

16F023

Empirical Corporate Finance

3 ECTS

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Introduction

This is a two-module course that covers a number of topics in empirical corporate finance. It is meant to expose students to the main research areas of the finance faculty at the BGSE. It is a particularly useful course for students that wish to pursue an academic career in finance.

Objectives

Module I: Empirical Corporate Finance (Filippo Ippolito): The purpose of this module is to introduce students to some of the main findings in corporate finance, and to teach them how to manipulate the main commercial databases used in corporate finance. Students will be required to replicate the results of some recent papers in corporate finance.

Module II: Empirical Financial Accounting (Javier Gomez Biscarri): The objectives of this module are twofold: first, the module will introduce the main empirical lines of research on financial accounting, placing emphasis on the theories underlying the analyses and on how the theories were "taken to the data"; second, performing one specific example of such "taking the theories to the data" will help students "get their hands dirty" with data, so they become familiar with the problems that arise when doing empirical analyses.

Required Background Knowledge

Module I: There are no formal prerequisites, but I will assume throughout that you have a basic understanding of econometrics (equivalent to at least one semester at the PhD level) and some understanding of corporate finance theory

Module II: No specific background knowledge is required beyond that provided by the courses in previous quarters (especially, econometrics, financial econometrics and asset pricing) and some basic knowledge of the structure of the financial statements of a firm.

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Learning Outcomes

Module I: Students will be: a) able to understand the empirical methodologies behind the recent corporate finance literature, b) learn to manipulate the main databases used in corporate finance

Module II: By the end of the module students should be familiar with some of the main areas of empirical financial accounting research and should know how these areas relate to empirical finance in general. Also, students will have been exposed to the standard methodologies and practices of empirical accounting researchers.

Methodology

Module I: The first session will introduce the students to several recent papers in corporate finance, spanning capital structure, payout ratios, adjustment frictions, debt structure and syndicated loan structure. During this session, the students will be introduced to the main databases employed in the papers. In each of the following four sessions students will work alone under the supervision of the teacher and will replicate the main results of the papers discussed above using Stata.

Module II: The first four sessions will follow a similar structure: each session will cover two topics of empirical financial accounting. For each topic, the professor will discuss both the general literature on the topic (theories and empirics) and the specific references suggested for the session (listed below). Special emphasis will be placed on the methodological issues that may be specific to each topic. The last session will cover only one topic, given that the second half of the session will be devoted to an in-depth review of the paper which will be replicated for the problem set.

Evaluation

Evaluation will be based on a problem set for each module (50% of the grade of the course), which is based on the replication of one or more empirical papers in the reading list.

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Course contents

Module I:

Session	
1	Introduction to papers and databases
2	Replica of Fama French (2002)
3	Replica of Flannery and Rangan (2006)
4	Replica of Colla, Ippolito, Li (2013)
5	Replica of Sufi (2007)

Module II:

Session	
1	<ul style="list-style-type: none"> • Introduction to the interplay between finance and accounting: the analysis of financial information • Stock prices, returns and earnings
2	<ul style="list-style-type: none"> • Accounting-Based valuation • Accounting-based market anomalies:
3	<ul style="list-style-type: none"> • Value relevance studies • Earnings forecasts: Analysts and Managers' Forecasts
4	<ul style="list-style-type: none"> • Earnings management • International issues
5	<ul style="list-style-type: none"> • Methodological issues in accounting research

Bibliography

Module I: Empirical Corporate Finance

Colla, P., Ippolito, F. And Li, K. (2013), Debt Specialization. *The Journal Of Finance*, 68: 2117–2141.

Fama, Eugene F., and Kenneth R. French. "Testing Trade-off and Pecking Order Predictions About Dividends and Debt". *The Review of Financial Studies* 15.1 (2002): 1–33.

Flannery, M.J., Rangan, K.P., 2006. Partial adjustment toward target capital. *J. Financ. Econ.* 41, 41–73.

