

Corporate Finance

SYLLABUS

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In addition to presenting some classic papers, the class will put a major emphasis on the methodological aspects of the papers, to develop a sense of “how to do good empirical research”.

Depending on your interests and the pace of the course, we will select and then go through some of these more advanced topics. There will therefore necessarily be some changes to this syllabus over time. I will thus update it as time goes by. The following reading list provides the reference to all the papers that will be mentioned during the class

This is the reading list. We will discuss these papers in class. It will be a better experience for you if you have looked at them before, even quickly. As you can see the list is pretty long, so I have highlighted with a (*) the one that I think you should *absolutely* read. I may add a few more paper as we go.

Lecture: Investment and Credit Constraints

Are firms credit constrained?

- Benabou, Roland. 1996. "Inequality and Growth," NBER Macroeconomics Annual, 11, pp. 11-74
- Piketty (1997). "The Dynamics of the Wealth Distribution and the Interest Rate with Credit Rationing," *Review of Economics Studies*, 64:2, pp. 173-90
- (*) Aghion, P., Caroli, E., & García-Peñalosa, C. (1999). Inequality and Economic Growth: The Perspective of the New Growth Theories. *Journal of Economic Literature*, 37(4), 1615–1660.
- Abel, Andrew B. and Janice C. Eberly, "A Unified Model of Investment Under Uncertainty," *American Economic Review*, 84, December 1994, pp. 1369-1384.
- (*) Stiglitz and Weiss (1981) “Credit Rationing in Markets with imperfect information”, in *American Economic Review*, vol.71, no°3, pp.393-410
- (*) Moll, B. (2014). Productivity Losses from Financial Frictions: Can Self-Financing Undo Capital Misallocation? *American Economic Review*, 104(10), 3186–3221.

Cash flows and working cap

- (*) Hoberg, G., & Maksimovic, V. (2015). Redefining financial constraints: A text-based analysis. *Review of Financial Studies*, 28(5), 1312–1352.
- Hadlock, C. J., & Pierce, J. R. (2010). New Evidence on Measuring Financial Constraints: Moving Beyond the KZ Index. *Review of Financial Studies*, 23(5), 1909–1940.
- (*) Alfaro, I., Bloom, N., & Lin, X. (2018). The Finance Uncertainty Multiplier. *NBER Working Paper*, (24571).
- Fazzari, Hubbard & Petersen (1988), “Financing Constraints and Corporate Investment,” *Brookings Papers on Economics Activity*, pp. 141-195.
- Kaplan & Zingales (1997), “Do Investment-Cash Flow Sensitivities Provide Useful Measures of Financing Constraints?” *Quarterly Journal of Economics* 112, pp. 159-216
- Blanchard, Lopez-de-Silanes & Shleifer, Andrei (1994), “What do firms do with cash windfalls?” *Journal of Financial Economics* 36, pp. 337-360.
- Rauh (2006), “Investment and Financing Constraints: Evidence from the Funding of Corporate Pension Plans,” *Journal of Finance* 61, pp. 33-71
- Bakke and Whited (2012) Threshold Events and Identification: A Study of Cash Shortfalls. *Journal of Finance*, 67: 1083–1111

Debt

- (*) Jayaratne, J., & Strahan, P. E. (1996). The Finance-Growth Nexus: Evidence from Bank Branch Deregulation. *Quarterly Journal of Economics*, 111(3), pp. 639–670.
- (*) Rajan & Zingales (1998) “Financial Dependence and Growth,” *American Economic Review* 88,
- (*) Hombert, J., & Matray, A. (2016). The Real Effects of Lending Relationships on Innovative Firms and Inventor Mobility. *Review of Financial Studies*, 30(7), 2413–2445.
- Almeida, H., Campello, M., Laranjeira, B., & Weisbenner, S. (2012). Corporate Debt Maturity and the Real Effects of the 2007 Credit Crisis. *Critical Finance Review*, 1(1), 3–58.
- (*) Benmelech, E., Frydman, C., & Papanikolaou, D. (2019). Financial frictions and employment during the Great Depression. *Journal of Financial Economics*, 133(3), 541–563.
- Carvalho, D. (2015). Financing Constraints and the Amplification of Aggregate Downturns. *Review of Financial Studies*, 28(9), 2463–2501.
- (*) Chaney Sraer and Thesmar (2012) "The Collateral Channel: How Real Estate Shocks Affect Corporate Investment", *American Economic Review*
- Duval, R., Hong, G. H., & Timmer, Y. (2019). Financial Frictions and the Great Productivity Slowdown. *Review of Financial Studies*, 33(2), 475–503.
- Cvijanović, D. (2014). Real estate prices and firm capital structure. *Review of Financial Studies*, 27(9), 2690–2735.
- (*) Gan, J. (2007). Collateral, debt capacity, and corporate investment: Evidence from a natural experiment. *Journal of Financial Economics*, 85(3), 709–734.

