FINM4015
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.

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Semester and Year            Semester 2, 2016
Course URL                    http://programsandcourses.anu.edu.au/course/FINM8004
Mode of Delivery              On campus
Prerequisites                 FINM7008, FINM7007, and FINM7041
Course Convener              Lili Dai
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, maria.lander@anu.edu.au
COURSE OVERVIEW

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.

Assessment Summary

<table>
<thead>
<tr>
<th>Assessment Task</th>
<th>Weighting (%)</th>
<th>Due Date</th>
<th>Return of Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Critical Comments</td>
<td>15%</td>
<td>Weekly</td>
<td>TBA</td>
</tr>
<tr>
<td>3 Presentation</td>
<td>15%</td>
<td>One week in the semester</td>
<td>N.A.</td>
</tr>
<tr>
<td>4 Problem Set 1</td>
<td>10%</td>
<td>Friday of Week 4</td>
<td>Week 7</td>
</tr>
<tr>
<td>5 Problem Set 2</td>
<td>10%</td>
<td>Friday of Week 7</td>
<td>Week 12</td>
</tr>
<tr>
<td>6 Term paper</td>
<td>50%</td>
<td>Friday of Week 12</td>
<td>N.A.</td>
</tr>
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</table>

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.

Staff Feedback

Students will be given feedback in the following forms in this course: marks and verbal comments to the whole class, groups, and individuals.

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
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 Academic Misconduct Rules 2014 before the commencement of their course.

Other key policies include:
- Student Assessment (Coursework)
- Student Surveys and Evaluations

**COURSE SCHEDULE**

<table>
<thead>
<tr>
<th>Week</th>
<th>Topic</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Introduction, empirical method, and theory of the firm</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Capital structure</td>
<td>Presentation/Comments</td>
</tr>
<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</td>
</tr>
<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</td>
</tr>
<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</td>
</tr>
<tr>
<td>13</td>
<td>Presentation of term paper, and course revision</td>
<td>Term Paper Presentation</td>
</tr>
</tbody>
</table>

**Assessment Requirements**
### Assessment Task 1: Critical Comments (15%)  
**Details of task:**

<table>
<thead>
<tr>
<th>Due Date</th>
<th>Each week, there will be a task for making comments on a paper. This is to be done by Monday of the week.</th>
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</thead>
</table>
| 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. |
| Returned assignments | Marks will be informed for two times on request in week 7 and week 12. |

### Assessment Task 2: Presentation (15%)  
**Details of task:**

<table>
<thead>
<tr>
<th>Due Date</th>
<th>Each week, there will be student presentation in class time on Wednesday.</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 and depth of analysis, and quality of presentation. |
| Returned assignments | Marks will be informed on request in week 12. |

### Assessment Task 3: Problem Sets (20% - 10% for each problem set)  
**Details of task:**

<table>
<thead>
<tr>
<th>Due Date</th>
<th>See Assessment Summary.</th>
</tr>
</thead>
</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. |
Assessment Task 4: Term Paper - Equivalent for Final Exam (50% - 45% for individual paper, and 5% for final group presentation in week 13)

Details of task:

<table>
<thead>
<tr>
<th>Due Date</th>
<th>See Assessment Summary.</th>
</tr>
</thead>
</table>
| 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, sample selection, and research design.  
3. In week 13, each group will select one paper from their group members and present it to other fellow students. This will account for 5% and every student in the same group will receive the same 5% mark.  
4. The remaining 45% mark of term paper will be graded for each student individually based on his/her own paper.  
| Purpose | To come up with an interesting research idea, and write a relevant research proposal. |
| Marking Criteria | Originality of research idea, relevance of theoretical development, and quality of writing and research design. |

Assignment Submission

Critical comments, problem sets and term paper are to be submitted via email: Lili.Dai@anu.edu.au. Please keep a copy of tasks completed for your records.

Extensions and Penalties

Late submission will NOT be accepted, which will result in a score of zero for the assessment task.

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.

Privacy Notice

The ANU has made a number of third party, online, databases available for students to use. Use of each online database is conditional on student end users first agreeing to the database licensor’s terms of service and/or privacy policy. Students should read these carefully.
In some cases student end users will be required to register an account with the database licensor and submit personal information, including their: first name; last name; ANU email address; and other information.

In cases where student end users are asked to submit ‘content’ to a database, such as an assignment or short answers, the database licensor may only use the student’s ‘content’ in accordance with the terms of service – including any (copyright) licence the student grants to the database licensor.

Any personal information or content a student submits may be stored by the licensor, potentially offshore, and will be used to process the database service in accordance with the licensors terms of service and/or privacy policy.

If any student chooses not to agree to the database licensor’s terms of service or privacy policy, the student will not be able to access and use the database. In these circumstances students should contact their lecturer to enquire about alternative arrangements that are available.

Support for Students

The University offers a number of support services for students. Information on these is available online from http://students.anu.edu.au/studentlife.

Announcements

Students are expected to check the Wattle site for announcements about this course, e.g., changes to timetables or notifications of cancellations. Wattle (https://wattle.anu.edu.au) is the University’s online learning environment. Log on to Wattle using your student number and your ISIS password.

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).

READING LIST

(Papers to be presented and commented by students are marked with *)

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

Nexus of Contracts


Property Rights Theory


Nature of Firm


Empirical Work

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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


Deviations from MM Theory - Effects of Product Market Competition


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


* 2) Malmendier, Ulrike, Geoffrey Tate, and Jon Yan, 2011, Overconfidence and Early-Life Experiences: The

Lecture 4: Equity and debt financing

Initial public offering


Seasoned equity offering


Loan Market


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

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**Dividend taxes**


**Dividend and repurchase**


**Financial crisis and banking**


**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**


**Culture and ethics**

Creditor


Lecture 9: Management compensation

Determinants


Consequences


Management Turnover


Lecture 10: International finance

Institutional difference


Merger and acquisition


Large shareholder


Lecture 11: Information disclosure

Survey evidence

Graham, John, Campbell Harvey, and Shiva Rajgopal, 2005, The Economic Implications of Corporate Financial

**Cost of capital**


**Capital investment**


**Corporate governance**

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

**Nonfinancial disclosure**


**Lecture 12: Other contemporary issues**

**Political factor**


**Gender**


**Religion**


**Environment**


**Appearance**