Corporate Finance I

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Course Description

This course is designed to introduce students to foundational theoretical models and empirical techniques in corporate finance. It is designed to have two components — a theory focused module and an empirical methods module — that are linked. The course will begin with the theory-focused module and conclude with the empirical-focused module. The goal of the theoretical component is to review classical theory papers in corporate finance and contract theory. It is assumed that students have taken an introductory course in microeconomics and are familiar with game theory and incomplete information. The goal of the empirical component of the course is to review econometric methods commonly used in corporate finance research. The module is designed to act as a bridge between a typical graduate course in theoretical microeconometrics and the practice of empirical research. It is assumed that students have taken an introductory course in econometrics and are familiar with, among other things, evaluation of econometric estimators and problems with omitted variables.

Course Evaluation

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<th>Component</th>
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<tr>
<td>Class Participation</td>
<td>20%</td>
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<tr>
<td>Problem Set (1)</td>
<td>20%</td>
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<tr>
<td>Referee Report (3)</td>
<td>30%</td>
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<tr>
<td>Corporate Topic Report</td>
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Referee reports will be due (tentatively) October 26, Nov. 23, and December 14. We will provide further guidance on the Topic Report during the course.
Theoretical Module

Tentative Topic and Reading List
Papers in **bold** are required for the lecture. Papers that are other papers should be read by the end of the course.

1  Lecture 1  Frictions and Corporate Finance (A. Dyck)

*Date: October 12, 2017*

Required Reading for session 1

Start with these two readings

- **Tirole, Jean, The Theory of Corporate Finance, Introduction, p 1.-11**

And for the first session you must read the following that are **bold** with an asterisk, and you should read before the end of the year the other listed articles.

1. A Theory of the Firm

   - **Coase, R., 1937, “Nature of the Firm,” Economica 4, 386-405.**

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


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

   - **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


2 Lecture 2 Frictions and Corporate Finance (A. Dyck)

*Date: October 19, 2017*

We will return to some of articles from Lecture 1

You must in addition read chapters in Tirole Text listed below

• Chapter 3 – Imperfect Information models moral hazard

• Chapter 6 – Imperfect Information models adverse selection

• Chapter 10 – Incomplete Contracting Models focus on 10.2

And you must read the following that are bold with an asterisk, and you should read before the end of the year the other listed articles.

1. The Firm as a Collection of Assets and Its Implications

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


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

2. Financial Intermediation


Empirical Module

Tentative Topic and Reading List

Papers in **bold** are required. Papers that are underlined should be skimmed. I suggest that all PhD students purchase a copy of *Mostly Harmless Econometrics*. This is a textbook that will be useful for many of you going forward.

3 Perspectives on Empirical Analysis (Lecture 1)

*Date: November 9, 2017*

3.1 Why do we care about econometrics?

1. Angrist, J. and J.-S. Pischke, 2010, The credibility revolution in empirical economics: How better research design is taking the con out of econometrics, *Journal of Economic Perspectives*


3. Shadish, W., T. Cook, and D. Campbell, 2002, *Experimental and Quasi-Experimental Designs for Generalized Causal Inference*, Chapters 1 – 3 (Note that I will provide you a photocopy of the relevant chapters I DO NOT expect you to purchase this book.)
3.2 What are we estimating? What are we NOT estimating? How can we do this?


4 Introduction OLS and Limitations (Lecture 1)

1. OLS

2. Control strategies for selection — Matching, Propensity Score Matching, Two-stage selection modeling
   - Persson, T. and G. Tabellini, 2005, *The Economic Effects of Constitutions*, Chapter 5 (Note that I will provide you a photocopy of the relevant chapter I DO NOT expect you to purchase this book.)
   - Persson, T. and G. Tabellini, 2005, *The Economic Effects of Constitutions*, Chapter 6 (Note that I will provide you a photocopy of the relevant chapter I DO NOT expect you to purchase this book.)
   - Kleymenova, A., 2015, Consequences of Mandated Bank Liquidity Disclosures, *University of Chicago working paper* (Note that I will send you a different version of the paper than the one that is currently publicly available)
   - Rosenbaum, P. and D. Rubin, 1983, The central role of the propensity score in observational studies for causal effects, *Biometrika*

5 Introduction to Common Methods with Examples (Lecture 2)

*Date: November 16, 2017*
5.1 Instrumental Variables

1. Introduction/Homogeneous effects

- Atanasov, V. and B. Black, 2016, The trouble with instruments: Re-examining shock based IV designs, Northwestern WP

2. Heterogenous effects/local effects

- Bernstein, S., 2015, Does Going Public Affect Innovation?, *Journal of Finance*

5.2 Diff-in-Diff and Natural Experiments (Lecture 3)

*Date: November 30, 2017*

1. Introduction

- Karpoff, J. and M. Wittry, 2016, Institutional and legal context in natural experiments: The case of state antitakeover laws, working paper
- Akey, P., R. Heimer, and S. Lewellen, Politicizing Consumer Credit, working paper
2. Triple differences and non-standard diff-in-diff

- Shadish, W., T. Cook, and D. Campbell, 2002, *Experimental and Quasi-Experimental Designs for Generalized Causal Inference*, Chapters 5 – 6 (Note that I will provide you a photocopy of the relevant chapters I DO NOT expect you to purchase this book.)


5.3 Regression Discontinuity Design (Lecture 4)

*Date: December 7, 2017*

1. Introduction to RDD


- Keys, B., T. Mukherjee, A. Seru, and V. Vig, 2008, Did securitization lead to lax screening? Evidence from subprime loans, *Quarterly Journal of Economics*

2. Extensions (Regression Kink Design and identification away from the threshold)


- Dobridge, C., 2016, Fiscal Stimulus and Firms: A Tale of Two Recessions, working paper

5.4 Other Methods and Common Problems (things that Pat likes and things that drive Pat bonkers)


7. Fixed Effects and Problems with limited dependent model methods

   - Greene, W., 2004, The behaviour of the maximum likelihood estimator of limited dependent variable models in the presence of fixed effects, *Econometrics Journal*