- Deaton, Angus. 2010. "Instruments, Randomization, and Learning about Development." *Journal of Economic Literature*, 48(2): 424-55.
- de Mel, S., McKenzie, D., & Woodruff, C. (2008). Returns to Capital in Microenterprises: Evidence from a Field Experiment. *Quarterly Journal of Economics*, 123(4), 1329–1372.
- Hsieh, Chang-Tai, and Benjamin A. Olken. 2014. "The Missing "Missing Middle"." *Journal of Economic Perspectives*, 28(3): 89-108.

Exercise: compare Gan (2007) and Chaney et al. (2012)

Equity. Effect on investment: financing, pressure and learning channels

- (*) Baker, M., J. C. Stein, and J. Wurgler. 2003. When Does the Market Matter? Stock Prices and the Investment of Equity-Dependent Firms. *Quarterly Journal of Economics* 118:969
- Coval, J., and E. Stafford. 2007. Asset Fire Sales (and Purchases) in Equity Markets. *Journal of Financial Economics* 86:479
- (*) David, J. M., Hopenhayn, H. A., & Venkateswaran, V. (2016). Information, Misallocation and Aggregate Productivity. *Quarterly Journal of Economics*.
- (*) Dessaint, O., Foucault, T., Frésard, L., & Matray, A. (2018). Noisy Stock Prices and Corporate Investment. *Review of Financial Studies*.
- (*) Edmans, A., I. Goldstein, and W. Jiang. 2012. The Real Effects of Financial Markets: The Impact of Prices on Takeovers. *Journal of Finance* 67:933 {971.
- Stein, J. 1988. Takeover Threats and Managerial Myopia. *Journal of Political Economy* 96:1
- -- 1989. Efficient Capital Markets, Inefficient Firms: A Model of Myopic Corporate Behavior. *Quarterly Journal of Economics* 104:655
- (*) van Binsbergen, J. H., & Opp, C. (forthcoming). Real Anomalies. *Journal of Finance*, 0(0).
- Wurgler J. (2000) "Financial Markets and the Allocation of Capital", *Journal of Financial Economics*

Discussion: does the stock market promote long-term investment or amplify short-termism?

Innovation

- (*) Bernstein, S. (2015). Does Going Public Affect Innovation? *Journal of Finance*, 70(4), 1365–1403.
- Cong, L. W., & Howell, S. T. (2018). IPO Intervention and Innovation: Evidence from China. *NBER Working Paper*, (24657)

Investment

- (*) Asker, J., Farre-mensa, J., and Ljungqvist, A. (2015). Corporate Investment and Stock Market Listing: A Puzzle? *Review of Financial Studies*.

- (*) Maksimovic, V., Phillips, G., & Yang, L. (2019). Do Public Firms Respond to Industry Opportunities More Than Private Firms? The Impact of Initial Firm Quality. *Working Paper*.

Bank lending

- Falato, A., and Scharfstein, D. (2016). The Stock Market and Bank Risk-Taking. *NBER Working Paper*, (22689)

Labor and Customer base acquisition

- (*) Beaumont and Lenoir (2019) Building a Customer Base under Liquidity Constraints, Working Paper
- (*) Fonseca and Van Doornik (2019) "Financial Development, Labor Markets, and Aggregate Productivity: Evidence from Brazil", Working Paper

Exercise: referee report Dong, M., Hirshleifer, D., & Teoh, S. H. (2017). Stock Market Overvaluation, Moon Shots, and Corporate Innovation. *NBER Working Paper*, (24142).

Exercise: compare

- Denes, M., Wang, X., & Xu, T. (2019). Financing Entrepreneurship: Tax Incentives for Early-Stage Investors. *Working Paper*
- Gonzalez-Uribe, J., & Paravisini, D. (2019). How Sensitive is Young Firm Investment to the Cost of Outside Equity? Evidence from a UK Tax Relief. *Working Paper*.
- Howell, S. T., & Mezzanotti, F. (2019). Financing Entrepreneurship through the Tax Code: Angel Investor Tax Credits. *NBER Working Paper*.

