This course will cover the theory and evidence concerning major corporate financial policy decisions. FIN 423/523 discusses alternative methods of issuing and retiring securities, mergers and acquisitions, and the market for corporate control. We will have one class meeting per week. Grading will be flexible – students will have input to determine what type of evaluation procedure will be used.

The reading assignments will be announced in class and will more or less follow the sequence given below. I have included additional references, which are not required, for students who want more information on particular topics. These are not on reserve, but copies of these journals are available in the Management Library (and they are available electronically through the Management Library). There are a few recommended texts for this course:


Finally, and perhaps most important, I would like all of the students in the class to read the Wall Street Journal or some similar publication on a regular basis since the topics covered in this course are discussed regularly in this newspaper.
Relation to Other Finance Courses

This course is targeted at Ph.D. students who are interested in being exposed to the theoretical and empirical literature on securities offerings and mergers and acquisitions (M&A). Highly motivated MBA students are also encouraged to participate in the course, but should understand that the expectations and workload will not be typical of most MBA courses.

Expectations of Student Performance

My expectations are that students will come to class prepared by having read the necessary material. The lectures will not rehash the readings. Rather, we will discuss different perspectives on the arguments presented in the readings. Active, high quality class participation will enhance the grades of students who are near margins in the final grade distribution.

I will hand out notes to accompany some of the lectures. Occasionally, I will also hand out stories reproduced from the popular business press (e.g., the Wall Street Journal). Class attendance is very important to successful completion of this course. If you know that you will be unable to attend more than a few of the classes, you should probably not register for this course. If you know that you have to be late for class, or leave early, please show courtesy to the rest of the class (and to me) by entering and leaving the room as discretely as possible. If you miss a class, or are late in arriving, it is your responsibility to obtain copies of any handouts that were distributed in class [do not rummage around on the teaching desk looking for handouts if you arrive late!] I suggest that you form study teams and help each other out -- get extra copies of handouts for missing team-mates. I will not provide an inventory of class handouts for people who miss class, but most of the handouts will be available on the class web page (see below).

There may be some guest lecturers (other faculty members and Ph.D. students). In addition, every student who is registered for the course to be responsible for leading the discussion of one or more related papers during some part of the course (MBA students may work in a group to prepare and lead the discussion). Of course, I will be available to help you plan your lecture, and I will supplement what you say in class. You should find a topic that interests you and volunteer early.

Grading

The grading for this course will be based on a flexible system. All Ph.D. students will be required to write a paper, and groups of MBA students will also be expected to write a paper. There may be a few homework assignments (in addition to the replication assignment mentioned previously), which for MBA students may be “reading responses” that describe your thoughts on particular assigned readings. PhD students may be asked to write “referee’s reports” on particular papers. There will be no exams.
The topic of the paper can be anything related to the course. I will approve paper topics that are unconventional, but you do not need to ask permission to write a paper on a topic similar to those listed below. For MBA students, these papers should simulate a business research report to your boss. For example, if you are analyzing a potential merger, you might pretend that you are a junior staff member of an investment banking firm (or one of the companies involved in the transaction), and I (your boss) have asked you to report your analysis and recommendations concerning the merger (for example, Is the price a ‘good’ one? Why? What are the purported gains from this merger? Does the stock market think it is a wise transaction for our company or the other company? Are there likely to be regulatory problems or litigation? etc.) You may ask for general guidance as you might ask your boss, but don’t come and ask me what you should write because I (your boss) expect you to be able to do this analysis yourself. Examples would be:

1. an event study on price performance of new issues in recent years;
2. an analysis of the use of “real options” methods in valuing IPOs (with an example);
3. a case study (similar to Ruback’s paper on Conoco) on a major acquisition, spin-off, or proxy fight. Students in the past have studied Chase-Lincoln, Norstar-Security, Xerox-Crum & Forster, Computer Consoles-N.B.I., and Kodak-Sterling Drug;
4. a case study of the performance of a successful merger or tender offer from 1 to 5 years after it was completed;
5. or any other topic that I approve.

