



FIN 6350 – FINANCIAL ECONOMETRICS I
Fall 2023

Instructor: Hyo Jin (Jinny) Yoon
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Time: T 9:00 – 11:50
Place: BUSN 310

Office Hours: Catch me whenever you can

Main References:

- Joshua D. Angrist and Jorn-Steffen Pischke, *Mostly Harmless Econometrics*, Princeton, 2009.
- Jeffrey M. Wooldridge, *Econometric Analysis of Cross Section and Panel Data*, 2nd ed., MIT, 2010.
- Bruce Hansen, *Econometrics*, 2017.
- Michael Roberts and Toni Whited, *Endogeneity in Corporate Finance*
- Espen Eckbo, *Handbook of Corporate Finance: Empirical Corporate Finance*, Volumes 1 and 2
- Articles from economics and finance journals

Objectives: This course seeks to achieve four equally important goals. First, it is intended to expose students to key papers in the latest empirical corporate finance literature. The focus of the course is on empirical work and econometrics, but some theory will be reviewed. Second, the course is designed to strengthen students' ability to dissect, digest, and critique academic research. Third, the course is intended to introduce students to a variety of cross-sectional econometric techniques that have belatedly made their way into the empirical corporate finance literature. Finally, it gives students an opportunity to improve their presentation skills through repeated practice and constructive feedback. Each of these skills plays a crucial role in a successful academic career.

Course Requirements

- Presentations

Each student will be responsible for paper presentations in class, which should last about 25-30 minutes. Starting from the 4th week of the class, there will be two papers assigned that students must read and present in class. I will assign papers in the week ahead. E.g. if instrumental variable estimations are covered in class, then at the end of the class I will assign papers that make use of IV strategies. Students will present their discussions of these two papers in the second half of the next class. Students are expected to use Powerpoint or similar presentation software (e.g. Beamer; LaTeX) for their presentations. Presenters should also email me their presentation slides. To ensure participation following each presentation, students who are not presenting anything on a presentation day should elaborate on 1-2 critiques of the papers assigned for that day, highlighting the biggest flaw or flaws in the analysis. Every failure to provide feedback on the paper will result in a reduction in participation grade.

- Participation

Papers not listed for presentations and discussions will be taught by me. You are expected to read these papers as well as the papers scheduled for presentations before coming to class. **To make this class work, everyone has to work through every assigned reading before class.** Registered Students: The first time I

discover you did not work through an assigned paper, I will issue you a warning. The second time, and every time thereafter, that I discover you did not work through an assigned paper before class, I will deduct one third of a grade from your final grade. Auditing students: The first time I discover you did not work through the assigned papers, I will issue you a warning. The second time, I will withdraw your auditing privilege.

- Homework

I may assign several homeworks throughout the semester. Some of these homeworks will require you to work on real data and implement the methods learned in class.

- Final Paper

The final paper is designed to guide students through the research process. Students are to conduct an empirical study (meaning it involves working with data) either alone or with a partner (no groups of three!!). You may use any software with which you are familiar, except Eviews or any other point- and-click based package. I prefer that you use Matlab, SAS, Fortran, or Stata. You may use other softwares, however, I may not be able to help you as I may not be familiar with those softwares. Students are encouraged to read ahead when generating ideas for the paper. The paper should be an extension or critique of one of the papers on the reading list. Warning: Please be aware that empirical research can be very time consuming and often takes much longer than expected. When choosing a topic, keep the time frame in mind and to try not to over-reach. (Students are not expected to submit publishable papers!) The final paper will have two components:

1. A five-page (double-spaced) written proposal, due at the end of the seventh week of class. The proposal should include: A cover page with the title of the proposed project and the student(s)' name(s) and contact information (not included in the 5-page limit). A discussion of the research objectives and a literature review placing the study in context. This section should convey to the reader why the study is interesting and important. A discussion of the anticipated results will be helpful here. A clear and detailed description of the intended research methods and data. A list of references (not included in the 5-page limit). I strongly encourage students to discuss ideas with me (and with each other) before choosing a specific topic and writing up the formal proposal.
2. A polished, academic-style paper including:
 - i. Title page
 - ii. Abstract
 - iii. Introduction with motivation and intuition
 - iv. Brief literature review (can be integrated into other parts of the paper)
 - v. Discussion of the data
 - vi. Methodology
 - vii. Empirical model
 - viii. Results
 - ix. Conclusion

The paper is **due on December 9, Saturday, by 10PM.** Grades for the research project will be based on the quality of the written work. Clarity will be rewarded. Grammar counts, as do originality and quality of execution.

