

School of Economics and Finance

## **MOFI 409: Special Topic – Topics in Corporate Finance**

Trimester Two 2008

### **COURSE OUTLINE**

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#### **Names and Contact Details**

The course coordinator and lecturer is Helen Hui Huang, RH 329, Ph 463-6918, and email: [helen.huang@vuw.ac.nz](mailto:helen.huang@vuw.ac.nz).

#### **Trimester Dates**

Monday 7 July to Saturday 8 November 2008.

#### **Class Times and Room Numbers**

Lecture time: Monday 10:30am – 12:20pm RWW126  
Wednesday 9:30am – 11:20am RWG01

The above lecture time is for the period July 7<sup>th</sup> to August 15<sup>th</sup>. We will finish all lectures in these 6 weeks.

#### **Course Content**

The material to be covered in the course will be drawn from the following list:

- Corporate financing under moral hazard, including credit rationing, debt overhang, and equity multiplier.
- Corporate financing under asymmetric information, including market timing, negative stock price reaction to public offering, pecking order hypothesis, certification, costly collateral pledging, short-term maturities, payout policy, diversification and incomplete insurance, and underpricing.
- Corporate governance and trading, including monitoring, performance measure, investor activism, the emergence of blockholders, trading models and governance mechanisms through trading.
- Product markets and earning manipulations.

#### **Course Objectives**

This course provides students with an understanding of theories of corporate financing and corporate governance, as well as empirical tests of some of these theories. The course also aims to develop modelling skills that enable the analysis of corporate finance.

#### **Expected Workload**

The workload for MOFI 409 is intended to be similar to that for other 400-level ECON and MOFI courses. The total expected workload is 150 hours, comprising 12-13 hours per week.

### **Group Work**

The class will be divided into three to four groups with two to three students in each group. Each group will present one empirical paper in class. The presentation counts to 30% of the final grade. 50% of the score in presentation is based on the performance of the group and 50% on individual performance.

### **Readings**

Readings will be taken from the following book:

- Jean Tirole, 2006, “The Theory of Corporate Finance”, Princeton University Press.

supplemented with the following theoretical papers:

- Benveniste, L.M. and P.A. Spindt, (1989), “How Investment Bankers Determine the Offer Price and Allocation of New Issues”, *Journal of Financial Economics*, 24, 343-361.
- Edmans, A., (2008), “Blockholders, Market Efficiency, and Managerial Myopia”, working paper. Available at SSRN: <http://ssrn.com/abstract=946669>.
- Edmans, A. and G. Manso, (2008), “Governance through Exit and Voice: A Theory of Multiple Blockholders”, working paper. Available at SSRN: <http://ssrn.com/abstract=1102730>.
- Fishman, M. J., and K. M. Hagerty, (1992), “Insider Trading and the Efficiency of Stock Prices”, *Rand Journal of Economics*, 23, 106-22.
- Glosten, L.R., and P.R. Milgrom, (1985), “Bid, Ask and Transaction Prices in a Specialist Market with Heterogeneously Informed Traders”, *Journal of Financial Economics*, 14, 71-100.
- Holden, C.W., and A. Subrahmanyam, (1992), “Long-Lived Private Information and Imperfect Competition”, *Journal of Finance*, 47, 247-70.
- Kyle, A., (1985), “Continuous Auctions and Insider Trading”, *Econometrica*, 53, 1315-1335.
- Myers, S. C. And N. S. Majluf, (1984), “Corporate Financing and Investment Decisions when Firms have Information that Investors Do Not Have”, *Journal of Financial Economics*, 13, 187-221.
- Rock, K., (1986), “Why New Issues are Underpriced”, *Journal of Financial Economics*, 15, 187-212.

and the following empirical papers:

- de Jong, A., M. Verbeek and P. Verwijmeren, (2007), “Testing the Pecking Order Theory: the Impact of Financing Surpluses and Large Financing Deficits”, working paper. Available at SSRN: <http://ssrn.com/abstract=959995>.
- Frank, M. and V. Goyal, (2003), “Testing the Pecking Order Theory of Capital Structure”, *Journal of Financial Economics*, 67, 217-248.
- Hanley, K., (1993), “The Underpricing of Initial Public Offerings and the Partial Adjustment Phenomenon”, *Journal of Financial Economics*, 34, 231-250.