**Course Information on the World Wide Web (WWW)**

Most of the materials for this course will be posted on the home page for this course [http://schwert.simon.rochester.edu/f423/f423.htm]. For example, I plan to post copies of the slides used in the classroom presentations as Adobe Acrobat files (so they can be viewed and printed from the WWW). In addition, I have collected lists of sites that students can use to collect information on security prices (if you want to do an event study), on financial news, on securities filings with the S.E.C. (if you want to study a particular IPO prospectus, for example), and so forth. I want to encourage all students to use this resource throughout the course. One possible “paper” that students might do is to create web pages that would allow future students to analyze particular types of deals that are discussed in this course (e.g., information and data sources, examples of similar transactions, etc.) If you are interested in pursuing that option, please see me early in the quarter.
Topics and Readings

Required readings are indicated with an asterisk “*” Additional journal articles, which are not required, are included for students who want more information on particular topics. These are not on reserve in the library, although copies of the Journal of Financial Economics, the Journal of Finance, and the Review of Financial Studies are available in the Management Library (and available online through these links if you are logged into the UR network).

I. Introduction to the Course

Brealey, Myers & Allen, Ch. 14 and 15.

II. Venture Capital and Initial Public Offerings of Common Stock

*Gao, Xiaohui, Jay R. Ritter, and Zhongyan Zhu, "Where Have All the IPOs Gone?"
Aggarwal, Reena, “Stabilization Activities by Underwriters after Initial Public Offerings,”


Carter, Richard, and Steven Manaster, “Initial Public Offerings and Underwriter Reputation,”


Gande, Amar, Manju Puri, and Anthony Saunders, “Bank Entry, Competition and the Market for


Hellmann, Thomas, “IPOs, acquisitions, and the use of convertible securities in venture capital,”


James, Christopher and Jason Karceski, “Strength of analyst coverage following IPOs,” Journal of Financial Economics, 82 (October 2006) 1-34.


Jenkinson, Tim, Alan D. Morrison and William J. Wilhelm, Jr., “Why are European IPOs so rarely priced outside the indicative price range?” Journal of Financial Economics, 80
(April 2006) 185-209.
Kandel, S., O. Sarig, and A. Wohl, “The demand for stocks: An analysis of IPO auctions,” 
Kaplan, Steven N., Berk A. Sensoy, and Per Strömberg, “Should Investors Bet on the Jockey or 
the Horse? Evidence from the Evolution of Firms from Early Business Plans to Public 
Kaustia, Markku, and Samuli Knüpfer, “Do Investors Overweight Personal Experience? Evidence 
Kerins, Frank, Kenji Kutsuna and Richard Smith, “Why are IPOs underpriced? Evidence from 
(September 2007) 637-666.
Khanna, Naveen, Thomas H. Noe, and Ramana Sonti, “Good IPOs Draw in Bad: Inelastic 
Krigman, Laurie, Wayne H. Shaw and Kent L. Womack, “The Persistence of IPO Mispricing and 
Koh, Francis and Terry Walter, “A Direct Test of Rock’s Model of the Pricing of Unseasoned 
Kutsuna, Kenji, Janet Kiholm Smith, and Richard L. Smith, “Public Information, IPO Price 
Formation, and Long-Run Returns: Japanese Evidence,” *Journal of Finance*, 64 
(February 2009) 505–546.
Kutsuna, Kenji, and Richard Smith, “Why Does Book Building Drive Out Auction Methods of 
Lee, Peggy M. and Sunil Wahal, “Grandstanding, Certification and the Underpricing of Venture 
Lerner, Joshua, “Venture Capitalists and the Decision to Go Public,” *Journal of Financial 
Economics*, 35 (June 1994) 293-316.
Lerner, Josh, Antoinette Schoar, “The illiquidity puzzle: theory and evidence from private 
Lerner, Joshua, Hilary Shane, and Alexander Tsai, “Do equity financing cycles matter? Evidence 
from biotechnology alliances,” *Journal of Financial Economics*, 67 (March 2003) 411-


Lyandres, Evgeny, Le Sun, and Lu Zhang, “The New Issues Puzzle: Testing the Investment-


Rajan, Raghuram, and Henri Servaes, “Analyst Following of Initial Public Offerings,” *Journal of
Finance, 52 (June 1997) 507–529.