3. A 30-40 minute presentation of your work on the last two weeks of class.

Tentative Course Outline (Subject to change during the semester depending on the progress of the class)

- August 29, Setting the Stage & Regression I
 - Chapters 1 and 2, MHE
 - Chapter 1, Wooldridge
 - Chapter 1, Hansen
 - [P] Shue, K. 2013. Executive Networks and Firm Policies: Evidence from the Random Assignment of MBA Peers. *Review of Financial Studies* 26, 1401-1442.
 - [P] Gine, X., Goldberg, J., and Yang, D. 2012. Credit Market Consequences of Improved Personal Identification: Field Experimental Evidence from Malawi. *American Economic Review* 102, 2923-2954.
 - Krueger, A.B. 1999. Experimental Estimates of Education Production Functions. *Quarterly Journal of Economics* 114, 497-532.
 - LanLonde, R.J. 1986. Evaluating the Econometric Evaluations of Training Programs Using Experimental Data. *American Economics Review* 76, 602-20.
 - Carrel, S.E. and J.E. West. 2010. Does Professor Quality Matter? Evidence from Random Assignment of Students to Professors. *Journal of Political Economy* 118, 409-432.

- September 5, Regression II
 - Chapter 3, MHE
 - Chapters 2, 3, 4, Wooldridge
 - Chapters 2, 3, 4, 14, Hansen
 - [P] El Ghouli, S., Guedhami, O., Kim, Y., and Yoon, H. J. 2021. Policy uncertainty and accounting quality. *The Accounting Review* 96(4), 233-260.
 - Hoechle, D., Schmid, M., Walter, I., and Yermack, D. 2012. How much of the diversification discount can be explained by poor corporate governance? *Journal of Financial Economics* 103(1), 41-60.
 - Campa, J.M. and S. Kedia. 2002. Explaining the Diversification Discount. *Journal of Finance* 57, 1731-1762
 - Erickson, T., and T.M. Whited. 2000. Measurement error and the relationship between investment and q. *Journal of Political Economy* 108(5), 1027-1057.
 - [P] Kempf, E., Manconi, A., and Spalt, O. 2017. Distracted shareholders and corporate actions. *Review of Financial Studies* 30(5), 1660-1695.
 - [P] Lang, L. and R.M. Stulz. 1994. Tobin's Q, Corporate Diversification, and Firm Performance, *Journal of Political Economy* 102, 1248-1280.
 - Petersen, M.A. 2009. Estimating standard errors in finance panel data sets: Comparing approaches. *Review of Financial Studies* 22(1), 435-480.
 - Schoar, A., and E.L. Washington. 2011. Are the seeds of bad governance sown in good times? (No. w17061). NBER working paper.

- September 19, Natural Experiment and Instrumental Variables
 - MHE, Chapter 4
 - Hansen, Chapter 11
 - Wooldridge, Chapter 5
 - Roberts and Whited
 - Acemoglu, D, Johnson, S., and Robinson, J.A. 2001. The colonial origins of comparative development: An empirical investigation. *American Economic Review* 91(5), 1369-1401.
 - [P] Bennedsen, M., Nielsen, K, Perez-Gonzalez, F., and Wolfenzon, D. 2007. Inside the family firm: The role of families in succession decisions and performance. *Quarterly Journal of Economics* 122, 647-691.

- [P] Hoxby, C. 2000. The effect of class size on student achievement: New evidence from population variation. *Quarterly Journal of Economics* 115, 1239-1285.
- Levitt, S. 1997. Using electoral cycles in police hiring to estimate the effect of police on crime. *American Economic Review* 87, 270-290.

- September 26, Difference-in-Differences

- MHE, Chapter 5
- Roberts and Whited
- [P] Bertrand, M. and S. Mullainathan. 2003. Enjoying the quiet life? Corporate governance and managerial preferences. *Journal of Political Economy* 111,1043-1075.
- Bertrand, M., Duflo, E., and Mullainathan, S. 2004. How much should we trust differences-in-differences estimates? *Quarterly Journal of Economics* 119(1), 249-275.
- Callaway, B. and P.H. Sant’Anna. 2021. Difference-in-differences with multiple time periods. *Journal of Econometrics* 225(2), 200-230.
- Chu, Y. 2020. Collateral, ease of repossession, and leases: Evidence from anti-recharacterization laws. *Management Science* 66(7), 2951-2974.
- [P] Hong, H. and M. Kacperczyk. 2010. Competition and bias. *Quarterly Journal of Economics* 125(4), 1683-1725.
- Jayaratne, J. and P. Strahan. 1996. The finance-growth nexus evidence from bank branch deregulation. *Quarterly Journal of Economics* 111(3), 639-670.