- Lemmon, M. L. and J. F. Zender, (2002), “Debt Capacity and Tests of Capital Structure Theories”, working paper. Available at SSRN: <http://ssrn.com/abstract=334780>.
- Ljungqvist, A. and W. Wilhelm, (2002), “IPO Allocations: Discriminatory or Discretionary?”, *Journal of Financial Economics*, 65, 167-201
- Shyam-Sunder, L., and S.C. Myers, (1999), “Testing Static Tradeoff against Pecking Order Models of Capital Structure”, *Journal of Financial Economics*, 51, 219-244.

Note that we may not be able to cover all the papers in the above list.

### **Materials and Equipment**

Non-programmable calculators are allowed in the test.

### **Assessment Requirements**

Your course mark will be a weighted average, made up as follows:

- Assignment 1: 10% due at 10:30am, July 21.
- Assignment 2: 10% due at 10:30am, August 4.
- In-class presentation: 30% date to be advised.
- Assignment 3: 10% due at 10:30am, August 22
- Test: 40% 10:30am – 12:30pm, September 8<sup>th</sup>, 2008.

### **Penalties**

Assignments handed in late will not be marked. If a satisfactory medical certificate is provided, the weight from the assignment will be shifted onto the other pieces of assessment; otherwise, the assignment score will be recorded as 0.

### **Mandatory Course Requirements**

Necessary conditions for passing the course include (a) satisfactory in-class presentation; (b) the score on the internal assessment is at least 50%.

### **Communication of Additional Information**

Information on the course, including assignments and working papers, will be distributed via blackboard, which can be found at <http://blackboard.vuw.ac.nz>. Announcements will also be posted there.

## **Faculty of Commerce and Administration Offices**

### Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

### Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building on the ground floor (EA005). This counter is the first point of contact for :

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

## **Use of Turnitin**

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <<http://www.turnitin.com>>. Turnitin is an on-line plagiarism prevention tool which identifies material that may have been copied from other sources including the Internet, books, journals, periodicals or the work of other students. Turnitin is used to assist academic staff in detecting misreferencing, misquotation, and the inclusion of unattributed material, which may be forms of cheating or plagiarism. *At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking by Turnitin.* You are strongly advised to check with your tutor or the course coordinator if you are uncertain about how to use and cite material from other sources. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

## **General University Policies and Statutes**

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar or go to [www.victoria.ac.nz/home/about/policy/students.aspx](http://www.victoria.ac.nz/home/about/policy/students.aspx)

For information on the following topics, go to the Faculty's website [www.victoria.ac.nz/fca](http://www.victoria.ac.nz/fca) under Important Information for Students:

- Academic Grievances
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

## **Academic Integrity and Plagiarism**

Academic integrity is about honesty – put simply it means *no cheating*. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. The University defines plagiarism as follows:

*The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other students or staff.*

It is still plagiarism even if you re-structure the material or present it in your own style or words.

*Note: including the work of others will not be considered plagiarism as long as the work is acknowledged by appropriate referencing.*

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalised severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- cancellation of your mark for an assessment or a fail grade for the course
- suspension from the course or the University.

Find out more about plagiarism, and how to avoid it, on the University's website:

[www.victoria.ac.nz/home/studying/plagiarism.html](http://www.victoria.ac.nz/home/studying/plagiarism.html)

### **Manaaki Pihipihinga Programme**

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email [manaaki-pihipihinga-programme@vuw.ac.nz](mailto:manaaki-pihipihinga-programme@vuw.ac.nz) or phone (04) 463 6015. To contact the Pacific Support Coordinator, email [pacific-support-coord@vuw.ac.nz](mailto:pacific-support-coord@vuw.ac.nz) or phone (04) 463 5842.