Sufi, A. (2007), Information Asymmetry and Financing Arrangements: Evidence from Syndicated Loans. *The Journal of Finance*, 62: 629–668

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Module II: Empirical Financial Accounting (Only main readings)

Session 1

Kothari, S.P., 2001. Capital Markets Research in Accounting. *Journal of Accounting and Economics* 31 (1-3), 105-253 (and discussion by Lee).

Vuolteenaho, T., 2002. What drives firm-level stock returns? *Journal of Finance* 57(1), 233-264.

Session 2

Richardson, S., Tuna, I., Wysocki, P., 2010. Accounting Anomalies and Fundamental Analysis: A Review of Recent Research Advances. *Journal of Accounting and Economics* 50(2-3), 410-454.

Dechow, P.M., Hutton, A.P., Sloan, R.G., 1999. An Empirical Assessment of the Residual Income Valuation Model. *Journal of Accounting and Economics* 26(1-3), 1-42. (and comments by Beaver).

Ohlson, J., 1995. Earnings, book values, and dividends in equity valuation. *Contemporary Accounting Research* 11, 661-687.

Session 3

Holthausen, R.W., Watts, R.L., 2001. The Relevance of the Value-Relevance Literature for Financial Accounting Standard Setting. *Journal of Accounting and Economics* 31(1-3), 3-75.

Fried, D., Givoly, D., 1982. Financial Analysts' Forecasts of Earnings. *Journal of Accounting and Economics* 4 (2), 85-107.

Session 4

Dechow, P.M., Sloan, R.G., Sweeney, A.P., 1995. Detecting Earnings Management. *The Accounting Review* 70 (1), 193-225.

Roychowdhury, S., 2006. Earnings Management through Real Activities Manipulation. *Journal of Accounting and Economics* 42 (3), 335-370.

Barth, M.E., Landsman, W.R., Lang, M.H., 2008. International Accounting Standards and Accounting Quality. *Journal of Accounting Research* 46 (3), 467-498.

Leuz, C., Nanda, D., Wysocki, P.D., 2003. Earnings Management and Investor Protection: An International Comparison. *Journal of Financial Economics* 69 (3), 505-527.

Gómez Biscarri, J., López Espinosa, G., 2008. Accounting measures and international pricing models: Justifying accounting homogeneity. *Journal of Accounting and Public Policy* (27), 339-354.

Session 5

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Gow, I. D. and Larcker, D. F. and Reiss, P. C. (2016) Causal Inference in Accounting Research. *Journal of Accounting Research*, forthcoming.

Barth, M., Gomez-Biscarri, J., Kasznik, R. and Lopez-Espinosa, G., 2015. Bank Earnings and Regulatory Capital Management Using Available for Sale Securities. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2448482.

Professors Biography

Prof. Ippolito is Associate Professor of Financial Management at Universitat Pompeu Fabra and research affiliate at the Centre for Economic Policy Research (CEPR), London, and Director of the Master in Finance at the Barcelona Graduate School of Economics. Prof Ippolito holds a PhD in finance from Said Business School, Oxford, and an MPhil in Russian and Eastern European Studies from the University of Oxford. In the past he has worked in the financial and consulting sectors. His research focuses on corporate debt, capital structure, corporate liquidity management and private equity. Prof Ippolito has published in the *Journal of Finance*, *Journal of Financial Economics*, *Journal of Financial Intermediation*, and *Journal of Corporate Finance*.

Prof. Gómez Biscarri is Associate Professor of Finance and Accounting at Universitat Pompeu Fabra, the Barcelona Graduate School of Economics and the Barcelona School of Management. He is also a part-time professor of IESE Business School and Deusto Business School. Prof. Gómez holds an M.A. in Economics and a Ph.D. in Business Economics from UCLA. His current research focuses on time series econometrics, on the impact of accounting on the banking sector, specifically on earnings management behavior and on the effect of new accounting regulations on bank's strategies.