III. **Primary Distributions of Seasoned Stock, Underwriting, Rights and Private Placements**


Chaplinsky, Susan, and David Haushalter, “Financing under Extreme Risk: Contract Terms and


IV. Corporate Bond Financing

Brealey, Myers & Allen, Ch. 25.


Fridson, Martin S., “The State of the High Yield Bond Market: Overshooting or Return to


V. Intra-Firm Exchange Offers and Recapitalizations

*WMM*, Ch. 13.


VI. Convertible Debt


Brealey, Myers & Allen, Ch. 25.


VII. Repurchase Tender Offers

*WMM, Ch. 18.

McNally, William, "Who Wins in Large Stock Buybacks - Those Who Sell Or Those Who Hold?" *(DC, 224-234).*


*Dittmar, Amy and Laura Field, “Can managers time the market? Evidence using repurchase price data”


Kahle, Kathleen M., “When a Buyback Isn't a Buyback: Open Market Repurchases and


**VIII. Interfirm Tender Offers, Mergers and Corporate Control**

*WMM*, Ch. 1, 4, 6, and 8.

*Brealey, Myers & Allen*, Ch. 32 and 34.


*Heitzman, Shane and Sandy Klasa*, “Private information arrival, trading activity, and price formation: Evidence from nonpublic merger negotiations”


*Safieddine, Assem and Sheridan Titman*, “Leverage and Corporate Performance: Evidence from

*John, Kose, Anzhela Knyazeva, and Diana Knyazeva, "Employee Rights and Acquisitions"


Harford, Jarrad, Mark Humphery-Jenner, Ronan Powell, “The sources of value destruction in


Lang, Larry H. P., René M. Stulz, and Ralph A. Walkling, “A Test of the Free Cash Flow


**IX. Going Private/Leveraged Buyouts**

*WMM*, Ch. 16.

*Bharath, Sreedhar T., and Amy K. Dittmar, “Why Do Firms Use Private Equity to Opt Out of**


29 (October 1991) 287-313.
Kaplan, Steven N. and Richard S. Ruback, “The Valuation of Cash Flow Forecasts: An
Lehn, Kenneth, Jeffry Netter and Annette B. Poulsen, “Consolidating Corporate Control: Dual-
Class Recapitalizations versus Leveraged Buyouts,” *Journal of Financial Economics*, 27
(September 1990) 557-580.
Lichtenberg, Frank R. and Donald Siegel, “The Effects of Leveraged Buyouts on Productivity
1990) 165-194.
Marais, Laurentius, Katherine Schipper, and Abbie Smith, “Wealth Effects of Going Private for
Mehran, Hamid, and Stavros Peristiani, “Financial Visibility and the Decision to Go Private,”
Phalippou, Ludovic, and Oliver Gottschalg, “The Performance of Private Equity Funds,”

X. Defensive Tactics

*WMM*, Ch. 19.
*Comment, Robert and G. William Schwert*, “Poison or Placebo? Evidence on the Deterrence
39 (September 1995) 3-43.
Brickley, James A., Jeffrey L. Coles, and Rory L. Terry, “Outside Directors and the Adoption of
Cook, Douglas O. and John C. Easterwood, “Poison Put Bonds: An Analysis of Their Economic


Ryngaert, Michael, “The Effect of Poison Pill Securities on Shareholder Wealth,” *Journal of

XI. Antitrust Law and Regulation of the Market for Corporate Control

*WMM*, Ch. 2.


XII. Proxy Fights


XIII. The Value of Corporate Control


Edmans, Alex, and Gustavo Manso, “Governance Through Trading and Intervention: A Theory


XIV. Divestitures and Spin-offs

*WMM*, Ch. 11.

*Brealey, Myers & Allen*, Ch. 33.


Bayar, Onur, Thomas J. Chemmanur, Mark H. Liu, “A theory of equity carve-outs and negative stub values under heterogeneous beliefs,” *Journal of Financial Economics*, 100 (June


