and then discuss a series of empirical papers involving mutual funds, hedge funds, and pension funds activism. In the end, the focus will be into shareholder meetings and votes – institutional details and recent papers. There will be also a discussion of some key databases primarily on the ISS voting analytics, briefly on CRSP Mutual funds, s12, and s34.

c. How firms invest their resources:

5. Investment decisions and risk-taking (Session leader: Prof. 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.

7. Household saving decisions (Session leader: Dr. Emiel Jerphanion) The session aims to provide a better understanding of why household save and the observed heterogeneity in saving propensities. Studying saving decisions are central in understanding a household's direct or indirect investments in financial markets, borrowing behaviour, lifecycle portfolio choices and financial security. The session provides an overview of the leading theories for saving motives, and reviews important differences between various measures of household saving behaviour. Finally, the session will provide an in-depth discussion of recent empirical papers that made a substantial contribution to the literature.

Methods of delivery	
Lectures	21
Seminar/Tutorial/Workshop/Lab Hours	
Independent Study	129
Total Study Hours	150
Reading List	
<p>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).</p> <p>Preliminary (provisional) reading for each topic:</p> <p>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.</p> <p>2. Capital Structure Agrawal, A.K. and Matsa, D.A., 2013. Labor Unemployment Risk and Corporate Financing Decisions. Journal of Financial Economics 108(2), 449–470. Elsas, R., Florysiak, D., 2015. Dynamic Capital Structure Adjustment and the Impact of Fractional Dependent Variables. Journal of Financial and Quantitative Analysis 50, 1105–1133. Faulkender, M., Flannery, M.J., Hankins, K.W., Smith, J.M., 2012. Cash Flows and Leverage Adjustments. Journal of Financial Economics 103, 632–646. Frank, M.Z., Goyal, V.K., 2008. Chapter 12 - Trade-Off and Pecking Order Theories of Debt in Eckbo, B. (Ed.), Handbook of Empirical Corporate Finance. Elsevier, San Diego, 135–202. Graham, J.R. and Leary, M.T., 2011. A Review of Empirical Capital Structure Research and Directions for the Future. Annual Review of Financial Economics, Vol. 3. Heider, F. and Ljungqvist, A., 2015. As Certain as Debt and Taxes: Estimating the Tax Sensitivity of Leverage from State Tax Changes. Journal of Financial Economics 118, 684–712. Klasa, S., H. Ortiz-Molina, M. Serfling, and S. Srinivasan. 2018. Protection of Trade Secrets and Capital Structure Decisions. Journal of Financial Economics 128, 266–86. Öztekin, Ö., Flannery, M.J., 2012. Institutional Determinants of Capital Structure Adjustment Speeds. Journal of Financial Economics 103, 88–112. Serfling, M. 2016. Firing Costs and Capital Structure Decisions. Journal of Finance 71, 2239–86.</p> <p>3. Corporate Governance</p>	

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, 846-869. 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 Nikolaos 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–

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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.

6. Household Finance (full reading list TBC)

Fuchs-Schündeln and Schündeln, 2005. Precautionary Savings and Self-Selection: Evidence from the German Reunification “Experiment”, *Quarterly Journal of Economics*, 120(3), 1085-1120.

Gallagher, Gopalan, Grinstein-Weiss and Sabat, 2020. Medicaid and household savings behavior: New evidence from tax refunds, *Journal of Financial Economics*, 136, 523-546.

Assessment

Mode of Assessment	Length required	Weighting within unit
<p>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).</p> <p>Assessment will be via one term paper of 2,000 words. The term paper should include the relevant reference list (which is not taken into account in the words count).</p> <p>Suggested topics and reading will be set by the lecturers of the course and assessed by them. All papers must be submitted by the 28th of April 2023 to Mark Falzon (mark.falzon@manchester.ac.uk).</p>		
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.

Social Responsibility

AMBS aims for our graduates to develop not only academic and professional skills, but also a sense of social, ethical and environmental responsibility towards the societies of which they are part. Please give details of how social responsibility is addressed in your course unit by highlighting any knowledge or skills that support students' social and ethical understanding and conduct.

A classroom culture is being promoted that is inclusive and anti-racist, and that sets standards of behaviour for positive and respectful interactions. The lectures create a supportive learning environment for all, and a curriculum that is engaging for students from all backgrounds. Racism, discrimination and micro-aggressions are not tolerated.

Please indicate by ticking the box(es) below, which specific aspect of SR your module is linked to:

☐

A UN SDGs*

☐

Environmental Sustainability

☐

Other (please specify)

** If a UN SDG, please note which one by reviewing the list [here](#)*

For additional support on how embed SR into your module, please review the resources here:

<https://documents.manchester.ac.uk/DocuInfo.aspx?DocID=51837>

<https://documents.manchester.ac.uk/DocuInfo.aspx?DocID=47017>