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 **FIN 750: MERGERS, ACQUISITIONS AND VALUATION**

**SUMMER 2019**

Session 1 Friday May 3, 2:00pm - 6:00pm

Session 2 Saturday May 4, 9:00am - 1:00pm

Session 3 Saturday May 4, 1:45pm - 4:00pm

Session 4 Friday May 31, 2:00pm - 6:00pm

Session 5 Saturday June 1, 9:00am - 1:00pm

Session 6 Saturday June 1, 1:45pm - 4:00pm

Instructor: Professor Maggie Foley

Office: **118A** DCOB

Office Hours: Thursday 2:00-4:00 and by appointment

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E-mail: mfoley3@ju.edu

***Vision***

The vision of the Davis College of Business is to cultivate innovative business leaders throughout North Florida and beyond.

***Mission***

The Davis College of Business delivers high quality educational programs that develop leaders who:

1. Exhibit business acumen;
2. Demonstrate leadership abilities and ethical behavior;
3. Use critical thinking;
4. Leverage technical and analytical skills;
5. Cultivate global awareness.

**COURSE DESCRIPTION**

In this course, the primary objective is to understand how econometric tools are applied during empirical research in the corporate finance field. This study will be done through a simplified process for easy comprehension due to the huge data associated with corporate finance. The huge volume of data, due to the non-experimental characteristics of corporate finance, provides a means to evaluate theories in view of developing empirical data to support the related theories.

 The class activities in this course are as follows;

- Several previous empirical studies on corporate finance will be selected for careful analysis and discussion.

- After comprehension, a couple of those studies will be replicated using Stata

For this course, there will be three basic modules:

1. Executive compensation and corporate governance- A study of conflict of interests between shareholders and managers and between employers and employees. Also, an assessment will be done to examine the impact of compensation, incentives and governance systems in reducing agency costs and information asymmetry.

2. Capital structure- This module is focused on using a theoretical and evidence-based approach to examine capital structures.

3. Event study- In this module, students will be introduced to the basics of event study.

This course will proceed with the use of a three-dimensional approach with an aim to teach students the listed topics and related methodologies.

(1) During the lectures, you will actively participate in econometrics readings to comprehensively understand the reasons for selecting different methods based on econometrics. The activities in this course are practical oriented, with a focus on improving your proficiency with econometric tools. In this regard, I will be explaining how the different econometric tools are accurately used. However, we will not be learning how to generate asymptotic properties.

(2) Actively participating in the econometric readings will help you understand how the methods described in published studies have been applied. Understanding how other researchers have used these tools in their studies is a better way to learn about the tools.

 (3) In this course, you will be given assignments which will test your knowledge of how the methods that have been studied were applied. You will be required to replicate the procedures through which these methods were used. Deriving solutions to course assignments will depend on your ability to apply suitable econometric principles to study. Some tasks during the course assignments will require you to evaluate and criticize the methods used by researchers. All tasks during this course will be directly related to corporate finance.

The tight schedule during the semester makes it mandatory that you understand how to use STATA before the semester begins. STATA is recommended because it is an effective statistical software used for empirical studies in corporate finance. You can find free tutorials on how to use STATA on the following websites: http://www. ats.ucle.edu/stat/stata/ and http://data.princeton.edu/stata/.

You get graded based on four criteria intended to enhance your learning and participation in the course. They include:

 1. Empirical exercises

You will be required to obtain data and write program codes on STATA through which some econometric tools studied in the course would be put into use. Your DO file would then be forwarded to my email for an examination of the accuracy of your codes and analysis. You would also be required to make replicas of the outcome of some papers. These practices are fundamental but very useful in the understanding of the implementation of studied tools.

