

University of Colorado-Boulder
Leeds School of Business

MBAX 6200
Advanced Corporate Finance
Fall 2008
MW 9:30 am – 10:50 am, KOBL 375

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I. Course Objective

The objective of the course is to provide the student with a state-of-the-art understanding of the following corporate finance topics: corporate investment policy, real options, mergers and takeovers, corporate governance, corporate restructuring, management compensation, and corporate financial strategy. *This course will provide a definite competitive edge to students planning careers in consulting, investment banking, venture financing, corporate budgeting and planning, and corporate law.*

II. Course Materials

Course materials consist of scholarly journal articles and working papers.
Lecture notes/overheads and some of the more recent papers can be accessed from my home-page:
<http://leeds.colorado.edu/faculty/bhagat>

III. Course Outline and Readings

A. Background

A1. M.C. Jensen and C.W. Smith, "Stockholder, Manager, and Creditor Interests: Application of Agency Theory," *Recent Advances in Corporate Finance*, 1985, 93-132. [jensen-smith.doc](#)

A2. A. Lo, "[Efficient Markets Hypothesis](#)," *The New Palgrave: A Dictionary of Economics*, 2007.

B. Corporate Governance and Corporate Control

Mergers and Takeovers

B1. S. Bhagat, A. Shleifer, and R.W. Vishny, "Hostile Takeovers in the 1980s: The Return to Corporate Specialization," *Brookings Papers on Economic Activity*, 1990, 1-84. [target-gain.doc](#)
[b-shleifer-vishny.ppt](#)

B2. G. Andrade, M. Mitchell, and E. Stafford. "[New Evidence and Perspectives on Mergers](#)." *Journal of Economic Perspectives* (2001): 103-120. [NewEvidenceMergers.ppt](#)

B3. O. Kini, W. Kracaw and S. Mian, "[The Nature of Discipline in Corporate Takeovers](#)," *Journal of Finance* 59, 2004, 1511-1552.

B4. E.H. Kim and V. Singal, "[Mergers and Market Power: Evidence from the Airline Industry](#)," *American Economic Review* 83, 1993, 549-569. [monopoly.ppt](#)

B5. S. Bhagat, M. Dong, D. Hirshleifer and R. Noah, "[Do Tender Offers Create Value?](#)" *Journal of Financial Economics*, 2005, V76 N1, 3-60. [b-hirshleifer.ppt](#)

B6. S. B. Moeller, F. P. Schlingemann, R. M. Stulz, "[Firm Size and the Gains From Acquisitions](#)," *Journal of Financial Economics* 73, 2004, 201-228.

B7. U. Malmendier and G. Tate, "'[CEO Overconfidence and Corporate Investment](#),'" *Journal of Finance*, 2005, v60(6,Dec), 2261-2700. [CEO-Overconfidence-Turnover.ppt](#)

B8. M. Zhao and K. Lehn, "[CEO Turnover After Acquisitions: Do Bad Bidders Get Fired?](#)" *Journal of Finance*, 2006, v61(4,Aug), 1759-1811.

B9. E. Devos, PR Kadapakkam and S. Krishnamurthy, "[How Do Mergers Create Value? A Comparison of Taxes, Market Power, and Efficiency Improvements as Explanations for Synergies](#)," 2008, University of Texas working paper.

B10. S. Bhagat, S. Malhotra and P.C. Zhu, "[Developing Country Acquirers: The Case of India](#)," 2008, University of Colorado working paper.

Spinoffs and Corporate Refocusing

B10. P. G. Berger and E. Ofek, "[Causes and Effects of Corporate Refocusing Programs](#)," *Review of Financial Studies* 12, 1999, 311-346. [Spin-offs.ppt](#)

B11. L. Daley, V. Mehrotra, and R. Sivakumar, "[Corporate Focus and Value Creation: Evidence from Spinoffs](#)," 1997, *Journal of Financial Economics* 45, 257-281.

B12. S. Krishnaswami and V. Subramaniam, "[Information Asymmetry, Valuation, and the Corporate Spin-off Decision](#)," 1999, *Journal of Financial Economics* 53, 1999, 73-112.

B13. S. Ahn and D.J. Denis, "[Internal Capital Markets and Investment Policy: Evidence From Corporate Spinoffs](#)," *Journal of Financial Economics* 71, 2004, 489-516.