Lecture: Conglomerate

Do conglomerate destroy value?

- Çolak, G., & Whited, T. M. (2006). Spin-offs, Divestitures, and Conglomerate Investment. *Review of Financial Studies*, 20(3), 557–595.
- Jensen, M.C. (1986), “Agency costs of free cash flow, corporate finance, and takeovers”, *American Economic Review* 76:323–329.
- Malmendier, U., & Tate, G. (2008). Who makes acquisitions? CEO overconfidence and the market’s reaction. *Journal of Financial Economics*, 89(1), 20–43.
- Roll, R., 1986. The hubris hypothesis of corporate takeovers. *Journal of Business* 59, 197–216
- (*) Seru, A. (2014). Firm Boundaries Matter: Evidence from Conglomerates and R & D Activity. *Journal of Financial Economics*, 111(2), 381–405.

- (*) Kruger, P., A. Landier, and D. Thesmar. 2015. The WACC Fallacy: The Real Effects of Using a Unique Discount Rate. *Journal of Finance*

Do conglomerate transfer value?

- Fudenberg, D., & Tirole, J. (1984). The Fat-Cat Effect, the Puppy-Dog Ploy, and the Lean and Hungry Look. *American Economic Review*, 74(2), 361–366.
- (*) Boutin, X., Cestone, G., Fumagalli, C., Pica, G., & Serrano-Velarde, N. (2013). The deep-pocket effect of internal capital markets. *Journal of Financial Economics*, 109(1), 122–145.
- Bertrand, M., Mehta, P., & Mullainathan, S. (2002). Ferreting Out Tunneling: An Application to Indian Business Groups. *Quarterly Journal of Economics*, 117(1), 121–148.

Do conglomerate create value?

- (*) Lamont (1997), “Cash Flow and Investment: Evidence from Internal Capital Markets,” *Journal of Finance* 52, pp. 83-109.
- Gopalan, Nanda and Seru (2007) Affiliated Firms and Financial Support: Evidence From Indian Business Groups, *Journal of Financial Economics*, 86(3), pp. 759-795
- Gopalan, Nanda and Seru (2013) Internal Capital Markets and Dividend Policy: Evidence From Business Groups, *Review of Financial Studies*
- (*) Schoar A. (2002) The Effect of Diversification on Firm Productivity, *Journal of Finance*, Vol. 62 (6), 2379-240
- Belenzon, S., Berkovitz, T., 2010. Innovation in business groups. *Management Science* 56, 519–535.
- Greenstone, M., Hornbeck, R., & Moretti, E. (2010). Identifying Agglomeration Spillovers: Evidence from Winners and Losers of Large Plant Openings. *Journal of Political Economy*, 118(3), 536–598.
- Kline, P., & Moretti, E. (2013). Local economic development, agglomeration economies and the big push: 100 years of evidence from the Tennessee valley authority. *Quarterly Journal of Economics*.
- Malmendier, U., Opp, M. M., & Saidi, F. (2015). Cash is King – Revaluation of Targets after Merger Bids. *Journal of Financial Economics*.
- Malmendier, Ulrike and Geoffrey Tate (2005), “CEO Overconfidence and Corporate Investment”, *Journal of Finance* 60, pp. 2661-2700
- Silva Rui (2014) Internal Labor Markets and Investment in Conglomerates, working paper
- Tate, G., & Yang, L. (2015). The Bright Side of Corporate Diversification: Evidence from Internal Labor Markets. *Review of Financial Studies*, 28(8), 2203–2249.
- Tate, G., & Yang, L. (2015). The Human Factor in Acquisitions: Cross-industry Labor Mobility and Corporate Diversification, *Working Paper*
- Gompers, P., Lerner, J., & Scharfstein, D. (2005). Entrepreneurial Spawning: Public Corporations and the Genesis of New Ventures, 1986 to 1999. *Journal of Finance*, 60(2), pp. 577–614.

Lecture: Innovation Outside Venture Capital

A large part of the literature has studied the role of venture capital in funding innovation. I voluntarily abstract from it to focus on less well-covered (yet as important) topics.