2. Critiques of Papers assigned for reading

Before commencing the reading exercise, students taking the course will be asked to write and submit their concerns regarding the selected papers. For each paper, one entry will be randomly selected, and the student who wrote the selected entry will have a chance to explain further the concern they have expressed. However, you should note that your submission must not be more than 5 sentences. The goals to be achieved of this exercise are: (1) Identify the significant issues students perceive as potentially problematic, and (2) Highlight concerns that may have not yet been acknowledged.

3. Write a research proposal (optional for bonus points)

To earn bonus points, you will be required to put the summary of an experimental paper you could possible produce into writing. Using the tools studied in the course, you will be required to update an important subject of consideration with related literature; outline a corresponding plan of action for the subject and then establish the appropriate data for implantation of plan of action.

4. Final exam

The final exam is structured as an individual test to be taken at home. It will be a cumulative exam featuring questions about areas studied during the course. In my opinion, this is a standard procedure to test your understanding of the course topics.

**Class Website**

All essential materials for this course such as lecture notes, assignments and necessary information can be found on the course web page at http://www.jufinance.com/dba. Regarding course assignments and research proposals, you will be expected to forward your work to my email – mfoley3@ju.edu

**Class Attendance and Participation**

Grades will not be assigned for class participation. However, it is mandatory to attend classes. If you are unable to attend a class, please send me an email in advance. The learning experience will be different from your regular classroom lectures because lessons have been structured as a joint discussion of topics in corporate finance and econometric methods. Each lecture will be video recorded and uploaded online. However, your physical presence in class is necessary for the learning experience and active participation.

**Grading**

During this course, your focus should be on learning the methods and materials covered in this course rather than your grade. You will eventually find skills such as writing a professional job market paper and dissertation more valuable than your grade. Consider your final grade as an indication of your proficiency in using the tools studied in this course.

Final grades for this course will be derived from your participation, journal article critiques, empirical exercises, and the final exam. A total of 100 points are available in this course, the points have been distributed as follows;

Empirical Exercises 60 points (i.e. 30 points each)

Final Exam 20 points

Journal article critiques 20 points ((i.e. 10 points each)

Grades are non-negotiable, and the quality of your work is a matter left to the course instructor’s judgment. If you have a question about feedback or an assigned grade, please ask.

**COURSE GRADING SCALE**

A 90 - 100% A- 89 - 90% B+ 88 - 89%

B 80 - 88% B- 79 - 80% C+ 78 - 79%

C 70 - 78% C- 69 - 70% D+ 68 - 70%

D 60 - 8% F 0 - 59%

## LATE OR MISSED ASSIGNMENTS OR EXAMS

Make-up exams are not offered in this course. Religious observances and emergency situations will be evaluated on an individual basis and must be accompanied by valid documentation.

### ACADEMIC MISCONDUCT

Jacksonville University students are expected to contribute to the development and sustenance of a community characterized by respect, caring and honesty. The academic honor system of Jacksonville University is based on the premise that each student is expected to adhere to the highest standard of academic honesty.

