

Empirical Finance Fall 2009  
LAW 940-001-09C  
Tanenbaum Hall Room 155  
W 4:30-6:30

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Office Hours:

M 3:00-5:00

or by appointment

**Attendance:** The American Bar Association believes it knows how to allocate your time better than you do, so it requires that you attend at least 80% of the class sessions. Some day you will benefit from entry restrictions like this.

**Participation:** Class will be much more interesting if you are prepared for the readings and ready to discuss them.

**Grade:** Grades will be based on your 5 short reports on optional readings (as described below) and your semester paper. The semester paper will constitute 75 percent of your grade with the short reports making up the other 25 percent.

**Short Reports on Optional Readings:** As shown on the schedule below, after we cover some background material, each week we will discuss a main reading(s), and there will be a number of related optional readings provided. During the course of the semester, choose five topics of interest to you and write a short report on one of the optional readings for that week. The short report should be no more than 2 pages in length. It should cover: 1) what the hypothesis of the paper is; 2) why the underlying legal or policy issue is important; 3) what empirical strategy is used to investigate the hypothesis; 4) what the evidence suggests; and 5) one criticism or suggestion for further research on the topic. Good faith efforts on these reports will receive full credit. Reports must be submitted in the document drop box before class begins on the week we cover your chosen topics or they will not count toward your five reports.

**Semester Paper:** There is a high risk (high return) option and a low risk (low return) option. The high risk option involves doing an empirical analysis of a legal or regulatory change. This paper will involve formulating a hypothesis about the effect of the change on firm value, briefly summarizing existing research related to your topic, collecting return data for the relevant firms (including firms for a potential "control" group), performing an event study (using excel or some other software that will allow you to run a regression), interpreting your results, and discussing shortcomings in your research design. The low risk paper option involves doing a more expansive literature review on a topic involving the effects of particular laws or regulations on firm value. There is no required length for either type of paper. Paper topics should be chosen by the middle of the semester. I am happy to discuss potential topics with students. Papers are due at the end of the exam period. I am willing to read drafts before

the final submission, though I only promise comments if the draft is submitted before December 1, 2009.

### **Schedule:**

#### **Basics of Empirical Research**

For background, students may wish to examine Daniel Rubinfeld, "Reference Guide on Multiple Regression" in Reference Manual on Scientific Evidence (2000) available at

[http://www.fjc.gov/public/pdf.nsf/lookup/sciman00.pdf/\\$file/sciman00.pdf](http://www.fjc.gov/public/pdf.nsf/lookup/sciman00.pdf/$file/sciman00.pdf)

September 16, 2009

September 23, 2009

#### **Basics of Finance**

September 30, 2009

#### **Event Studies**

For background, students may wish to examine, Sanjai Bhagat and Roberta Romano, "Event Studies and the Law: Part I: Technique and Corporate Litigation," *American Law and Economics Review*, 4(1): 141-167 (2002).

October 7, 2009

#### **Applications**

##### *Identifying Agency Costs*

October 14, 2009

MAIN READING: Jonathan Klick and Robert Sitkoff, "Agency Costs, Charitable Trusts, and Corporate Control: Evidence from Hershey's Kiss-Off," *Columbia Law Review*, 108(4): 749-838 (2008).

OPTIONAL READINGS: William Brown, Eric Helland, and Janet Smith, "Corporate Philanthropic Practices," *Journal of Corporate Finance*, 12(1): 855-877 (2006). Marianne Bertrand and Sendhil Mullainathan, "Are CEOs Rewarded for Luck? The Ones Without Principals Are," *Quarterly Journal of Economics*, 116(3): 901-932 (2001).

##### *Executive Compensation*

October 28, 2009

MAIN READING: Rajesh K. Aggarwal and Andrew A. Samwick, "The Other Side of the Trade-Off: The Impact of Risk on Executive Compensation," *Journal of Political Economy*, 107(1): 65-105 (1999).

OPTIONAL READINGS: Kenneth Shaw, "CEO Incentives and the Cost of Debt," Working Paper. Marianne Bertrand and Sendhil Mullainathan, "Executive Compensation and Incentives: The Impact of Takeover Legislation," NBER Working Paper (1998).

##### *Takeover Market*

November 4, 2009

MAIN READING: Bengt Holmstrom and Steven Kaplan, "Corporate Governance and Merger Activity in the United States: Making Sense of the 1980s and 1990s," *Journal of Economic Perspectives*, 15(2): 121-144 (2001).

OPTIONAL READINGS: Roberta Romano, "The Political Economy of Takeover Statutes," *Virginia Law Review*, 73(1): 111-199 (1987). John Matsusaka, "Takeover Motives During the Conglomerate Merger Wave," *RAND Journal of Economics*, 24(3): 357-379 (1993)

#### Law and Finance

November 11, 2009

Main Reading: Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, Robert W. Vishny, "Law and Finance," *Journal of Political Economy*, 106(6): 1113-1155 (1998)

Optional Readings: Rafael La Porta, Florencio Lopez-De-Silanes, Andrei Shleifer, Robert W. Vishny, "Legal Determinants of External Finance," *Journal of Finance*, 52(3): 1131-1150 (1997). Daron Acemoglu, Simon Johnson, James A. Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review*, 91(5): 1369-1401 (2001).

#### The Value of Disclosure

November 18, 2009

Main Reading: Michael Greenstone, Paul Oyer, and Annette Vissing Jorgensen, "Mandated Disclosure, Stock Returns, and the 1964 Securities Acts Amendments," *Quarterly Journal of Economics*, 121(2): 399-460.

Optional Readings: Armando Gomes, Gary Gorton, and Leonardo Madureira, "SEC Regulation Fair Disclosure, Information, and the Cost of Capital," *Journal of Corporate Finance*, 13: 300-334 (2007). David Yermack, "Flights of Fancy: Corporate Jets, CEO Perquisites, and Inferior Shareholder Returns," *Journal of Financial Economics*, 80: 211-242 (2006).

November 25, 2009

Regression/Stats Demonstration

#### Behavioral Finance

December 2, 2009

Main Reading: Alan Krueger and Kenneth Fortson, "Do Markets Respond More to More Reliable Labor Market Data?: A Test of Market Rationality," *Journal of the European Economic Association*, 1(4): 931-957 (2003).

Optional Readings: Paul Tetlock, "All the News That's Fit to Reprint: Do Investors React to Stale Information?" *Review of Financial Studies*, forthcoming (2008). Roni Michaely, Richard Thaler, and Kent Womack, "Price Reactions to Dividend Initiations and Omissions: Overreaction or Drift?" *Journal of Finance*, 50(2): 573-608 (1995).

December 9, 2009

The Current "Crisis"

Note: If you still need to submit a commentary paper, pick one of the four below to use. Everybody should read whichever papers sound interesting to them. Our class discussion will be fairly generic (i.e., not necessarily focused on going through the papers) compared to previous weeks

Brian Galle and Jonathan Klick, "State Finance in Times of Crisis" (2009).

Courtney Coile and Phillip Levine, "The Market Crash and Mass Layoffs: How the Current Economic Crisis May Affect Retirement " (2009).

Gary Gorton, "Information, Liquidity, and the (Ongoing) Panic of 2007" (2009).

Wenli Li and Michelle White, "Mortgage Default, Foreclosure, and Bankruptcy" (2009).