B14. T.R. Burch and V. Nanda, "[Divisional Diversity and the Conglomerate Discount: Evidence From Spinoffs](#)," *Journal of Financial Economics* 70, 2003, 69-98.

Corporate Governance

B15. M.J. Roe, "The Political Roots of American Corporate Finance," 1997, *Journal of Applied Corporate Finance* 9, 8-22. [Politics.ppt](#)

B16. R. LaPorta, F. Lopez-de-Silanes, A. Shleifer, and R. Vishny, "Investor [Protection and Corporate Governance](#)," *Journal of Financial Economics* 58, 2000, 3-28.

B17. B. Holmstrom and S. N. Kaplan, "[The State of U.S. Corporate Governance: What's Right and What's Wrong](#)," *Journal of Applied Corporate Finance*," 2003, v15(3, Spring), 8-20.

B18. J.A. Brickley, R.C. Lease and C.W. Smith, Jr., "Ownership Structure and Voting on Antitakeover Amendments," *Journal of Financial Economics* 20, 1988, 267-292. [Antitakeover-2.pptx](#)

B19. S. Bhagat and R.H. Jefferis, "[Voting Power in the Proxy Process: The Case of Antitakeover Charter Amendments](#)," *Journal of Financial Economics* 30, 1991, 193-226.

B20. A. Brav, W. Jiang, F. Partnoy, and R. Thomas, "[Hedge Fund Activism, Corporate Governance, and Firm Performance](#)," 2006, Duke University working paper.

R. Greenwood and M. Schor, "[Hedge Fund Investor Activism and Takeovers](#)," 2007, Harvard University working paper.

B21. D. DelGuercio and J. Hawkins, "[The Motivation and Impact of Pension Fund Activism](#)," *Journal of Financial Economics* 52, 1999, 293-340. [Pension-Fund-Activism.ppt](#)

B22. S. Bhagat and B. Black, "[The Non-Correlation Between Board Independence and Long-Term Firm Performance](#)" *Journal of Corporation Law*, 2002, Volume 27, Number 2. [b-black.ppt](#)

B23. S. Bhagat, D. C. Carey, and C. M. Elson, "[Director Ownership, Corporate Performance, and Management Turnover](#)," *The Business Lawyer*, May 1999. [b-carey-elson.ppt](#)

B24. S. Bhagat and R.H. Jefferis, [The Econometrics of Corporate Governance Studies](#), 2002, MIT Press.

B25. S. Bhagat, B. Bolton, and R. Romano, "[The Promise and Pitfalls of Corporate Governance Indices](#)," *Columbia Law Review*, forthcoming 2008. [Corporate Governance – Performance.ppt](#)

B26. V. Chhaochharia and Y. Grinstein, "[The Transformation of US Corporate Boards: 1997-2003](#)," 2004, Cornell University working paper. [Boards-1997-2003.ppt](#)

B27. D.B. Farber, "[Restoring Trust After Fraud: Does Corporate Governance Matter?](#)" *The Accounting Review*, 2005, v80(2, Apr), 539-561.

B28. Y.V. Hochberg, "[Venture capital and Corporate Governance in the Newly Public Firm](#)," 2003, Cornell University working paper.

B29. C.F. Foley and R. Greenwood, "[Giving Up Control to Pursue Growth: The Evolution of Corporate Ownership After IPO](#)," 2008, Harvard University working paper.

B30. E. Kamar, P. Karaca-Mandic, E.L. Talley, "[Sarbanes-Oxley's Effects on Small Firms: What is the Evidence?](#)" 2007, Harvard Law School working paper.

Management Compensation

B31. M.C. Jensen and K.J. Murphy, "[Performance Pay and Top-Management Incentives](#)," *Journal of Political Economy* 98, 1990, 225-264. [Jensen-Murphy.ppt](#)

B32. B. J. Hall and J. B. Liebman, "[Are CEOs Really Paid Like Bureaucrats?](#)" 1998, *Quarterly Journal of Economics* 108, 653-691. [Hall-Liebman.ppt](#)

- B33. P.Oyer and S.Schaefer, "[Accounting, Governance, and Broad-Based Stock Option Grants](#)" 2005, Stanford University working paper.
- B34. B.J. Hall, "[Six Challenges in Designing Equity-Based Pay](#)," *Journal of Applied Corporate Finance*, Spring 2003.
- B35. L. Bebchuk, J. Fried, "[Pay without Performance: Overview of the Issues](#)," 2005, Harvard University working paper.
- B36. N. Burns and S. Kedia, "[The Impact of Performance-based Compensation on Misreporting](#)," 2006, *Journal of Financial Economics* 79, 35-68. [Performance Compensation Misreporting.ppt](#)
- B37. M. Erickson, M. Hanlon and E. Maydew, "[Is There a Link Between Executive Compensation and Accounting Fraud?](#)" *Journal of Accounting Research*, 2006, v44(1,Mar), 113-143.