Surveys – Overview Papers

- Carlino, G., & Kerr, W. R. (2015). Chapter 6 - Agglomeration and Innovation. In *Handbook of Regional and Urban Economics* (Vol. Volume 5, pp. 349–404). Elsevier.
- Kerr, W., & Nanda, R. (2015). Financing Innovation. *Annual Review of Financial Economics*, 7(1), 445–462.
- Hall, B. H., & Lerner, J. (2010). Chapter 14 - The Financing of R&D and Innovation. In *Handbook of The Economics of Innovation, Vol.1* (Vol. Volume 1, pp. 609–639). North-Holland.

Financing innovation

Introduction: what is special about innovation?

- Bernstein, S., Giroud, X., & Townsend, R. R. (2016). The Impact of Venture Capital Monitoring. *Journal of Finance*, 71(4), 1591–1622.
- Hellmann, T., Lindsey, L., & Puri, M. (2008). Building Relationships Early: Banks in Venture Capital. *Review of Financial Studies*, 21(2), 513–541.

The “surprising” importance of banks

- Benfratello, L., Schiantarelli, F., & Sembenelli, A. (2008). Banks and innovation: Microeconomic evidence on Italian firms. *Journal of Financial Economics*, 90(2), 197–217.
- (*) Hombert, J., & Matray, A. (2016). The Real Effects of Lending Relationships on Innovative Firms and Inventor Mobility. *Review of Financial Studies*, 30(7), 2413–2445.
- Nicholas, T., & Nanda, R. (2014). Did Bank Distress Stifle Innovation During the Great Depression. *Journal of Financial Economics*, 114(2), 273–292.
- (*) Petersen, M. A., & Rajan, R. G. (1995). The Effect of Credit Market Competition on Lending Relationships. *Quarterly Journal of Economics*, 110(2), 407–443.

The stock market: a panacea?

- Bernstein, S. (2015). Does Going Public Affect Innovation? *Journal of Finance*, 70(4), 1365–1403.
- Cong, L. W., & Howell, S. T. (2018). IPO Intervention and Innovation: Evidence from China. *NBER Working Paper*, (24657)

- Cohen, L., Diether, K., & Malloy, C. (2013). Misvaluing Innovation. *Review of Financial Studies*, 26(3), 635–666.

The role of firm cash-holding

- (*) Aghion, P., Askenazy, P., Berman, N., Cetto, G., & Eymard, L. (2012). Credit constraints and the cyclical nature of R&D investment: Evidence from France. *Journal of the European Economic Association*, 10(5), 1001–1024.
- Aghion, P., Hemous, D., & Kharroubi, E. (2014). Cyclical fiscal policy, credit constraints, and industry growth. *Journal of Monetary Economics*, (340).
- Begenau, J., & Palazzo, B. (2017). Firm Selection and Corporate Cash Holdings. *NBER Working Paper*, (23249).
- (*) Moll, B. (2014). Productivity Losses from Financial Frictions: Can Self-Financing Undo Capital Misallocation? *American Economic Review*, 104(10), 3186–3221.

Exercise: referee report

Falato, A., & Sim, J. (2014). Why Do Innovative Firms Hold So Much Cash? Evidence from Changes in State R&D Tax Credits. *Working Paper*.

Good and Bad Bubbles

- Brown, J. R., Fazzari, S. M., & Petersen, B. C. (2009). Financing Innovation and Growth: Cash Flow, External Equity, and the 1990s R&D Boom. *Journal of Finance*, 64(1), 151–185.
- Campello, M., and J.R. Graham. 2013. Do Stock Prices Influence Corporate Decisions? Evidence from the Technology Bubble. *Journal of Financial Economics* 107:89–110.
- (*) Hombert, J., & Matray, A. (2019). Technology Boom, Labor Reallocation, and Human Capital Depreciation, Working Paper, 1–42.

