

RESEARCH TOPICS IN FINANCE SPRING

Behavioral Corporate Finance

Professor: Massimo Massa

The aim of this course is to introduce students to the field of Behavioral Finance and Behavioral Corporate Finance in particular. The course is structured in a general methodological approach to the topics and in-depth analysis of applications. The course is mostly a research oriented course and is meant to provide student interested in working on behavioral topics with the proper tools.

Secretary: Melanie Sebag 4214

Course requirements:

- Students are expected to have carefully read the required articles and be ready to discuss and present them.
- Each student should participate in the presentations of the articles.

General references:

De Bondt, W., and R. Thaler 1995, Financial Decision Making in Markets and Firms, in Jarrow, Maksimovic, and Ziemba eds. *Finance*, Elsevier-North Holland.

Shleifer, A. 2000, *Inefficient Markets: An Introduction to Behavioral Finance*, Oxford University Press.

Shefrin, H. 1999, *Beyond Fear and Greed*, Harvard Business School Press.

Shiller, R. 1984, Stock Prices and Social Dynamics, *Brookings Papers on Economic Activity* 2, 457-498.

Shiller, R. 2000, *Irrational Exuberance*, Princeton University Press.

Thaler, R. ed., 1992, *Advances in Behavioral Finance*, Russell Sage Foundation.

Course outline

Session 1: Limits to Arbitrage and Corporate Finance

DeLong, J.B., A. Shleifer, L.H. Summers, and R. Waldmann, Noise Trader Risk in Financial Markets, *Journal of Political Economy* 98, 703-738

Shleifer, A., and R. Vishny ,1997, Limits of Arbitrage, *Journal of Finance* 52, 35-55

Stein, J.,1996, Rational Capital Budgeting in an Irrational World, *Journal of Business* 69, 429-55.

Baker, M., and S. Savasoglu, 2002, Limited Arbitrage in Mergers and Acquisitions,forthcoming, *Journal of Financial Economics*, Vol. 64,1,.

Mitchell, M., T. Pulvino, and E. Stafford, 2002, Limited Arbitrage in Equity Markets, *Journal of Finance*, Vol 57,2,.

Mitchell, M., T. Pulvino, 2003, Characteristics of risk and return in risk arbitrage, *Journal of Finance*

Mitchell, M., T. Pulvino, and Erik Stafford, 2004, Price pressure around mergers, *Journal of Finance*

Hsieh, J. and R. Walkling, ,2003, Determinants and implications of arbitrage holdings in acquisitions, Mimeo.

Fich, E. and I. Stefanescu ,2003, Expanding the limits of merger arbitrage, Mimeo.

Session 2: Market Timing and Capital Structure

Baker, M. and J. Wurgler, 2002, Market Timing and Capital Structure, *Journal of Finance*,

Baker, M., Stein, J. and J. Wurgler, 2002, When does the market matter? Stock prices and the investment of equity-dependent firms. *Quarterly Journal of Economics*

Baker, M., Coval, J. and J. Wurgler, 2004, Corporate decision making when investors take the path of least resistance. Mimeo

Baker, M., R. Greenwood and J. Wurgler, 2003, The Maturity of Debt Issues and Predictable Variation in Bond Returns, *Journal of Financial Economics*, Vol. 70,2, 261-91.

Baker, M. and J. Wurgler, 2000, The Equity Share in New Issues and Aggregate Stock Returns, *Journal of Finance*, Vol. 55,5, 2219-2257.

Aydogan A. ,2004, How Persistent is the Impact of Market Timing on Capital Structure?Mimeo

Welch, I., 2003, Columbus' Egg: The Real Determinant of Capital Structure, Mimeo

Blanchard, O., C. Rhee, and L. Summers ,1993, The Stock Market, Profit, and Investment, *Quarterly Journal of Economics*.

Session 3: Market Timing and Fund Raising (IPOs, SEOs)

Brav, A., and P.A. Gompers, 2001, The role of lock-ups in initial public offerings, *Review of Financial Studies* forthcoming.

Gompers, P.A., and J. Lerner, 2001, The Really Long-Run Performance of Initial Public Offerings: Evidence from the Pre-Nasdaq Period, 1933-1972. NBER Working Paper 8505

Heaton, J.B., Managerial Optimism and Corporate Finance, working paper, University of Chicago.

Lintner, J. 1956, Distribution of Incomes of Corporations among Dividends, Retained Earnings and Taxes, *American Economic Review* 46, 97-113.

Loughran, T., and J. Ritter, 2002, A Review of IPO Activity, Pricing, and Allocations, University of Florida working paper.

Loughran, T., and J. Ritter 1995, The New Issues Puzzle, *Journal of Finance* 50, 23-50.

Michaely, R., R. Thaler, and K. Womack, Price Reactions to Dividend Initiations and Omissions, *Journal of Finance* 50, 573-608

Session 4: Overconfidence and Sentiment

P. Bolton, J. Scheinkman and W. Xiong, 2003, Executive Compensation and Short-termist Behavior in Speculative Markets, Mimeo

P. Mei, J. Scheinkman and W. Xiong, 2003, Speculative trading and stock prices: an analysis of Chinese A-B share premia

U. Malmendier and J. Tate, 2004, CEO Overconfidence and corporate investment, Mimeo.

U. Malmendier and J. Tate, 2004, Who makes acquisitions? CEO Overconfidence and the Market's Reaction, Mimeo.

C. Polk and P. Sapienza, 2004, The Real Effects of Investor Sentiment. Mimeo

Session 5: Managerial Styles

M.Bertrand and A. Schoar, 2002, Managing with Style: The Effect of Managers on Firm Policies, Mimeo

M.Baker and J.Wurgler, 2003, A Catering Theory of Dividends. Mimeo.

M. Bitler, T. Moskowitz, and A. Vissing-Jorgenson, 2004, Testing Agency Theory Using Entrepreneur Effort and Wealth. *Journal of Finance*.

M. Garmaise and T.Moskowitz, 2004, Confronting information asymmetries from real estate markets, *Review of Financial Studies*.

Session 6 (Extra Class) Institutions and Behavior.

J. Stein ,2004, Why are most funds open-end? Competition and the limits of arbitrage, Mimeo

S. Gervais, A. Lynch and D. Musto, 2002, Fund Families as Delegated Monitors of Money Managers, Mimeo.

Grinblatt, M., and M. Keloharju, Distance, Language, and Culture Bias: The Role of Investor Sophistication, working paper, Yale University.

H.Hong, J.Kubik and J.Stein, 2003, Thy Neighbor's Portfolio: Word-of-Mouth Effects in the Holdings and Trades of Money Managers, Stanford, Mimeo

Reuter, J. and E. Zitzewitz, 2004, Do Ads Influence Editors? Advertising and Bias in the Financial Media, Mimeo