- October 3, Regression Discontinuity Design & Propensity Score Matching

- MHE, Chapter 6
- Roberts and Whited
- Imbens, G. and T. Lemieux. 2008. Regression discontinuity designs: A guide to practice *Journal of Econometrics* 142, 615-635.
- [P] Malenko, N. and Y. Shen. 2016. The role of proxy advisory firms: Evidence from a regression-discontinuity design. *Review of Financial Studies* 29(12), 3394-3427.
- Keys, B., Mukherjee, R., Seru, A., and Vig, V. 2010. Did securitization lead to lax screening? Evidence from subprime loans. *Quarterly Journal of Economics* 125(1), 307-362.
- Bakke, T. and T.M. Whited. 2012. Threshold events and identification: A study of cash shortfalls. *Journal of Finance* 67(3), 1083-1111.
- [P] Mian, A., Sufi, A., and Trebbi, F. 2015. Foreclosures, house prices, and the real economy. *Journal of Finance* 70(6), 2587-2634.

- October 10, International Finance and Country-level Institutions

- [P] Borisova, G. and W. Megginson. 2011. Does government ownership affect the cost of debt? Evidence from privatization. *Review of Financial Studies* 24, pp.2693-2737.
- Djankov, S., La Porta, R., Lopez-de-Silanes, F., and Shleifer, A. 2008. The law and economics of self-dealing. *Journal of Financial Economics* 88, pp.430-465.
- Djankov, S., McLiesh, C., and Shleifer, A. 2007. Private credit in 129 countries. *Journal of Financial Economics* 84, 299-329.
- Jackson, H.E. and M.J. Roe. 2009. Public and private enforcement of securities laws: Resource-based evidence. *Journal of Financial Economics* 93, pp.207-238.
- La Porta, R., Lopez-de-Silanes, F., and Shleifer, A. 2006. What works in securities laws? *Journal of*

Finance 61, pp.1-32.

- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., and Vishny, R.W. 1997. Legal determinants of external finance. *Journal of Finance* 53, 1131-1150.
 - [P] Pevzner, M., Xie, F., and Xin, X. 2015. When firms talk, do investors listen? The role of trust in stock market reactions to corporate earnings announcements. *Journal of Financial Economics* 117, 190-223.
 - [P] Zheng, X., El Ghouli, S., Guedhami, O., and Kwok, C.C.Y. 2013. Collectivism and corruption in bank lending. *Journal of International Business Studies* 44, 363-390.
- October 17 (No class; Finish up on your research proposal) Research Proposal Due by October 21 (Sat) 10PM
- October 24, Creditors
 - Becker, B. and P. Stromberg. 2012. Fiduciary Duties and Equity-Debtholder Conflicts. *Review of Financial Studies* 25(6), 1931-1969.
 - [P] Bodnaruk, A., and M. Rossi. 2016. Dual ownership, returns, and voting in mergers. *Journal of Financial Economics* 120:5880.
 - Chu, Y. 2018. Shareholder-creditor conflict and payout policy: Evidence from Mergers between shareholders and lenders. *Review of Financial Studies* 31(8), 3098-3121.
 - El Ghouli, S., Guedhami, O., Mansi, S. A., and Yoon, H. J. Institutional investor attention, agency conflicts, and the cost of debt. *Management Science*, forthcoming.
 - Jiang, W., Li, K., and Shao, P. 2010. When shareholders are creditors: Effects of the simultaneous holding of equity and debt by non-commercial banking institutions. *Review of Financial Studies* 23(10), 3595-3637.
 - [P] Nini, G., Smith, D.C. and Sufi, A., 2009. Creditor control rights and firm investment policy. *Journal of Financial Economics* 92(3), 400-420.
 - Nini, G., Smith, D.C. and Sufi, A., 2012. Creditor control rights, corporate governance, and firm value. *Review of Financial Studies* 25(6), 1713-1761.
 - October 31, Shareholders
 - [P] Appel, I. R., Gormley, T.A., and Keim, D.B. Passive investors, not passive owners. *Journal of Financial Economics* 121(1), 111-141.
 - Bae, K.H., Baek, J., Kang, J., and Liu, W. 2012. Do controlling shareholders' expropriation incentives imply a link between corporate governance and firm value? Theory and Evidence. *Journal of Financial Economics* 105, 412-435.
 - [P] Bena, J., and X. Ting. 2017. Competition and ownership structure of closely held firms. *Review of Financial Studies* 30(5), pp.1583-1626.
 - [P] Brav, A., Jiang, W., Partnoy, F. and Thomas, R. 2008. Hedge fund activism, corporate governance, and firm performance. *Journal of Finance* 63(4), 1729-1775.
 - Aghion, P., Van Reenen, J. and Zingales, L. 2013. Innovation and institutional ownership. *American Economic Review* 103(1), 277-304.
 - Bharath, S.T., Jayaraman, S. and Nagar, V. 2013. Exit as governance: An empirical analysis. *Journal of Finance* 68(6), 2515-2547.
 - Brav, A., Jiang, W. and Kim, H. 2015. The real effects of hedge fund activism: Productivity, asset allocation, and labor outcomes. *Review of Financial Studies* 28(10), 2723-2769.
 - Cronqvist, H. and Fahlenbrach, R. 2008. Large shareholders and corporate policies. *Review of Financial Studies* 22(10), 3941-3976.
 - Doidge, C., Karolyi, A., Lins, K., Miller, D., and Stulz, R. 2009. Private benefits of control, ownership, and

