Course Overview: The course provides a graduate level introduction into the field of empirical corporate finance. The aim is to expose you to important recent papers and developments in the field, summarize the main issues and challenges of research in this field, and outline some standard methods used to overcome these issues. My objective is to motivate you to think about what constitutes a good empirical paper, generate and evaluate your ideas, and make progress on your own research. We will also consider a few theoretical papers and will discuss how to bridge a gap between theoretical and empirical research.

Textbooks: There are no required textbooks for this class. However, as background reading you can find helpful:

- The theory of corporate finance, by Jean Tirole (Tirole’s aim is to simplify models; hence the text is more comprehensive than the original theory papers. The disadvantage though that if you read this book only, you are not exposed to many different theoretical frameworks).
- Angrist and Pischke, Mostly harmless econometrics: An empiricist’s companion.

Methodological papers:

- Whited, Toni and Roberts, Michael (2012), Endogeneity in empirical corporate finance (Excellent source for an empiricist interested in corporate finance)
- Imbens, Guido and Thomas Lemieux, 2008, Regression discontinuity designs: A guide to practice, NBER working paper
- Lee, David S. and Thomas Lemieux, 2009, Regression discontinuity designs in economics, NBER working paper
- McCrary, Justin, 2008, Manipulation of the running variable in the regression discontinuity design: A density test
- Berk, Jonathan B., Campbell R. Harvey, and David Hirshleifer, Preparing a Referee Report: Guidelines and Perspectives

Grading Policy: Your grade will be calculated as follows:

Problem sets: 10%
Paper critiques (2): 15%
Research idea assignment (1): 10%
Research proposal and presentation (1) 20%:
Class participation and paper presentations: 20%
Final exam: 25%

Assignments:

There will be one or two problems sets that students need to work out individually. Students will also need to complete two paper critique reviews. The critique has to summarize the main contribution of the paper and place it in the literature, explain the major necessary assumptions made by the paper and discuss their validity, offer possible extensions or modifications to the model, assess whether the model captures the key elements of the real world and the main tradeoffs and whether it is tractable, and assess the strength and importance of the empirical work (if any is done in the paper). Please try to present your original thoughts rather than trying to look up on the web how a particular paper has been criticized by someone else. The critique will be presented in class, aim for 15 minutes.

Students will also have to submit one original research idea that have not been implemented elsewhere in the literature. The idea should be pertinent to research in empirical corporate finance. The idea should briefly summarize what the student plans to do and explain the economic importance of studying this question (1-2 pages). Why do you think it is interesting? Why do you think this question is understudied? What new will financial economists learn if your research is implemented? Please do not be discouraged if you think your research ideas are not good enough, it is not easy to produce good ideas.

A research proposal along with the presentation is due in the last class. The proposal has to contain original research by a student. It should be accompanied by an abstract of less than 100 words, and contain literature review section, motivation of the research question, the proposed methodology, and what kind of data you plan to use or at least would like to use. The use of actual data and some empirical analysis is highly desirable, but it is not strictly required given a short amount of time.

Academic Integrity: Any student caught cheating will receive a grade of zero for that exam/assignment and/or a failing grade for the course.

Some dates to keep in mind:

February 17: Referee report 1 is due
February 24: Research idea is due
March 4: Referee report 2 is due
March 18: Presentation of research proposal
March 30: Proposal write-up is due by email
April 1: Final exam
Outline of Topics (tentative)

Lecture 1. Trade-off, pecking order, and market timing theories of capital structure

8) Baker, Michael, and Wurgler, Jeffrey, 2015, The risk anomaly tradeoff of leverage, working paper. (s)

Extra Topic 1: How to write a referee report?

Extra Topic 2: Standard Errors in Corporate Finance

Lecture 2. Can structural models explain capital structure evidence?


Lecture 3. Internal vs. external finance and corporate investment


**Lecture 4. Internal capital markets**

**Lecture 5. Dealing with endogeneity in empirical corporate finance (instrumental variables)**
4) Shue, Kelly, and Richard Townsend, 2014, Swinging for the fences: Executive reactions to quasi-random option grants, working paper (s).

Lecture 6. Dealing with endogeneity (regression discontinuity)


Lecture 7. Dealing with endogeneity (difference-in-difference, etc.)

4) Hennessy, Christopher A. and Ilya A. Strebulaev, 2015, Beyond random assignment: Credible inference of causal effects in dynamic economies, *NBER working paper*

Lecture 8. Capital structure and corporate strategy, product markets


**Lecture 9. Executive compensation**


