Introduction

This is the initial course in finance for the Terry College PhD program. The course is ambitious in that in addition to studying some of the seminal work in finance, the course will also survey many current issues in finance academic research. The intent is to give the students grounding in some of the classic issues in finance, but also introduce them early into the concept of what research is, and more explicitly, where it is.

Structure of the course

The course is divided into 15 weekly sections, with breaks around major holidays in the calendar. The class will usually meet at 3:30 – 6:15 on Thursdays in Sanford.

Course Materials

Lecture material that exists and specific reading material that I have will be posted on Blackboard. You should be able to get most of the articles from the UGA electronic journal locator - http://www.libs.uga.edu/ejournals/. When I have an electronic copy available, I will put some of the more difficult to find articles on Blackboard.

Class Text


Other useful sources


5. Potentially useful websites:


   KenFrench’s data library - [http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html](http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html)

   Wharton research data services – wrds - [http://wrds.wharton.upenn.edu/](http://wrds.wharton.upenn.edu/)

   We have a class account for the Wharton research data services (wrds) website.
   The username to this account is:
   The password to this account is:

**Grading**

Your final grade is determined by your work according to these weights:

- Presentations: 20%
- Homework/Quiz: 30%
- Participation: 10%
- Exams: 40%

**Communication**

You can call or email me pretty much anytime. I will be having office hours Tuesday 3:30-4:30.

**Stuff the University wants in this syllabus**

i) **Honesty Policy:**

As a University of Georgia student, you have agreed to abide by the University’s academic honesty policy, “A Culture of Honesty,” and the Student Honor Code. All academic work must meet the standards described in “A Culture of Honesty” found at: [http://www.uga.edu/honesty](http://www.uga.edu/honesty). Lack of knowledge of the academic honesty policy is not a reasonable explanation for a violation. Questions related to course assignments and the academic honesty policy should be directed to the instructor.

ii) **Disclaimer:**
The course policy is a general plan for the course; deviations announced to the class by the instructor may be necessary.

iii) Grading policy:

The final grade will be based on the total points earned on the material listed in this syllabus. All students will be ranked by points earned and the final grade will be based on that ranking.

iv) Make up examinations:

If you must miss an exam, we will make it up.

v) Pre-Requisite:

Permission of the PhD Coordinator.

Topics

Below is an outline of the topics covered in the course. You can expect this list to evolve.

Section 1 Overview of Risk and Return
Date: 8/16/2012

Professor Irvine’s Guide to Personal Investing

Risk Aversion (CWS Chapter 3). Pennacchi, Chapter 1.


Section 2 The Philosophy of Economic Science
Date: 8/23/2012


Helpful information for PhD students:

There are several short other articles I posted on ELC and I hope you will find some of them helpful.

**Section 3  Fundamentals**  
**Date: 8/30/2012**

Stochastic Dominance  
Portfolio Theory  
Mean Variance Decision Model  
Other Statistical Methods

Gisiger, Nicolas, 2009. Risk-neutral probabilities explained, Working paper,  

CWS Chapters 1-4.

**Section 4  Fundamental Asset Pricing**  
**Date: 9/6/2012**

CAPM  
CWS Chapter 5, Chapter 6


**Section 5  Corporate Methods I**  
**Date: 09/13/2012**


Tirole, J., Chapter 2 in *The Theory of Corporate Finance*.

Section 6 The Fundamental Model Fails
Date: 09/20/2012


Presentation – Green, C., and B. Hwang, 2010. IPOs as Lotteries: Skewness preference and first-day returns, Working paper, Emory University

Section 7 Efficient Markets
Date: 09/27/2012


Event Studies - Campbell, Lo and McKinley, (CLM) - Chapter 4.


CWS, Chapter 10, 11

**Section 8  New Data and Methods**
**Date: 10/04/2012**


StockTwits presentation.


**Section 9  Prices and Transactions Costs**
**Date: 10/11/2012**


**Section 10  Midterm**
**Date: 10/18/2012**

**Section 11  Behavioral Corporate Finance**
**Date: 10/25/2012**


Section 12 Agency costs
Date: 11/01/2012


Tirole J., Chapter 1 in The Theory of Corporate Finance.


CWS, Chapter 10

Section 13 Corporate Finance
Date: 11/08/2012


CWS Chapter 15, 16

Section 14 Analysts and Brokers
Date: 11/15/2012


**Section 15 Networking**

**Date:** 11/29/2012


**Presentation** – Fracassi C., 2009. Corporate Finance Policies and Social Networks, working paper, University of Texas.