Organization and Innovation

Organization → innovation

- (*) Bloom, N., Sadun, R., & Van Reenen, J. (2012). Americans Do IT Better: US Multinationals and the Productivity Miracle. *American Economic Review*, 102(1), 167–201.
- (*) Seru, A. (2014). Firm Boundaries Matter : Evidence from Conglomerates and R & D Activity. *Journal of Financial Economics*, 111(2), 381–405.
- Frésard, L., Hoberg, G., & Phillips, G. (2019). Innovation Activities and Integration through Vertical Acquisitions. *Review of Financial Studies*

Knowledge Spillovers: the Role of Worker Mobility

- Agrawal, A., Cockburn, I., Galasso, A., & Oettl, A. (2014). Why are some regions more innovative than others? The role of small firms in the presence of large labs. *Journal of Urban Economics*, 81(0), 149–165.
- Akcigit, U., Caicedo, S., Miguelez, E., Stantcheva, S., & Sterzi, V. (2018). Dancing with the Stars: Innovation Through Interactions. *NBER Working Paper*, (24466)
- (*) Bloom, N., Schankerman, M., & Van Reenen, J. (2013). Identifying Technology Spillovers and Product Market Rivalry. *Econometrica*, 81(4), 1347–1393.
- (*) Matray A (2018) “The Local Innovation Spillovers of Listed Firms”, *Working Paper*

Lecture: Trade and corporate finance

What does import competition measure? A case study on the innovation debate

- (*) Hombert, J., and Matray, A. (2018). Can Innovation Help U.S. Manufacturing Firms Escape Import Competition from China? *Journal of Finance*, 73(5), 2003–2039.
- (*) Aghion, Philippe, Nick Bloom, Richard Blundell, Rachel Griffith, and Peter Howitt, 2005, Competition and innovation: An inverted-U relationship, *Quarterly Journal of Economics* 120, 701–728.
- (*) Autor, David H., David Dorn, Gordon H. Hanson, Gary Pisano, and Pian Shu, 2016, Foreign competition and domestic innovation: Evidence from U.S. patents, *NBER Working Paper* 22879.
- (*) Bloom, N., Draca, M., & Van Reenen, J. (2015). Trade Induced Technical Change? The Impact of Chinese Imports on innovation, IT and Productivity. *Review of Economic Studies*.
- (*) Frésard, Laurent, 2010, Financial strength and product market behavior: The real effects of corporate cash holdings, *Journal of Finance* 65, 1097–1122.
- Frésard, Laurent, and Philip Valta, 2016, How does corporate investment respond to increased entry threats? *Review of Corporate Finance Studies* 5, 1–35
- Steinwender, C. (2015). The Roles of Import Competition and Export Opportunities for Technical Change. *Working Paper*, (1334), 1–46.

- Wilson, Daniel J., 2009, Beggar thy neighbor? The in-state, out-of-state and aggregate effects of R&D tax credits, *Review of Economics and Statistics* 91, 431–436.

Export, offshoring and Innovation

- Aghion, P., Bergeaud, A., Lequien, M., & Melitz, M. J. (2017). The Impact of Exports on Innovation: Theory and Evidence. *NBER Working Paper*, 1–33.
- Branstetter, L., & Chen, J.-R. (2017). Does offshoring manufacturing harm innovation in the home country? Evidence from Taiwan and China. *Working Paper*, 1–34.

Credit constraints and the pattern of trade

- Amiti, Mary, and David E. Weinstein. 2011. “Exports and financial shocks.” *Quarterly Journal of Economics*, 126(4): 1841–1877.
- Antràs, Pol, and C Fritz Foley. 2015. “Poultry in Motion: A Study of International Trade Finance Practices.” *Journal of Political Economy*, 123(4): 853–901.
- Beaumont, P., & Lenoir, C. (2018). Building a Customer Base under Liquidity Constraints. *Working Paper*, 1–54.
- Carluccio, J., & Fally, T. (2012). Global Sourcing under Imperfect Capital Markets. *Review of Economics and Statistics*, 94(3), 740–763.
- Chaney, Thomas. 2016. “Liquidity constrained exporters.” *Journal of Economic Dynamics and Control*, 72: 141 – 154.
- Manova, Kalina. 2013. “Credit Constraints, Heterogeneous Firms and International Trade.” *Review of Economic Studies*, 80: 711–744
- Paravisini, Daniel, Veronica Rappoport, Philipp Schnabl, and Daniel Wolfenzon. 2014. “Dissecting the Effect of Credit Supply on Trade: Evidence from Matched Credit-Export Data.” *Review of Economic Studies*, 1–26.
- Xu, C. (2018). Reshaping Global Trade: The Immediate and Long-Run Effects of Bank Failures. *Working Paper*.

International finance

- (*) Bau N. and A. Matray (2019) "Misallocation and Capital Market Integration: Evidence From India", *CEPR Working Paper*