the cross-listing decision. *Journal of Finance* 64, 425-466.

- November 7, Competitors
 - [P] Chevalier, J.A., 1995. Capital structure and product-market competition: Empirical evidence from the supermarket industry. *American Economic Review*, 415-435.
 - [P] Azar, J., Schmalz, M. C., and Tecu, I. 2018. Anticompetitive effects of common ownership. *Journal of Finance* 73(4), 1513-1565.
 - He, J. and J. Huang. 2017. Product market competition in a world of cross-ownership: Evidence from institutional blockholdings. *Review of Financial Studies* 30(8), 2674-2718.
 - Phillips, G. 1995. Increased Debt and Industry Product Markets: An Empirical Analysis. *Journal of Financial Economics* 37, 189-238.
 - Chevalier, J. 1995. Debt and product market competition: Local market entry, exit, and expansion decisions of supermarket chains. *American Economic Review* 85, 415-435.
 - Hoberg, G., Phillips, G. and Prabhala, N. 2014. Product market threats, payouts, and financial flexibility. *Journal of Finance* 69(1), 293-324.

- November 14, Suppliers and Customers
 - Chu, Y., Tian, X., and Wang, W. 2019. Corporate innovation along the supply chain. *Management Science* 65(6), 2445-2466.
 - Chu, Y., 2012. Optimal capital structure, bargaining, and the supplier market structure. *Journal of Financial Economics* 106(2), 411-426.
 - [P] Banerjee, S., Dasgupta, S., and Kim, Y. 2008. Buyer-supplier relationships and the stakeholder theory of capital structure. *Journal of Finance* 63(5), 2507-2552.
 - [P] Barrot, J.N., and J. Sauvagnat, 2016. Input specificity and the propagation of idiosyncratic shocks in production networks. *Quarterly Journal of Economics* 131(3), 1543-1592.
 - Fee, C. E. and S. Thomas. 2004. Sources of gains in horizontal mergers: evidence from customer, supplier, and rival firms. *Journal of Financial Economics* 74(3), 423-460.

- November 21, Labor and Employees
 - Agrawai, A. and D. A. Matsa. 2013. Labor Unemployment Risk and Corporate Financing Decisions. *Journal of Financial Economics* 108(2), 449-470.
 - [P] Matsa, D. A. 2010. Capital Structure as a Strategic Variable: Evidence from Collective Bargaining. *Journal of Finance* 65(3), 1197-1232.
 - [P] Lee, D. S. and A. Mas. 2012. Long-run impacts of unions on firms: New evidence from financial markets, 1961–1999. *Quarterly Journal of Economics* 127(1), 333-378.
 - Simintzi, E., Vig, V. and Volpin, P. 2014. Labor protection and leverage. *Review of Financial Studies* 28(2), 561-591.
 - Favilukis, J., Lin, X., and Zhao, X. 2020. The elephant in the room: The impact of labor obligations on credit markets. *American Economic Review* 110(6), 1673-1712.

- November 28, Student Presentations

- December 5, Student Presentations & Wrap up
 - Final Paper Due by December 9 (Sat) 10PM