



**Carleton University
Sprott School of Business**

**BUSI 4500 A & B
Advanced Corporate Finance
Winter 2017**

Lecture Location and Lecture Time:

Section A: Southam Hall 501, Monday 8:35 am - 11:25 am

Section B Southam Hall 417, Wednesday 2:35 pm - 5:25 pm

Instructor Contact Information:

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TA: T.B.A.

Advanced Corporate Finance

This course represents an in-depth examination of some of the major theoretical issues in corporate finance. This course requires analyses and presentations of both articles from the finance literature and case studies.

Prerequisites

BUSI 3500, BUSI 3502, and BUSI 3512 (with a grade of C- or better). STAT 2607 with C- or higher. The School of Business enforces all prerequisites.

Course Objectives

The course has two objectives.

The first objective is to investigate a few selected topics in finance theory and (more importantly) the related empirical evidence that are of interest to finance managers and capital market participants. Given the breadth and depth of issues in corporate finance, it is almost impossible to cover all topics of interest. This year we will cover the following areas of particular interest and intrigue: Risk and expected returns, Event analysis, Corporate Governance, Behavioral Finance, Mergers and Acquisitions, and Initial Public Offerings.

The second and more important objective of this course is to provide students the opportunity to conduct empirical research on a topic that is of particular interest to them. It is expected that students taking this course have the necessary background in Statistics and Economics and are expected to read and refer to their statistics textbook during this course as well as be comfortable with Statistical functions in Excel and have working knowledge of statistical packages like STATA and SPSS.

Course Readings and Material

The course would be based on contemporary papers/assigned readings in the selected areas. Students are required to obtain copies of the papers that are listed below. In addition, interested students can read the following books as supplemental readings to augment their knowledge and to get a better understanding of the specific topics. The library has set up our reading list in the *Ares* system, which can be accessed through CULearn or <https://libares01.carleton.ca/>.

Text Book and Supplemental Readings

While there is no formal textbook for this course, those who want to have a career in finance may wish to buy: *Applied Corporate Finance, A User's Manual*, Aswath Damodaran, John Wiley & Sons, 1999. ISBN0471239704. In addition, students may read relevant papers from the leading finance journals including *Journal of Finance*, *Journal of Applied Corporate Finance*, *Journal of Financial Economics*, *Journal of Accounting and Economics*, *Journal of Financial and Quantitative Analysis*, *Financial Analysts Journal*, *Financial Management*, *Journal of Portfolio Management* and the likes for their chosen research topic. Useful web sites are: www.ssrn.com, www.jstor.org.

Grading components

1	Research topic submission (group)	
2	List of relevant articles submission (research project group)	
3	In class presentation of article (research project group)	5%
4	Literature review (individual)	10%
5	Written Research proposal (research project group)	15%
6	In-Class Test (individual)	30%
7	Research Paper - Group presentation (research project group)	10%
8	Research Paper - Submission of Group Final Written Report (research project group)	30%
	Total =	100%

Group Research Project

An important objective of this course is to provide students with an opportunity to explore a topic that is of interest to them and conduct empirical research on that topic. The main benefits to students will be an opportunity to discover new evidence in an area of interest to them and the opportunity to review the current thinking and research on that topic. This research would involve a review of salient literature, discussions of some outstanding issues pertaining to the chosen topic, designing of testable hypotheses and possible empirical design and statistical tests that would be used to test the hypotheses, estimation and analysis of the results. The research project will be done in stages. The sequence of events with due dates by sections are as follows:

Date (Section A)	Date (Section B)	Task
Before: February 6 (noon)	Before: February 8 (noon)	Each group (typically no more than 5 students per group; identify a group leader) will choose a research topic of interest, seek approval from the instructor, conduct a literature search and identify about 20 relevant papers relating to the topic. Your group should seek approval of the topic from the instructor by email as soon as possible.
During: February 6 - 27	During: February 8- March 1	Once approval for the topic has been granted, you will then identify and compile a <u>list</u> of the relevant literature. The list should be at least a multiple of 6x the number of members in the group. The group leader would then interact with the instructor to identify and agree on a subset of relevant articles.
Before: February 27 (noon)	Before: March 1 (noon)	Each student in the group will be assigned 5 of these readings and would be expected to complete a summary and critical review of this set of readings (5 pages, double-spaced). This individual assignment is to be submitted in hard copies for grading noon of the due date to your instructor's office. Late submissions will receive a 20% penalty per day.
During: February 27 – March 13	During: March 1 - 15	A copy of your individual literature review should be given to each member of the group. Based on these reviews, each group will prepare a combined literature review that will be included in the research proposal and the final report. Your grade is a function of your participation, so it is in your interest to contribute - See the Peer evaluation form below.)
Before: March 13 (noon)	Before: March 15 (noon)	Each group will prepare a research proposal that shows the introduction and motivation for the study, brief outline of the key research questions and the hypotheses the group wants to pursue/test; state how the proposed work relates to existing work (based on the literature review); outline the data collection needs; and will clearly articulate the methodology (statistical tests) by which the research question (s) will be put to the test. It is expected that during this period the group leader will communicate any issues about the project to the instructor. During the period (), a formal meeting will be organized by the instructor and group leader in which all members attend. The objective of the formal meeting is to assess the group's progress and discuss any issues that the group might be facing (an email with the exact time of your meeting will be sent in due course, all members of each group are required to attend the meeting). Each group will submit hard copies of the research proposal and the research plan to the instructor for grading by noon or earlier to your instructor's office.
During: March 13 - April 3	During: March 15 - April 5	The period from will be devoted to completing the research (econometric estimation, analysis of results, writing the paper, etc).
March 20	March 22	There will be an in-class exam. You will be examined on the material covered in the lectures and on associated assigned readings. The in-class test will be returned in the last class.
April 3	April 5	Each group will present the research report to the class. It is imperative that everyone attends the lecture/presentation in this week. The presentations are one of the most important learning opportunities in this course. Consequently, <u>attendance will be taken</u> and it will form part of the individual evaluation (worth 5 marks if absent).
Before: April 10 (noon)	Before: April 12 (noon)	The completed written research report is due. It should be submitted to the instructor's office by noon in both in hard copies and soft copies . Please retain a hard copy of all work that will be submitted in this course.

Group Peer Evaluation

The purpose of this evaluation is to provide feedback to the Instructor regarding individual group member's contribution to the research project. This is required since, for whatever reason, some members of the group may not contribute fairly. To ensure that each member of the group gets a fair credit for his/her work, each member individually would submit the following rating for other members of the group by April 8 either by email or by hard copy (signed with the name). The marks for each individual would be averaged. Please note that if some members of the group, for whatever reason, give one individual a very low mark then that individual would have a relatively low mark. Since the instructor would have no way of knowing whether this was right or wrong, these ratings would be subject to no second guessing and cannot be appealed. It is strongly suggested that you keep this in mind when forming your group. Note that you do not have to submit this form if everyone did what was expected of him/her. If no such ratings are received, then each individual will receive the same mark for the final research report.

Instructions:

In both columns, indicate (out of 5, where 5 is excellent) the marks that you believe reflects the quality of the individual review contribution to the project.

Your name _____

	Group Member Name (excluding your own)	Individual literature review (out of 5)	Overall participation in the research project (out of 5)
1.			
2.			
3.			
4.			

Comments if any:

Tentative Seminar Schedule

Week #	Topic <i>(readings may be added to the reading list as the course progresses)</i> <i>(full reading list is below)</i>
1	Research paper writing and research critique
2	Risk Return Models, Event Study Methodology Review of some statistical tests; Available Databases
3	Corporate Governance
4	Initial Public Offerings
5	Mergers and Acquisitions
6	Behavioral Corporate Finance

Group Critical Review of Assigned Article

In each seminar class from weeks 2-6, each research group will be responsible for the presentation of one assigned paper. The presentation will be 10-15 minutes long (depending on the instructor's instructions), and it will cover:

- The purpose of the paper
- The motivation of the paper
- Test sample and main methodology
- Key results and implications
- *(Most importantly)* A critical evaluation of the paper

List of Readings

(Available on the Library Ares system)

Week 1

Readings for Session 1: Mechanics of Writing a Research Paper

- 1.1 Wong, Paul, "Excerpts from "How to Write a Research Proposal", Trinity Western University, Canada
- 1.2 Cochrane, John, "Writing Tips for Ph.D Students", University of Chicago, 2005.
- 1.3 Oldford, E., & Otchere, I. (2016). "Are Cross-border Acquisitions Enemy of Labor? An Examination of Employment and Productivity Effects." Pacific-Basin Finance Journal.
- 1.4 Barreto, Hart, Parrott, Poapst, Stolys, 2016, "The Effect of Payout Ratio on Shareholder Returns", 4500 Research Paper.
- 1.5 Pei, Purkiss, Syed, 2015, "Analyzing Abnormal Returns in Post-Repurchase Announcements for Canadian Firms", 4500 Research Paper.

