FINM8004
Advanced Corporate Finance

Course Description
This course introduces students to the academic research in corporate finance. Corporate finance theory deals with the roles of corporate in the capital market and the interactions between investors, managers, regulators and other stakeholders. The objectives of this course are to learn the theories of corporate finance, analyze the research questions, and critically evaluate the academic papers.

This course focuses on selected classic and contemporary theoretical and empirical academic papers and provides students with an advanced and rigorous background in mainstream issues in modern corporate finance research.

At the end of the seminar, it is expected that the students have developed an appreciation of the role of theory in corporate finance research, an in-depth knowledge of the research methods and philosophies employed in researching a wide range of corporate finance problems and issues, and an ability to critically analyze, and evaluate the literature in corporate finance.

**Semester and Year**
Semester 2, 2014

**Course URL**
http://programsandcourses.anu.edu.au/course/FINM8004

**Mode of Delivery**
On campus

**Prerequisites**
FINM7007, FINM7008, FINM7041 and FINM7044

**Course Convener**
Lili Dai

**Office Location:**
Room 4.07, CBE Building 26 C

**Phone:**
6125 9341

**Email:**
Lili.Dai@anu.edu.au

**Consultation hours:**
Tuesday, 10:00 – 11:00 AM

**Research interests**
Corporate finance and financial accounting

**Student Administrators**
Maria Lander at Room 4.50, CBE Building 26 C,
Maria.Lander@anu.edu.au
COURSE OVERVIEW

Course Learning Outcomes

Upon successful completion of the requirements for this course, students will:

1. Have developed a framework for considering other corporate finance problems and issues.
2. Have the ability to develop and test corporate finance research questions and communicate the results.
3. Have the ability to critically analyze, and evaluate the corporate finance literature.

Research-Led Teaching

Based on selected classic and contemporary papers published in top academic journals, this course is to lead students to walk into the world of research in corporate finance, acquire the relevant knowledge from both theoretical and empirical perspectives, and develop important research capabilities with regard to communication, presentation, analysis, writing, and critical thinking.

Continuous Improvement

We use feedback from students, professional bodies and staff to make regular improvements to the course. In response to this feedback, design improvements from the previous version of the course include:

- Add one assessment component – “course participation”.
- Increase the word limit for course assignments.

Technology, Software, Equipment

Students are expected to have access to Microsoft Office, and a statistical package (e.g., EViews, or Stata) either through the ANU computer networks, or through a personal computer.

Requisites

To enrol in this course you must have completed FINM7007 and FINM7008 and FINM7041 and FINM7044.

Student Feedback

All CBE courses are evaluated using Student Experience of Learning and Teaching (SELT) surveys, administered by Planning and Statistical Services at the ANU. These surveys are offered online, and students will be notified via email to their ANU address when surveys are available in each course. Feedback is used for course development so please take the time to respond thoughtfully. Course feedback is anonymous and provides the Colleges, University Education Committee and Academic Board with opportunities to recognise excellent teaching and to improve courses across the university. For more information on student surveys at ANU and reports on feedback provided on ANU courses, visit:

http://unistats.anu.edu.au/surveys/selt/students/

and

http://unistats.anu.edu.au/surveys/selt/results/learning/
<table>
<thead>
<tr>
<th>Week</th>
<th>Topic</th>
<th>Assessment</th>
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<tbody>
<tr>
<td>1</td>
<td>Introduction, empirical method, and theory of the firm</td>
<td></td>
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<tr>
<td>2</td>
<td>Capital structure</td>
<td>Presentation/Comments</td>
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<tr>
<td>3</td>
<td>Capital structure</td>
<td>Presentation/Comments</td>
</tr>
<tr>
<td>4</td>
<td>Equity and debt financing</td>
<td>Presentation/Comments/Problem set 1 due on Friday, 15 August 2014</td>
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<tr>
<td>5</td>
<td>Capital investment</td>
<td>Presentation/Comments</td>
</tr>
<tr>
<td>6</td>
<td>Payout policy</td>
<td>Presentation/Comments</td>
</tr>
<tr>
<td>7</td>
<td>Corporate governance and monitoring</td>
<td>Presentation/Comments/Problem set 2 due on Friday, 5 September 2014</td>
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<tr>
<td>8</td>
<td>Corporate governance and monitoring</td>
<td>Presentation/Comments</td>
</tr>
<tr>
<td>9</td>
<td>Management compensation</td>
<td>Presentation/Comments</td>
</tr>
<tr>
<td>10</td>
<td>International finance</td>
<td>Presentation/Comments</td>
</tr>
<tr>
<td>11</td>
<td>Information disclosure</td>
<td>Presentation/Comments</td>
</tr>
<tr>
<td>12</td>
<td>Other contemporary issues</td>
<td>Presentation/Comments/Term paper due on Friday, 24 October 2014</td>
</tr>
<tr>
<td>13</td>
<td>Presentation of term paper, and course revision</td>
<td>Term paper</td>
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</table>
Assessment Summary