<http://www.ju.edu/greenpages/Pages/University-Policies.aspx>

### SPECIAL NEEDS

<http://www.ju.edu/greenpages/Pages/University-Policies.aspx>

### CHANGES/ADDITIONS TO SYLLABUS

COURSE WITHDRAWAL

<http://www.ju.edu/registrar/Pages/Grading-Information.aspx>

<http://www.ju.edu/registrar/Pages/Forms.aspx>

UNIVERSITY WITHDRAWAL

<http://www.ju.edu/registrar/Pages/Grading-Information.aspx>

<http://www.ju.edu/registrar/Pages/Forms.aspx>

MEDICAL WITHDRAWAL

<http://www.ju.edu/greenpages/Pages/University-Policies.aspx>

<http://www.ju.edu/registrar/Pages/Forms.aspx>

PLAGIARISM POLICY

<http://www.ju.edu/ctl/Pages/Academic-Integrity.aspx>

**TENTATIVE CALENDAR**

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| 1st & 2nd weeks of the First Month | **Corporate Governance and Executive Compensation** Reading list**\*\*\*\*\*\* papers\*\*\*\*\*\*** 1. **\*Jensen, M., and W. Meckling, 1976, “**[**Theory of the firm: managerial behavior, agency costs and ownership structure**](https://uclafinance.typepad.com/main/files/jensen_76.pdf)**,” Journal of Financial Economics 3, 305-360.**
2. **\*Stuart L. Gillan, Jay C. Hartzell, and Robert Parrino, 2009,**[**Explicit vs. Implicit Contracts: Evidence from CEO Employment Agreements**](https://media.terry.uga.edu/documents/finance/gillian.pdf)**, Journal of Finance, LXIV, 4, 1629-1655.**
3. [**Governance with multiple objectives: Evidence from top executive turnover in China**](http://www.fin.ntu.edu.tw/~conference/conference2006/proceedings/proceeding/1/1-1%28A63%29.pdf)**, JCF, 2009 (This paper is also used for replication study)**
4. **Chhaochharia, Vidhi and Yaniv Grinstein. 2009.**[**CEO Compensation and Board Structure**](https://pdfs.semanticscholar.org/b74b/35c0891a42ce2cfc6b7e07ab0dfb9dc8789b.pdf)**. Journal of Finance 64(1) (February), 231-261**
5. **Guthrie, Sokolowsky, and Wan, 2012,**CEO Compensation and Board Structure Revisited, **Journal of Finance 67(3) (June), 1149-1168**
6. Harris, M., and A. Raviv, 1988, “Corporate governance: voting rights and majority rules,” Journal of Financial Economics 20, 203-235 (optional)
7. Adams, Renee, and Daniel Ferreira, 2006, [A theory of friendly boards](http://www.econ.puc-rio.br/uploads/adm/trabalhos/files/daniel_ferreira%202005.pdf), Journal of Finance 62, 217–250 (optional)
8. Core, John E., Robert W. Holthausen, and David F. Larcker, 1999, Corporate governance, CEO compensation, and firm performance, Journal of Financial Economics 51, 371–406 (optional)

  **\*\*\*\*\*\* book chapters \*\*\*\*\***         **Executive compensation, chapter 7,** handbook of the economics of corporate governance          **Board, chapter 5,**  handbook of the economics of corporate governance  |
| 3rd & 4th weeks of the 1st Month | **Replication using Stata**   ***Option 1*****Paper:**[**Governance with multiple objectives: Evidence from top executive turnover in China**](http://www.fin.ntu.edu.tw/~conference/conference2006/proceedings/proceeding/1/1-1%28A63%29.pdf)**,  JCF, 2009*****Option 2:*****Paper:**[**Going overboard? On busy directors and firm value**](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2044798)**, JBF, 2012, Cashman, Gillan, Jun**You can find free tutorials on how to use STATA on the following websites;http://www. ats.ucle.edu/stat/stata/ and http://data.princeton.edu/stata/  |
| 1st & 2nd weeks of the 2nd Month | **Corporate Finance: Capital Structure and Merger and Acquisition**Reading list1. **\*Modigliani, F., and M. Miller, 1958, “**[**The cost of capital, corporation finance, and the theory of investment**](https://gvpesquisa.fgv.br/sites/gvpesquisa.fgv.br/files/arquivos/terra_-_the_cost_of_capital_corporation_finance.pdf)**,” American Economic Review 48, 261-297**
2. **\*Miller, M., 1977, “**[**Debt and taxes**](https://www2.bc.edu/thomas-chemmanur/phdfincorp/MF891%20papers/Miller%20tax%201977.pdf)**,” Journal of Finance 32, 261-275**
3. **\*Jensen M., 1986, “**[**Agency costs of free cash flow, corporate finance and takeovers**](https://cpb-us-w2.wpmucdn.com/u.osu.edu/dist/8/36875/files/2016/12/Jensen-1986-free-cash-flows-14lmoes.pdf)**,” American Economic Review 76, 323-329.**
4. **DeAngelo, H. and Roll, R. (2015),** [**How Stable Are Corporate Capital Structures**](https://authors.library.caltech.edu/55616/4/SSRN-id1784204.pdf)**? (**[**word file here**](capital_structure_stable_deangelo_word_file.docx)**) Journal of Finance, 70, 373–418.**
5. **\***Myers, S., and N. Majluf, 1984, “[Corporate financing and investment decisions when firms have information that investors do not have](http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.334.7154&rep=rep1&type=pdf),” Journal of Financial Economics 13, 187-221 (optional)
6. Ross, S., 1977, “[The determination of financial structure](https://www2.bc.edu/thomas-chemmanur/phdfincorp/MF891%20papers/Ross%201977.pdf),” Bell Journal of Economics 8, 23-40 (optional)
7. Harris, M., and A. Raviv, 1991, “[The theory of capital structure](http://ecsocman.hse.ru/data/958/126/1231/harris_raviv_-_cs_1991.pdf),” Journal of Finance 46, 297-355 (optional)
8. DeAngelo, Harry and Ron Masulis, 1980, “[Optimal capital structure under corporate taxes”](https://poseidon01.ssrn.com/delivery.php?ID=98209706611708911009700611711812706609903708504604500010911909009909011110210300409002503003100711204811209806811107609801708600608500200103606500412509209310901101006008609907309109806909206411307800101100107800) , Journal of financial economics, Vol. 8, No. 1, pp. 3-27 (optional)