Week 2

Readings for Session 2: Risk-Return Models and Event Study Methodology

- 2.1 S.P. Kothari and Jerold B. Warner, "Econometrics of Event Studies", Working Paper, Tuck School of Business at Dartmouth, 2004.
- 2.2 Charles J. Corrado, "A non-Parametric test for Abnormal Security- Price Performance in Event Studies", Journal of Financial Economics, 1989, pp. 385-395.
- 2.3 Collins, D.W and W.T Dent, 1984, A comparison of Alternative testing methodologies used in capital market research, Journal of Accounting Research 22, 48-84.
- 2.4 Ang, J. S., & Zhang, S. (2015). Evaluating long-horizon event study methodology. In Handbook of Financial Econometrics and Statistics (pp. 383-411). Springer New York.

Week 3

Readings for Session 3 - Corporate Governance

- 3.1 Tihanyi, L., Graffin, S., & George, G. (2014). Rethinking governance in management research. Academy of Management Journal, 57(6), 1535-1543.

- 3.2 Lin, Dan; Hsien-Chang Kuo; Lie-Huey Wang, "Chief Executive Compensation: An empirical study of fat cat", *International Journal of Business & Finance Research* 2013, Vol. 7 Issue 2, p27-42. 16p.
- 3.3 Vijay Jog and Shantanu Dutta, "Searching for the Governance Grail", *Canadian Investment Review*, Spring 2004, pp.33-43.
- 3.4 John Byrd, Robert Parrino and Gunnar Pritsch, "Stockholder-manager Conflicts and Firm Value", *Financial Analysts Journal*, May/June 1998, pp. 14-30
- 3.5 Stuart Gillan and Laura T. Starks, "Corporate governance proposals and shareholder activism: the role of institutional investors", *Journal of Financial Economics*, 2000, Issue 2 pp. 275-305.
- 3.6 Akhibe, Aigbe; Madura, Jeff. "Impact of anti-takeover amendments on corporate performance", *Applied Financial Economics*. Dec96, Vol. 6 Issue 6, p519-529. 11p.

Week 4

Readings for Session 4 – Initial Public Offerings

- 4.1 Ragupathy, M. B., Initial Public Offering: a critical review of literature, *Journal of Behavioral Finance*. 2011, Vol. 8 Issue 1, p41-50. 10p.
- 4.2 Ritter J. R. and I. Welch, A Review of IPO activity, pricing, and allocations, *Journal of Finance*, 2002, Vol. 57, Issue 4, p1795-1828.
- 4.3 J. R. Ritter, The Long-run Performance of Initial Public Offerings, *Journal of Finance*, 1991, pp. 3-27.
- 4.4 Brau J.C. and S.E. Fawcett, Initial Public Offerings: An Analysis of Theory and Practice, *Journal of Finance*, Vol. LXI, NO. 1, February, 2006, pp. 399-436.
- 4.5 Bharat A. Jain and Omesh Kini, The Post-Operating Performance of IPO Firms, *Journal of Finance*, Vol. XLIX, #5, December 1994, pp. 1699-1726.
- 4.6 Vijay M. Jog, and A. Srivastava, The Mixed Results of Canadian IPOs, *Canadian Investment Review*, Winter, 1997/98, pp. 23-27.

Week 5

Readings for Session 5 - Mergers and Acquisitions

- 5.1 Berkovitch, E., and M.P. Narayanan, 1993, Motives for Takeovers, An Empirical Investigation, *Journal of Financial and Quantitative Analysis*, 28, 347-362
- 5.2 Matthew L.A. Hayward and Donald C. Hambrick, "Explaining Premiums Paid for Large Acquisitions: Evidence of CEO Hubris", *Administrative Science Quarterly*, 1997, pp. 103-127
- 5.3 B. Espen Eckbo and Karin S. Thorburn, "Gains to Bidder Firms Revisited: Domestic and Foreign Acquisitions in Canada", *Journal of Financial and Quantitative Analysis*, March 2000, pp. 1-25.
- 5.4 Andrade, G., Mitchell, M. L., & Stafford, E. (2001). New evidence and perspectives on mergers.
- 5.5 Sara B. Moeller, F.P. Schlingemann and R.M. Stulz, "Wealth Destruction on a Massive scale? A study of Acquiring firms returns in the recent merger wave", *Journal of Finance*, Vol. LX, April 2005, pp. 757-782.

