Corporate Finance II (FINC 586-2)  
Kellogg School of Management  
Northwestern University  
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Course Outline [Update 20190101]

Professor Efraim Benmelech  
E-mail: e-benmelech@kellogg.northwestern.edu

Professor Paola Sapienza  
E-mail: Paola-Sapienza@kellogg.northwestern.edu

Course Description

This course provides a theoretical and empirical treatment of major topics in empirical corporate finance, including: capital structure and financial contracting; real investment behavior; financial intermediation; financial distress; corporate governance; and law and finance.

The aim of this course is to prepare Ph.D. students to do research in Empirical Corporate Finance. This course strictly relates to the Ph.D. course Corporate Finance (586-1) (Fishman and Milbrand) offered in the fall. While 486 is a theory class, Empirical corporate finance focuses on the empirical literature. The scope is to discuss empirical papers that are related to the theories formulated in the corporate finance theory class, but also to help students to develop identification strategies for testing corporate finance hypothesis. The course is organized around published and working papers in the field with an emphasis on understanding how to develop good research ideas. Rather than providing an exhaustive overview of the field, the course focuses in depth on selected topics to illustrate different empirical approaches to the same or related questions. The course requires a good knowledge of the 1st year Ph.D. courses in econometrics and the corporate finance class. It is open to all Ph.D. students. Part of the course will be devoted to teaching how to use the basic databases in finance. Empirical exercises to learn to extract and manipulate those data will be given to the students. At the end of the course, the students will master how to use the most common databases in finance.

Class is meeting on Fridays from 9-12 in Global Hub.

Topics
1. Capital Structure and Dividend Policy – January 11\textsuperscript{th}, (Effi)  
2. Financial Constraints (Investment cash Flow Sensitivity) -- January 18\textsuperscript{th}, (Paola)  
3. Bankruptcy and Costs of Financial Distress -- January 25\textsuperscript{th}, (Effi)  
4. Internal Capital Markets – February 1\textsuperscript{st}, (Effi)  
5. Behavioral Finance: Implications for Investment Decisions -- February 8\textsuperscript{th}. (Paola)  
6. Financial development and Growth February 11\textsuperscript{th} (Paola) 4:30-7:30pm (Note different time)  
7. Law and Finance – February 22\textsuperscript{nd}, (Paola).  
8. Finance and the Product Market – March 1\textsuperscript{st} (Effi)  
9. The Political Economy of Financial Developments – March 8\textsuperscript{th}, (Paola)  
10. Corporate Governance and the Market for Corporate Control – March 15\textsuperscript{th}, (Effi)
In addition, we will schedule a review session on Computstat/CRSP and professor Petersen will teach a 1 hour and ½ session on Correction of Standard Errors –this section will be added.

Grading

Grades will be based largely on referee reports, discussion of papers, and homework (85% of the total grade). The remaining 15% of the grade will be based on class participation. We expect every student to be familiar with the readings and participate in class discussion.

Homework

There will be two homework assignments. The objective of the homework is to reproduce some empirical results in other papers and get accustomed with the data and the econometric part of the course. You should use and learn STATA to do the exercises. Some very preliminary knowledge of STATA will be taught during review session, the rest is to be learned by the students while doing the homework.

Referee reports

Referee reports are an integral part of being an academic. They are used in this course to encourage the students to read paper in a critical way. Referee reports should be written as if you were the reviewer for potential publication of the article in a major academic finance journal. Each report should: (1) succinctly state each of the paper’s important contributions in the best possible light; (2) critique any shortcomings; (3) make suggestions for improvements; and (4) be accompanied by a short letter to the editor recommending rejection, revision, or acceptance and the reason for the recommendation.

Recommended Books & general articles

A basic book covering Corporate Finance (theory) is Jean Tirole book. You should use it as a reference for the theoretical literature.