Finance and Law

- B38. S. Bhagat and R. Romano, "[Empirical Studies of Corporate Law](#)," in *Handbook of Law & Economics*, 2007, editors Mitchell Polinsky and Steven Shavell (Harvard Law School). [CorporateLaw.ppt](#)
- B39. J.M. Karpoff, D.S. Lee and G.S. Martin, "[The Cost of Cooking the Books](#)," 2006, University of Washington working paper.

C. Capital Structure

- C1. J.R. Graham and C.R. Harvey, "[The Theory and Practice of Corporate Finance](#)," *Journal of Financial Economics* 60, 2001, 187-244.
- C2. S. Bhagat, J.A. Brickley and J.L. Coles, "[The Costs of Inefficient Bargaining and Financial Distress: Evidence from Corporate Lawsuits](#)," *Journal of Financial Economics* 35, 1994, 221-248.
- C3. R.Rajan and L. Zingales, "[What Do We Know About Capital Structure? Some Evidence From International Data](#)," *Journal of Finance* 50, 1995, 1421-1460. [CapitalStructure.ppt](#)
- C4. A. Kayhan and S. Titman, "[Firms Histories and Their Capital Structures](#)," 2007, *Journal of Financial Economics* 83, 1-32.
- C5. B.W. Nocco and R.M. Stulz, "[Enterprise Risk Management: Theory and Practice](#)," 2006, Ohio State University working paper.
- C6. S. Bhagat, B. Bolton, and A. Subramanian, "[Manager Characteristics and Capital Structure: Theory and Evidence](#)," 2008, University of Colorado working paper.
- C7. A. Gomes and G. Phillips, "[Why Do Public Firms Issue Private and Public Securities?](#)" 2007, NBER working paper.

D. Corporate Financial Strategy

D1. C.W. Smith, Jr., "Investment Banking and the Capital Acquisition Process," *Journal of Financial Economics* 15, 1986, 3-30. [RaisingCapital.ppt](#)

D2. N. Jegadeesh, M. Weinstein, and I. Welch, "An Empirical Investigation of IPO Returns and Subsequent Equity Offerings," *Journal of Financial Economics* 34, 1993, 153-176. [IPO.ppt](#)

D3. A.P Ljungqvist and W. J. Wilhelm, "[IPO Pricing in the Dot-Com Bubble](#)," *Journal of Finance* 58, 2003, 723-752.

D4. Hand, J.R.M., 2003, "[Profits, losses and the non-linear pricing of internet stocks](#)," *Intangible Assets: Values, Measures and Risks*, Oxford University Press.

D5. R. Aggarwal, S. Bhagat and S. Rangan, "[IPO Valuation: Theory and Evidence](#)," *Financial Management*, forthcoming 2009. [IPO Valuation.ppt](#)

D6. A. Poulsen and M. Stegemoller, "[Moving from Private to Public Ownership: Selling Out to Public Firms vs. Initial Public Offerings](#)," 2005, University of Georgia working paper.

E. Venture Financing

E1. S. Bhagat, "[Why Do Venture Capitalists Charge Such High Discount rates?](#)" University of Colorado working paper, 2005. [venture-discount-rates.doc](#) [VentureCapital.ppt](#)

E2. B.S. Black and R.J. Gilson, "[Venture Capital and the Structure of Capital Markets](#)," *Journal of Financial Economics* 47, 1998, 243-277.

E3. S. N. Kaplan and P. Stromberg, "[Venture Capitalists as Principals: Contracting, Screening, and Monitoring](#)," 2001, *American Economic Review*, v91(2,May), 426-430. [VC-Contracting.ppt](#)
[ImpliedReturn](#)

E4. S.N. Kaplan and Per Stromberg. "[Financial Contracting Theory Meets The Real World: An Empirical Analysis Of Venture Capital Contracts](#)," *Review of Economic Studies*, 2003, v70(2,Apr), 281-315.

E5. J. Lerner and A. Schoar, "[Transaction Structures in the Developing World: Evidence From Private Equity](#)," *Quarterly Journal of Economics*, 2005.