Week 6

Readings for Session 6: Behavioral Corporate Finance

- 6.1 Subrahmanyam, A. (2008). Behavioural finance: A review and synthesis. *European Financial Management*, 14(1), 12-29.
- 6.2 Shefrin, Hersh "Behavioral Corporate Finance", *Journal of Applied Corporate Finance* 14:3, 2001.
- Morck, Randall, 2008, "Behavioral Finance in Corporate Governance: economics and ethics of the devil's advocate" *Journal of management & Governance* 12:2, 179-200.
- 6.3 Cronqvist, Henrik, Anil K. Makhija, and Scott E. Yonker, "Behavioral consistency in corporate finance: CEO personal and corporate leverage", *Journal of Financial Economics* 2012 V 103, Issue 1, 2012, Pages 20–40
- 6.4 Baker, Malcolm, Pan, Xin and Wurgler, Jeffrey, "The effect of reference point prices on mergers and acquisitions" , 2012 V 106, Issue 1, pp 49-71.
- 6.5 Baker, M., & Wurgler, J. (2004). Appearing and disappearing dividends: The link to catering incentives. *Journal of Financial Economics*, 73(2), 271-288.

(To be submitted with final research project)

DECLARATION OF ACADEMIC INTEGRITY

Course #:

Term and year:

Title of project/paper:

The University Senate defines plagiarism in the regulations on instructional offenses as: “to use and pass off as one’s own idea or produce work of another without expressly giving credit to another.”

Borrowing someone else’s answers, unauthorized possession of tests or answers to tests, or possession of material designed in answering exam questions, are also subject to university policy regarding instructional offenses.

Photocopying substantial portions of a textbook (e.g. more than 1 chapter or 15% of the total page count) without the publisher's permission is another misuse of intellectual property, and is also a violation of Canadian copyright law. Access Canada's web site provides guidelines on legitimate copying. Instructional offence cases would be referred to the Associate Dean (Undergraduate Studies); individual solutions are not permitted.

I/we declare that the work submitted herewith is my/our work. All sources have been referenced in the footnotes, endnotes or bibliography. This work has not been shared with anyone outside this group.

	<u>Signature of student</u> <u>Everyone must sign to receive a grade</u>
Student Name Student ID	
Student Name Student ID	
Student Name Student ID	
Student Name Student ID	
Due Date	
Date and hour received, if late	
Penalty for delay, if applicable	

Additional Information

Course Sharing Websites

Student or instructor materials created for this course (including presentations and posted notes, labs, case studies, assignments and exams) remain the intellectual property of the author(s). They are intended for personal use and may not be reproduced or redistributed without prior written consent of the author(s).

Required calculator in BUSI course examinations

If you are purchasing a calculator, we recommend any one of the following options: Texas Instruments BA II Plus (including Pro Model), Hewlett Packard HP 12C (including Platinum model), Staples Financial Calculator, Sharp EL-738C & Hewlett Packard HP 10bII

Group work

The Sprott School of Business encourages group assignments in the school for several reasons. They provide you with opportunities to develop and enhance interpersonal, communication, leadership, follower-ship and other group skills. Group assignments are also good for learning integrative skills for putting together a complex task. Your instructor may assign one or more group tasks/assignments/projects in this course. Before embarking on a specific problem as a group, it is your responsibility to ensure that the problem is meant to be a group assignment and not an individual one.

In accordance with the Carleton University Undergraduate Calendar (p 34), the letter grades assigned in this course will have the following percentage equivalents:

A+ = 90-100	B+ = 77-79	C+ = 67-69	D+ = 57-59
A = 85-89	B = 73-76	C = 63-66	D = 53-56
A - = 80-84	B - = 70-72	C - = 60-62	D - = 50-52
F = Below 50			

WDN = Withdrawn from the course

ABS = Student absent from final exam

DEF = Deferred (See above)

FND = (Failed, no Deferred) = Student could not pass the course even with 100% on final exam

Academic Regulations, Accommodations, Etc.