<table>
<thead>
<tr>
<th>Item</th>
<th>Assessment Task</th>
<th>Weighting (%)</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Course Participation</td>
<td>10%</td>
<td>every week in semester</td>
</tr>
<tr>
<td>2</td>
<td>Critical Comments</td>
<td>15%</td>
<td>every week in semester</td>
</tr>
<tr>
<td>3</td>
<td>Presentation</td>
<td>15%</td>
<td>One/two week(s) in semester</td>
</tr>
<tr>
<td>4</td>
<td>Problem Set 1</td>
<td>10%</td>
<td>15 August 2014, Week 4</td>
</tr>
<tr>
<td>5</td>
<td>Problem Set 2</td>
<td>10%</td>
<td>5 September 2014, Week 7</td>
</tr>
<tr>
<td>6</td>
<td>Term paper</td>
<td>40%</td>
<td>24 October 2014, Week 12</td>
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Assessment Task 1: Course Participation (10%)
Details of task:
Students are required to attend all the lectures. Active class participation is encouraged. Students will be randomly selected to answer questions in the lectures by the lecturer. Those who appear to have failed to read the paper(s) relevant to the lecture will be noted and their marks for participation will be penalized accordingly.

Assessment Task 2: Critical Comments (15%)
Details of task:
Due Date | Each week there will be a task for making comments on a paper.
---|---
Instructions | 1. Critical comments are to be done by group.
              | 2. Students will send their critical comments on the paper, which is being presented by fellow students, to lecturer by email.
              | 3. For the students who are presenting a paper in that week, they do not need to send their comments to lecturer.
              | 4. You may evaluate the paper’s weaknesses. For example, how would you improve the paper if you were the authors in terms of motivation, contribution, research design, theory and other aspects?
              | 5. Word limit for all the comments on each paper (not including references): 300.
Purpose | To develop the ability of critical thinking.
Marking Criteria | Depth and quality of comments.
Submission Details | Students are to submit comments to lecturer before the second lecture of the week.
Returned assignments | Marks on comments will be informed for two times on request - in the middle and by the end of teaching period.
Assessment Task 3: Presentation (15%)
Details of task:

<table>
<thead>
<tr>
<th>Due Date</th>
<th>Each week there will be a student presentation in class time.</th>
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</table>
| Instructions | 1. Presentations are to be done by group.  
                  2. Students are required to summarize and evaluate an academic paper |
| Purpose | To practice presentation skills and apply knowledge learnt in class in dissecting new research. |
| Marking Criteria | Accuracy, depth of analysis and quality of presentation. |
| Submission Details | Students are to submit slides to lecturer after the presentation. |
| Returned assignments | Marks on presentations will be informed by the end of teaching period on request. |

Assessment Task 4: Problem Sets (20% - 10% for each problem set)
Details of task:

<table>
<thead>
<tr>
<th>Due Date</th>
<th>See Assessment Summary.</th>
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</table>
| Instructions | 1. Problem sets are to be done by group.  
                  2. Content of problem set 1 (subject to changes): to reproduce Table 1, Table 2, and Figure 1 in Frank, and Goyal (JFE 2003), from which the sample for analysis is ended in 1989.  
                  3. Content of problem set 2 (subject to changes): to reproduce Table 3 in Frank, and Goyal (JFE 2003) and then extend the sample and analysis until year 2011.  
                  4. The submission should include one mini report including necessary tables, figures, and your data analysis and a description of sample construction procedure.  
                  5. Data will be provided in Wattle.  
                  6. Word limit for mini report of each problem set (not including references): 1000. |
| Purpose | To understand and apply empirical method on data analysis. |
| Marking Criteria | Accuracy of analysis. |
| Submission Details | Students are to send the mini reports to the lecturer by the stated due date. |
| Returned assignments | Marks on presentations will be informed in about two weeks after the submissions on request. |

Assessment Task 5: Term Paper - Equivalent for Final Exam (40%)
Details of task:

<table>
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<tr>
<th>Due Date</th>
<th>See Assessment Summary.</th>
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| Instructions | 1. Term Papers are to be done INDIVIDUALLY.  
                  2. Paper should include research question, motivation for the question, incremental contribution that the paper will make to extant literature, research design and data requirements, and statistical techniques to be used.  
                  3. In the last week, students will make short presentations of papers. |
Assignment Submission

Assignments are submitted using the course Wattle site. Submitted assignments must include the cover sheet provided on Wattle. Please keep a copy of the assignment for your records.

The ANU is using Turnitin to enhance student citation and referencing techniques, and to assess assignment submissions as a component of the University’s approach to managing Academic Integrity. For additional information regarding Turnitin please visit ANU Online.

Assignments must include a cover sheet. Please keep a copy of tasks completed for your records.

Extensions and Penalties

Failure to accomplish the assessment component time without a legitimate reason (e.g., sick with medical certificate) will result in a mark of zero. Late submissions will be penalized by 20 percent per day.