E6. J.R.M. Hand, "[Determinants of the Returns to Venture Capital Investments](#)," 2004, University of North Carolina working paper.

E7. T. Hellman, L. Lindsey, M. Puri, "[Building Relationships Early: Banks in Venture Capital](#)," 2003, Stanford University working paper.

E8. D. Hsu, "[Why Do Entrepreneurs Pay For Venture Capital Affiliation](#)," *Journal of Finance* 59, 2004, 1805-1841.

E9. Y. Hochberg, A. Ljungqvist, and Y. Lu, "[Who You Know Matters: Venture Capital Networks and Investment Performance](#)," 2005, Cornell University working paper.

E10. A. Metrick and A. Yasuda, "[The Economics of Private Equity Funds](#)," 2007, Wharton School working paper.

E11. A. Ljungqvist, M. Richardson and D. Wolfenzon, "[The Investment Behavior of Buyout Funds: Theory and Evidence](#)," 2007, NYU working paper.

E12. S. N. Kaplan and P. Stromberg, "[Leveraged Buyouts and Private Equity](#)," 2008, University of Chicago working paper.

F. Corporate Investment Policy, and Valuation

F1. R.J. Barro, "The Stock Market and Investment," *Review of Financial Studies* 3, 1990, 115-132. [[StockMarketAndInvestment.pdf](#)]

F2. S. Bhagat and I. Welch, "Corporate R&D Investment: International Comparisons," *Journal of Accounting & Economics* 19, 1995, 443-470.

F3. S. Bhagat, N. Moyen and I. Suh, "[Investment and Internal Funds of Distressed Firms](#)," 2005, *Journal of Corporate Finance*, v11, 449-472.

F4. P. Joos and G.A. Plesko, "[Valuing Loss Firms](#)," 2004, MIT working paper. [Valuation.ppt](#)

F5. A. Damodaran, [The Dark Side of Valuation](#), 2001, Prentice Hall.

G. Real Options

G1. M. Amram and N. Kulatilaka, 1999, *Real Options*, Harvard Business School Press..

G2. S. Bhagat, "Real Options in the Telecommunications Industry," in *Real Options: The New Investment Theory and its Implications for Telecommunications Economics* (1999), Kluwer Academic Publishers, Boston, MA. [Real-options.ppt](#)

H. Subprime Mortgage

H1. C.D. Anderson, D.R. Capozza and R. Van Order, "[Deconstructing the Subprime Debacle](#) Using New Indices of Underwriting Quality and Economic Conditions: A First Look," 2008, University of Michigan working paper.

H2. S. Bhagat, "[Causes of Subprime Credit Crisis](#)," 2008, University of Colorado working paper. [Subprime Crisis](#)

IV. **Course Schedule**

- Sep 8: Organization and Background, Mergers and Takeovers
- Sep 10: Mergers and Takeovers
- Sep 15: Mergers and Takeovers
- Sep 17: Mergers and Takeovers, **Term Paper Proposal Due**
- Sep 22: Spinoffs and Corporate Refocusing
- Sep 24: Spinoffs and Corporate Refocusing
- Sep 29: Corporate Governance
- Oct 1: Corporate Governance
- Oct 6: Corporate Governance
- Oct 8: Management Compensation
- Oct 13: Management Compensation
- Oct 15: Capital Structure
- Oct 20: Capital Structure
- Oct 22: Corporate Financial Strategy, **Term Paper Draft Due**
- Oct 27: Corporate Financial Strategy
- Oct 29: Corporate Financial Strategy
- Nov 3: Corporate Financial Strategy
- Nov 5: Corporate Litigation
- Nov 10: Corporate Investment Policy
- Nov 12: Corporate Investment Policy
- Nov 17: Corporate Investment Policy
- Nov 19: Valuation
- Nov 24: Fall break
- Nov 26: Fall break
- Dec 1: Valuation, **Term Paper Due**
- Dec 3: Student Presentations
- Dec 8: Student Presentations
- Dec 10: Student Presentations
- Dec 13: Final Exam (1:30 pm – 3:00 pm, KOBL 350) [Study Questions](#)

V. Course Policies

A. Grading

The grade breakdown is as follows:

	<u>Item</u>	<u>Weight</u>
A.	Class participation and attendance	15%
B.	Term Paper (proposal, due: September 17)	5%
C.	Term Paper (draft, due: October 22)	10%
D.	Term Paper (write-up, due: December 1)	20%
E.	Term Paper (presentation)	20%
F.	Final Exam	30%

A. Class participation is critical to the success of this course. Student questions and comments are expected and welcome. *Attendance will be taken at random (unannounced)*. Students are requested to place their name-cards in front of their desk at all times during class.