**\*\*\*\*\*\* book chapters \*\*\*\*\***1. **Capital structure, chapter 13,** handbook of empirical corporate finance volume 2
2. Merger and Acquisition, chapter 6, handbook of the economics of corporate governance (optional)
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| 3rd week of the 2nd Month | **Research Methodology: Event Study****Reading list****\*\*\*\*\*\* papers\*\*\*\*\*\***1. [**Corporate Financial Policy and the Value of Cash**](https://ink.library.smu.edu.sg/cgi/viewcontent.cgi?article=2149&context=lkcsb_research)**by FAULKENDER and WANG**, JF 2006 (This paper is also used for replication study)

**\*\*\*\*\*\* book chapters \*\*\*\*\**** 1. **Event study, chapter 1,** handbook of Corporate Finance, Volume 1: Empirical Corporate Finance
	2. Endogeneity, chapter 7, handbook of economics of finance: corporate finance  (FYI only)

 \*\*\*\*\*\*\*\*Useful information from Princeton’s website\*\*\*\*\*\*\*[Event Studies with Stata](https://dss.princeton.edu/online_help/stats_packages/stata/eventstudy.html)  An event study is used to examine reactions of the market to events of interest. A simple event study involves the following steps:1. [Cleaning the Data and Calculating the Event Window](https://dss.princeton.edu/online_help/stats_packages/stata/eventstudy.html#clean)
2. [Estimating Normal Performance](https://dss.princeton.edu/online_help/stats_packages/stata/eventstudy.html#est)
3. [Calculating Abnormal and Cumulative Abnormal Returns](https://dss.princeton.edu/online_help/stats_packages/stata/eventstudy.html#car)
4. [Testing for Significance](https://dss.princeton.edu/online_help/stats_packages/stata/eventstudy.html#test)
5. [Testing Across All Events](https://dss.princeton.edu/online_help/stats_packages/stata/eventstudy.html#test2)
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| 4th week of the 2nd Month | **Replication using Stata**   ***Option 1*****Paper:**[**Corporate Financial Policy and the Value of Cash**](https://ink.library.smu.edu.sg/cgi/viewcontent.cgi?article=2149&context=lkcsb_research)**by FAULKENDER and WANG, JF2006 (using long term event study methodology)** |
|  4th week of the 2nd Month | **Final Exam (take home, individual)** |