

**BFIN 3034: Corporate Finance Seminar 3
Spring 2018**

Professor: Shawn Thomas
246 Mervis Hall
(412) 648-1648
shthomas@katz.pitt.edu

Times and Places: 3:00-5:00pm, M and W, 119 Mervis Hall, 3/19-4/18 (No class on 4/2)

Course Description

This course is part of a sequence of courses in corporate finance. The objective of this course is to provide you with exposure to an area of research that encompasses elements of both industrial organization (IO) and corporate finance. Most of the papers that we will discuss generally examine the interaction between a firm's real decisions (historically the purview of IO) and a firm's financial decisions (historically the purview of financial economists). A few topics of related interest will round out the course.

Each two-hour session will cover two or three papers. You should be prepared to discuss each paper in detail, including (but not limited to) the paper's motivation, critical assumptions, methodology, and primary findings. You should also be prepared to evaluate how each paper relates to other papers in the literature and how each paper fits with the other papers discussed in the class. Finally, you should be prepared to discuss possible extensions of the papers.

Course Grades and Due Dates

Course grades will be determined by the quality of:

- presentations of papers and contributions to class discussion (20%)
- a written literature review of a group of assigned papers and a review of a new paper (20%)
- completion/presentation of term papers from corporate seminars 1, 2, & 3 (25%),
- a final exam (35%) (during finals week, date TBD).

The literature review and paper comments are due on April 13th at noon EDT. The papers for this assignment are listed below.

Term papers are due on Wednesday May 2nd at noon EDT. Papers will be presented and discussed in a conference-style format on Friday May 4th beginning at 1:00pm in 114 Mervis Hall. Papers will be distributed to the finance faculty and PhD students and the presentations will be open to all who would like to attend.

The papers that we will cover are listed below. For your convenience, all papers will be emailed to you in a zipped file.

(If you have not read Modigliani and Miller (1958) AER and Kraus and Litzenberger (1973) JF, then I would strongly suggest that you review these papers prior to the ones below. M&M (1958) and K&L (1973) are in the zipped file.)

Meeting 1: 3/19

James Brander and Tracy Lewis, 1986, Oligopoly and financial structure, *American Economic Review*, 76 956-970.

James Brander and Tracy Lewis, 1988, Bankruptcy costs and the theory of oligopoly, *Canadian Journal of Economics*, 21 221-243.

Meeting 2: 3/21

Vojislav Maksimovic, 1988, Capital structure in repeated oligopolies, *Rand Journal of Economics*, 19 389-407.

Patrick Bolton and David Scharfstein, 1990, A theory of predation based on agency problems in financial contracting, *American Economic Review*, 80 93-106.

Meeting 3: 3/26

Judith Chevalier, 1995, Capital structure and product market competition: empirical evidence from the supermarket industry, *American Economic Review*, 85 415-435.

Judith Chevalier, 1995, Do LBO supermarkets charge more? An empirical analysis of the effects of LBOs on supermarket pricing, *Journal of Finance*, 50 1095-1112.

Gordon Phillips, 1995, Increased debt and industry product markets: an empirical analysis, *Journal of Financial Economics*, 37 189-238.

Meeting 4: 3/28

Dan Kovenock and Gordon Phillips, 1997, Capital structure and product market rivalry: an examination of plant closings and investment decisions, *Review of Financial Studies*, 1997, 10 767-803.

Luigi Zingales, 1998, Survival of the fittest or the fattest? exit and financing in the trucking industry, *Journal of Finance*, 53 905-938.

Meeting 5: 4/4

Naveen Khanna and Sheri Tice, 2000, Strategic Responses of Incumbents to New Entry: The Effect of Ownership Structure, Capital Structure and Focus, *Review of Financial Studies*, 13 749-779.

Murillo Campello, 2006, Debt financing: does it boost or hurt firm performance in product markets, *Journal of Financial Economics*, 82 135-172.

Meeting 6: 4/9

Laurent Fresard, 2010, Financial strength and product market behavior: the real effects of corporate cash holdings, *Journal of Finance*, 70 1097-1122.

Gerard Hoberg, Gordon Phillips, N.R. Prabhala, 2014, Product Market Threats, Payouts, and

Financial Flexibility, *Journal of Finance* 69, 293-324.

Meeting 7: 4/11

Rajesh K. Aggarwal and Andrew A. Samwick, 1999, Executive Compensation, Strategic Competition, and Relative Performance Evaluation: Theory and Evidence, *Journal of Finance*, 54 1999-2043.

Kwon, H., 2016. Executive compensation under common ownership. Working paper. University of Chicago.

Anton, M., Ederer, F., Gine, M., Schmalz, M., 2018. Common ownership, competition, and top management incentives. Working paper, University of Michigan.

Meeting 8: 4/16

C. Edward Fee and Shawn Thomas, 2004, Sources of gains in horizontal mergers: evidence from customer, supplier, and rival firms, *Journal of Financial Economics*, 74 423-460.

Sugato Bhattacharyya and Amrita Nain, 2011, Horizontal acquisitions and buying power: a product market analysis, *Journal of Financial Economics*, 99 97-115.

Meeting 9: 4/18

Joel Peress, 2009, Product market competition, insider trading, and stock market efficiency, *Journal of Finance*, 65 1-43.

Gerard Hoberg and Gordon Phillips, 2010, Real and financial industry booms and busts, *Journal of Finance*, 65 45-86.

Written synopsis of papers and review of a new related paper (due April 13th at noon EDT):

Papers for synopsis:

Hansen, R.G., Lott Jr., J.R., 1996. Externalities and corporate objectives in a world with diversified shareholder/consumers. *Journal of Financial and Quantitative Analysis* 31, 43–68.

Azar, J., 2011. A new look at oligopoly: Implicit collusion through portfolio diversification. Working paper, Princeton University.

Azar, J., Schmalz, M.C., Tecu, I., 2017. Anti-competitive effects of common ownership, Working paper, University of Michigan.

Dennis, P., Gerardi, K., and Schenone, C., 2018. Common ownership does not have anti-competitive effects in the airline industry, Working paper, University of Virginia.

Kennedy, P., O'Brien, D., Song, M., and Waehrer, K., 2017. The competitive effects of common ownership: economic foundations and empirical evidence. Working paper, Bates White Economic Consulting.

Azar, J., Raina, S., Schmalz, M.C., 2016. Ultimate ownership and bank competition, Working paper, University of Michigan.

Gramlich, J., Grundl, S., 2017. Estimating the competitive effects of common ownership. Working paper, Board of Governors of the Federal Reserve.

Paper to review:

Koch, A., Panayides, M., Thomas, S., 2018. Commonality in Institutional Ownership and Competition in Product Markets, Working paper, University of Pittsburgh.