Returning Assignments

Marks on assignments can be informed in two weeks after the submissions on request.

Scaling

Your final mark for the course will be based on the raw marks allocated for each assignment or examination. However, your final mark may not be the same number as produced by that formula, as marks may be scaled. Any scaling applied will preserve the rank order of raw marks (i.e. if your raw mark exceeds that of another student, then your scaled mark will exceed or equal the scaled mark of that student), and may be either up or down.

Referencing Requirements

There are no prescribed texts for this course. Instead, the course will cover a series of papers which are available on-line (see next section - Reading List).

Tutorial and /or Seminar Registration

Tutorial and /or Seminar signup for this course will be done via the Wattle website. Detailed information about signup times will be provided on Wattle or during your first lecture. When tutorials are available for enrolment, follow these steps:

1. Log on to Wattle, and go to the course site.
2. Click on the link “Tutorial signup here”
3. On the right of the screen, click on the tab “Become Member of ……” for the tutorial class you wish to enter.

4. Confirm your choice

If you need to change your enrolment, you will be able to do so by clicking on the tab “Leave group…” and then re-enrol in another group. You will not be able to enrol in groups that have reached their maximum number. Please note that enrolment in ISIS must be finalised for you to have access to Wattle.
READING LIST

Available at http://library.anu.edu.au/record=b3427131 – you can log on with your student number and your ISIS password.

Lecture 1: Instruction, empirical method, and theory of the firm

**Empirical Method**


**Nexus of Contracts**


**Property Rights Theory**


**Nature of Firm**


**Empirical Work**


Lecture 2: Capital structure

**Miller-Modigliani Theory**


**Capital Structure Puzzle**


**Deviations from MM Theory - Effects of Taxes**


**Deviations from MM Theory - Effects of Managerial Agency Costs**


**Lecture 3: Capital structure (continued)**

*Deviations from MM Theory - Effects of Financial Distress*


*Deviations from MM Theory - Effects of Information Asymmetry*


*Static Tradeoff Models versus Pecking Order Hypothesis*


*Behavioral Approaches*


**Lecture 4: Equity and debt financing**

*Initial public offering*


*Seasoned equity offering*


**Debt financing**


**Lecture 5: Capital investment**

**Corporate investment**


Malmendier, Ulrike, and Geoffrey Tate, 2005, CEO Overconfidence and Corporate Investment, Journal of Finance 60, 2661-2700.

**Merger and acquisition**


**R&D expense and innovation**


**Lecture 6: Payout policy**

**Survey evidence**


**Catering theory**


**Dividend taxes**

Chetty, Raj, and Emmanuel Saez, 2005, Dividend Taxes and Corporate Behavior: Evidence from the

*Share repurchase*


*Dividend and repurchase*


*Private firm*


Lecture 7: Corporate governance and monitoring

*Board of director*


*Large shareholder*


Lecture 8: Corporate governance and monitoring (continued)

*Anti takeover provision*


*Dual class*

**Media coverage**


**Labor**


**Creditor**


**Review article**


**Lecture 9: Management compensation**

**Determinants**


**Consequences**


**Lecture 10: International finance**

**Institutional difference**


**Cross-listing**


**Merger and acquisition**


**Large shareholder**


**Lecture 11: Information disclosure**

**Survey evidence**


**Cost of capital**


* Dhaliwal, Dan, Oliver Zhen Li, Albert Tsang, and Yong George Yang, 2011, Voluntary Nonfinancial Disclosure and The Cost of Equity Capital: The Initiation of Corporate Social Responsibility Reporting, Accounting Review 86, 59-100.

**Capital investment**


**Payout policy**


**Corporate governance**

Klein, April, 2002, Audit Committee, Board of Director Characteristics, and Earnings Management, Journal of Accounting and Economics 33, 375-400.

**Lecture 12: Other contemporary issues**
Political factor


Customer and supplier


Gender


Religion


Environment


Appearance

COMMUNICATION

Email

Lili.Dai@anu.edu.au

Announcements

Students are expected to check the Wattle site for announcements about this course, e.g. changes to timetables or notifications of cancellations.

Notifications of emergency cancellations of lectures or tutorials will be posted on the door of Room 4.07, CBE Building 26 C.

Course URLs

More information about this course may be found on:

- Programs and Courses (http://programsandcourses.anu.edu.au/2014/Catalogue),
- College of Business and Economics website (http://cbe.anu.edu/courses), and
- Wattle (https://wattle.anu.edu.au), the University’s online learning environment. Log on to Wattle using your student number and your ISIS password.
The University offers a number of support services for students. Information on these is available online from http://students.anu.edu.au/studentlife/

ANU has educational policies, procedures and guidelines, which are designed to ensure that staff and students are aware of the University's academic standards, and implement them. You can find the University's education policies and an explanatory glossary at: http://policies.anu.edu.au/

Students are expected to have read the Student Academic Integrity Policy before the commencement of their course.

Other key policies include:

- Student Assessment (Coursework)
- Student Surveys and Evaluations