Empirical Corporate Finance

Teacher: Matthias Efing

Duration: 12 hours **Number of ECTS credits**: 2

Education Level	Period	Language of instruction	Max. Staffing	Teaching Mode
Master	S2	English	25	in-person

Deanship Department: Finance **Domain:** Finance and Economics

Track: Financial Economics

Keywords : Corporate finance, Empirical methods, Causal analysis

SYNOPSIS

This course is an introduction to empirical corporate finance. Its objective is threefold. First, this course *briefly* reviews the main theories that seek to explain firms' different financial policies and decision problems. Second, we study *in detail* existing empirical evidence that either supports or contradicts these theories. Third, we learn econometric methods commonly used in corporate finance research.

DETAILED DESCRIPTION

Prerequisites:

Students are expected to have some basic knowledge of econometrics and to be able to do some regression analysis using Stata, SAS, or another software of their choice. They should also have a basic knowledge of corporate finance at the level of an MBA textbook such as Berk and deMarzo (Corporate Finance) or Ross, Westerfield, and Jaffe (Corporate Finance). If students do not, they are encouraged to read either book in parallel to the lectures.

Course overview:

This course is an introduction to empirical corporate finance. We cover firms' main financial policies and decision problems, i.e., capital structure choice, investment decisions, agency conflicts, and corporate governance. For each of these topics, we briefly review leading theories and then study in detail to what extent these theories are supported by empirical research. In doing so, we learn different econometric methods that help the empiricist identify causal effects in corporate finance research, such as linear regressions, instrumental variables, difference-in-differences analysis, or regression discontinuity design. The course is divided into four 3-hour classes and organized around the discussion of research papers. Evaluation is based on class participation, student presentations, referee reports, and possibly a data project or short research proposal (tbd).

Pedagogical Objectives / Skills:

- Understand firms' main financial decision problems
- Know the extent to which different corporate finance theories are supported by empirical evidence
- Learn econometric methods commonly used in corporate finance research

- Learn how to provide constructive feedback in the academic peer-review process (e.g., presenting/discussing colleagues' research at academic conferences and writing referee reports for scientific journals

Course organization - preliminary outline (tbc):

Topic 1: The capital structure decision, Modigliani-Miller and the static trade-off theory

Topic 2: Agency conflicts of debt

Topic 3a: Investment and financing decisions under information asymmetry

Topic 3b: Investment and financing decisions in inefficient markets (market timing)

Topic 4: Corporate governance

Time permitting, we might also discuss recent topics in corporate finance research chosen by students.

TEACHING MATERIALS

Books:

- As an introduction to econometric methods (I recommend you buy / borrow this book):

  Angrist and Pischke, *Mostly Harmless Econometrics*, Princeton University Press.

- Students that have followed corporate finance classes during their bachelor, master, or doctoral studies do not need to read a specific corporate finance textbook for this course. Students that are new to corporate finance are encouraged to read a recent edition of one of the following books in parallel to the lectures:

  Berk and deMarzo, *Corporate Finance*, Pearson OR Ross, Westerfield, and Jaffe, *Corporate Finance*, McGraw-Hill.

- The following books are a useful reference on how to code in Stata (It is not necessary that students buy these books for this course as this is not a course that teaches students how to code. However, for those that intend to rely on Stata during their academic career, these books might be a useful investment):

  Cameron and Trivedi, *Microeconometrics Using Stata: Volume 1: Cross-Sectional and Panel Regression Models*, Stata Press.

  Cameron and Trivedi, *Microeconometrics Using Stata: Volume 2: Nonlinear Models and Causal Inference Methods*, Stata Press.

Digital resources:

A list of research papers (as part of mandatory reading) will be made available to students on blackboard in the weeks prior to the start of the course.

TEACHING METHODS

The course combines a mix of lectures and student presentations / discussions of research papers.

WORK AND EVALUATIONS

Assessment:

The overall grade is an equally weighted average of the following:

- Class participation
- Student presentation
- Referee reports
- Possibly a data project or short research proposal (time permitting, tbd)

Work requested:

Students have an equity stake in this course and should treat the course accordingly. Class participation is expected and indeed required for the course to succeed. This encompasses thoughtful questions during lectures, student presentations, and the discussion of papers.

In the weeks before the start of this course, a detailed list of required reading (papers) will be made available to students. Reading these papers is mandatory for all students and not only for those students that are scheduled to present a given paper. This entails that also non-presenting students should be able to answer questions about any of the presented papers and should have formed an opinion on each of them.

BIOGRAPHY

Matthias Efing is an Associate Professor of Finance at HEC Paris. He holds a PhD in finance from the Swiss Finance Institute and graduated as Diplomkaufmann from the University of Mannheim. His research on corporate finance and financial intermediation has been published in the Review of Financial Studies, Journal of Financial Economics, Review of Finance, Review of Corporate Finance Studies, and in the Journal of International Economics. More information can be found on https://matthiasefing.com/.

WAIVER POLICY

None