University rules regarding registration, withdrawal, appealing marks, and most anything else you might need to know can be found on the university's website, here:

<http://calendar.carleton.ca/undergrad/regulations/academicregulationsoftheuniversity/>

Requests for Academic Accommodations

For Students with Disabilities:

Paul Menton Centre for Students with Disabilities (PMC) provides services to students with Learning Disabilities (LD), psychiatric/mental health disabilities, Attention Deficit Hyperactivity Disorder (ADHD), Autism Spectrum Disorders (ASD), chronic medical conditions, and impairments in mobility, hearing, and vision. If you have a disability requiring academic accommodations in this course, please contact PMC at 613-520-6608 or pmc@carleton.ca for a formal evaluation. If you are already registered with the PMC, contact your PMC coordinator to send me your **Letter of Accommodation** at the beginning of the term, and no later than two weeks before the first in-class scheduled test or exam requiring accommodation (*if applicable*). **Requests made within two weeks will be reviewed on a case-by-case basis.** After requesting accommodation from PMC, meet with me to ensure accommodation arrangements are made. Please consult the PMC website (www.carleton.ca/pmc) for the deadline to request accommodations for the formally-scheduled exam (*if applicable*).

The deadlines for contacting the Paul Menton Centre regarding accommodation for final exams for the April 2017 exam period is March 10th, 2017.

For Religious Obligations:

Students requesting academic accommodation on the basis of religious obligation should make a formal, written request to their instructors for alternate dates and/or means of satisfying academic requirements. Such requests should be made during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist, but no later than two weeks before the compulsory event.

Accommodation is to be worked out directly and on an individual basis between the student and the instructor(s) involved. Instructors will make accommodations in a way that avoids academic disadvantage to the student.

Students and instructors can confirm accommodation eligibility of a religious event or practice by referring to the Equity Services website (<http://carleton.ca/equity/accommodation/religious-observances/>) for a list of holy days and Carleton's Academic Accommodation policies. If there are any questions on the part of the student or instructor, they can be directed to an Equity Services Advisor in the Equity Services Department for assistance.

For Pregnancy:

Pregnant students requiring academic accommodations are encouraged to contact an Equity Advisor in Equity Services to complete a letter of accommodation. The student must then make an appointment to discuss her needs with the instructor at least two weeks prior to the first academic event in which it is anticipated the accommodation will be required.

Academic Integrity

Violations of academic integrity are a serious academic offence. Violations of academic integrity – presenting another's ideas, arguments, words or images as your own, using unauthorized material, misrepresentation, fabricating or misrepresenting research data, unauthorized co-operation or collaboration or completing work for another student – weaken the quality of the degree and will not be tolerated. Penalties may include; a grade of Failure in the submitted work and/or course; academic probation; a refusal of permission to continue or to register in a specific degree program; suspension from full-time studies; suspension from all studies at Carleton; expulsion from Carleton, amongst others. Students are expected to familiarize themselves with and follow the Carleton University Student Academic Integrity Policy which is available, along with resources for compliance at: <http://www2.carleton.ca/sasc/advisingcentre/academic-integrity/>.

Sprott Student Services

The Sprott student services office, located in 710 Dunton Tower, offers academic advising, study skills advising, and overall academic success support. If you're having a difficult time with this course or others, or just need some guidance on how to successfully complete your Sprott degree, please drop in any weekday between 8:30am and 4:30pm. Our advisors are happy to discuss grades, course selection, tutoring, concentrations, and will ensure that you get connected with the resources you need to

succeed! <http://sprott.carleton.ca/students/undergraduate/support-services/>

Be in the know with what's happening at Sprott: Follow @SprottStudents and find us on Facebook SprottStudents Sprott.

Important Information:

- Students must always retain a hard copy of all work that is submitted.
 - All final grades are subject to the Dean's approval.
 - For us to respond to your emails, we need to see your full name, CU ID, and the email must be written from your valid CARLETON address. Therefore, it would be easier to respond to your inquiries if you would send all email from your Carleton account. If you do not have or have yet to activate this account, you may wish to do so by visiting <http://carleton.ca/ccs/students/>
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