**Final Exam** scheduled by the registrar

**An incomplete list of Questions for Class Discussion**

**Doukas, Kim and Pantzalis (2006)**

1. What is divergence of opinion and how does this paper measure divergence of opinion?
2. In what way is divergence of opinion different from standard deviation?
3. What is the unique Asset Pricing Factor this paper introduces? How is it constructed?
4. Why does DRF have a negative coefficient in the RLow column and a positive coefficient in the RHigh column? What does this mean? Does this result make sense?

Edmans, Goldstein and Jiang (2012)

1. What is the trigger effect?
2. What is the anticipation effect?
3. What is X-inefficiency?
4. How do these authors isolate these effects when there is only one observable price series?

Green and Hwang (2010)

1. What about the first day IPO return would suggest to these authors that this would be a good laboratory for examining skewness preference?
2. What are some of the existing explanations for the strange behavior of first day IPO returns?
3. How good is their expected skewness measure?
4. How do the authors solve the problem of not knowing the expected skewness of a never traded Initial Public Offering.
5. What is an IPO anyway? What are the key characteristics of IPOs?

Boudoukh, Richardson, Shen and Whitelaw (2007)

1. What is the significance of this particular test of FCOJ for efficient markets? Why FCOJ? What is the history of research into this contract?
2. How does the OLS model fail us here?
3. How does the threshold model solve these OLS failures?
4. How does a lack of FCOJ price reaction to fundamentals provide a strong argument for behavioral finance?

Loh and Mian (2006)

1. How do sell-side analysts differ from buy-side analysts?
2. Why do analysts’ forecast earnings?
3. How do analysts’ get paid?
4. What is a residual income valuation model?
5. What penalty function does the AFE calculation imply? What do you think analysts’ actual forecast error penalty function might look like?

Pareek (2009)

1. To what extent do you think a 5% ownership stake, held in common, represents a network? An informed network?
2. What is the basic hypothesis here where the information network density affects momentum and reversals in stock prices?
3. What are the implications in Table 4 for research that uses geographical distance as a social network measure?
4. How does this measure relate to momentum in returns?

Barber, Odean, Zhu (2009)

1. What is systematic noise? How does it differ from idiosyncratic variation?
2. What principles underlie the empirical definition of systematic noise in this paper? Contrast the assumptions about retail investors against the results presented in Kaniel, Liu, Saar and Titman (2011)?
3. How is systematic noise related to the limits of arbitrage?

Kaniel, Liu, Saar, Titman (2011)

1. Describe the data the authors are working with. Does it have any advantages over the trade size classification used in other papers?
2. Can you note any disadvantages to this data set? What are its weaknesses?
3. These authors have already taken some heat for their conclusions, what do you think of the conclusions in the paper?
4. Why would intense retail investor trading prior to the earnings announcement lead to significant abnormal returns over the next three months? How does this conclusion contrast with other papers?

Goldstein, Irvine, Kandel and Weiner (2009)

1. What is the major shift in thinking about commissions that the authors are advocating? Why do you think academics were mistaken for so long about this contract?
2. Think about academics thinking the wrong way about things, especially if you have had some practitioner experience. It is not out of the question that academics can miss important facts. But, take your time and be sure, if you are mistaken it will hurt you.
3. Are there any consequences of the commission contract they advocate that the authors have not considered?

Irvine, Lipson Puckett (2007)
Juergens, Lindsey (2009)
Christophe, Ferri, Hsieh (2010)
Mola, Guidolin (2009)

1. What is Tipping? Do you think it should be illegal? Are there other countries where it is legal? Are there interesting comparisons to be made in that case?
2. How are the other papers in this area derived from Irvine’s work? Where do they extend his tests? Can you think of any interesting experiments that should still be done?

Graham and Harvey (2001)

1. What is the point of asking CFO’s what they are doing?
2. What are the consequences for corporate finance theory of CFO’s and CEO’s never wanting to cut their dividends?
3. What do you think financial flexibility means?

**Bebchuk and Cohen (2009)**

1. What is the Gompers, Ishii, Metrick measure of corporate governance?
2. Why is it flawed?
3. If it is so flawed, why do people use it so much?
4. Who is Bebchuk? Does he have a point of view?

**Taylor (2012)**

1. What does the author mean by a structural model?
2. How does the paper attempt to calculate the personal costs to board members of firing a CEO?
Further References