The class will be conducted in a professional manner: Students and the instructor are expected to be prepared for each class, and behave professionally in the class.

B. Proposals for the term paper are due on **September 17, 2008**, before the start of class. *However, you should set up an appointment to see me to discuss your term paper proposal – by September 15, 2008*. The proposal should answer the following two questions:

- What will the paper be about?
- Why is this topic interesting and important?

You should also include a list of at least four academic papers that you intend to read as background for your paper. The proposal should be no more than a page.

C, D and E. The term paper *draft* is due on **October 22, 2008**, before the start of class. The term paper draft should be at least ten pages long, and include the following:

- What is the paper about?
- Why is this interesting and important to study/read?
- A critical survey of the literature.
- **Outline of the original analysis that would be of interest to somebody in the real world: an investment banker, CFO, venture capitalist, consultant, or government regulator/legislator.**
- References that includes at least four academic papers.

The term paper is due on **December 1, 2008**, before the start of class. Student presentations are scheduled for December 3, 8 and 10. The paper can be on any topic that will be covered in the course. **The paper should include a critical survey of the literature and some original analysis that would be of interest to somebody in the real world: an investment banker, CFO, venture capitalist, consultant, or government regulator/legislator.** The paper (including exhibits) should be between fifteen and twenty typed, double-spaced pages (twelve-point font, one-inch margin all-around). The paper is an *individual* exercise: While you are welcome and encouraged to talk to your friends, work-associates, instructors, etc. regarding ideas, facts, institutional practices, real cases, and so on, you should write the paper without assistance from anyone. Similarly, the presentation is also an individual exercise.

On your paper please note the following:

On my honor, as a University of Colorado at Boulder student, I have neither given nor received unauthorized assistance on this paper.

A Note on Academic Honesty & Plagiarism: The development of the Internet has provided students with historically unparalleled opportunities for conducting research swiftly and comprehensively. The availability of these materials does not, however, release the student from appropriately citing sources where appropriate; or applying standard rules associated with avoiding plagiarism. Please see <http://www.colorado.edu/academics/honorcode>

Also, please review http://www.colorado.edu/policies/fac_relig.html,
<http://www.colorado.edu/policies/classbehavior.html>,
and <http://www.colorado.edu/policies/discrimination.html>.

F. The exam will consist of essay-type questions, and will be closed-book, closed-notes, and in-class. The exam will be based on study questions that will be handed out during the semester. The exam will be graded anonymously in the sense that students will not write their names on the exam and at the time I grade the exam I will not know whose exam it is.

B. Readings

If you wish to get the most out of my lectures, you are advised to read the “critical portions” of the assigned readings for a particular class before that class. The critical portions of a reading include the *abstract, introduction, summary/conclusions of the paper*. You might wish to read the main body of the paper after we have discussed it in class.

Guidelines for the Term Paper

Suggested order for the sections:

Cover Page

Title, Name, Course, Date

Executive Summary

No more than one page. *The most important part of your paper!* Briefly explain what the paper is about, why this is an interesting and important topic, and your main findings/conclusions. **Consider an investment banker, CFO, venture capitalist, consultant, or government regulator/legislator as your primary reader of this page.**

Introduction

What is the paper about?

Motivation: Why is this interesting and important to study/read?

Overview of the paper.

(Main Body)

(Footnotes on same page.)

Please consider using sub-sections to better organize your paper, and improve its readability.

Please check the transition between paragraphs.

Summary and Conclusions

Exhibits (Tables, Graphs, etc.)

Captions and legends in the exhibits should make them self-explanatory. Cite data sources.

References

Check for grammar and spelling.

All arguments/assertions should be supported using:

logical constructs, and/or

theoretical considerations (cite references), and/or

previous empirical evidence (cite references).

You should revise the paper at least four times over a period no less than a week.

Additional Overheads and Class Material

[NestEgg-WSJ](#)

[Echostar092507 SharePrice](#)

[SpinoffAirlines](#)

[SpinoffBelo](#)

[How to get hired. WSJ](#)

[How Funds Vote – WSJ.pdf](#)

[Why Firms Are Returning to Their Roots](#)