FNCE 926
EMPIRICAL METHODS IN CORPORATE FINANCE
SPRING 2016

Instructor: Professor Todd Gormley

Contact Information
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Class Times: Tuesdays, 4:30-7:30 pm at SHDH 2004

Office Hours: Thursdays, 1:30-3:00 p.m., or by appointment.
(Outside of the classroom, this is the best way to interact with me.)

Course Websites: http://wharton.instructure.com

Teaching Assistant: Tetiana Davydiuk davydiuk@wharton.upenn.edu

Course Description: This course will provide students with a toolbox and working knowledge of cross-sectional and panel data empirical methods for use in corporate finance research. This will be accomplished by exposing the students to a variety of methods commonly employed in empirical research. Because of time constraints, not all widely used empirical methods will be covered.

The course is designed to help you learn these methods via a three-pronged approach.

(1) Lectures and light econometric readings will help you learn the econometric intuition behind each method. This is not a theory course; this is a course for end-users of econometric tools. Accordingly, I will teach you how to use each tool properly, not how to derive its asymptotic properties.

(2) Course readings will expose you to examples of the methods being used in published and working papers. Seeing how the tools are actually used by other researchers is often far more useful in helping students understand the tools. I will rely on examples from corporate finance when possible, though I will also reference examples from other fields in economics including: labor, development, and public finance.

(3) Course assignments will require you to use the methods analyzed in the course; i.e. you will learn by doing. There will be a number of exercises that will have you manipulate and analyze data using the various econometric techniques, and there will be assignments where you analyze and criticize other researchers’ use of these tools. Since this is a finance course, the applications will typically be corporate finance related.
**Reading Materials:** I will teach from slides, which I will make available to you before each class on the course website, Canvas. I will be drawing from a variety of sources including various textbooks, journal articles, working papers, and other professors’ lecture notes. As such, there is no required “textbook,” but I will make note of the appropriate references for each lecture. The relevant methodology readings for each lecture are provided at the bottom of this syllabus, and students are expected to read these prior to the lecture. Additionally, most lectures will contain student presentations of three papers related to the previous week’s lecture topic. A list of papers to be presented is given below.

**Prerequisites:** You should have taken a graduate sequence in econometrics. Practically speaking, you should be comfortable with econometrics at the level of William Greene’s *Econometric Analysis* and Jeffrey Wooldridge’s *Econometric Analysis of Cross-Section and Panel Data*.

**Coursework:** There will be three graded components to the course. These are designed to help you learn the econometric tools used in the literature while also preparing you for a successful career in academic research. The three assignments are as follows:

1. **Empirical exercises**

   You will be asked to download data and write code to implement some of the tools taught in the course. The five exercises are designed to teach you how to actually use these tools. It’s one thing to learn about a difference-in-difference-in-difference estimation and another thing to actually estimate one. The assignments will be completed in Stata, and to receive credit for the assignment, you will e-mail me your DO file, which I will run on a dataset to check whether your programming and regressions are correct.

2. **In-class presentations/discussions**

   For most classes, there will be three papers assigned that students (regardless of whether you are just auditing) must read and present a discussion of in-class. Students will form groups of their own choosing, and we will assign each group their paper in the week ahead. E.g. If I give a lecture on instrumental variable estimations, then at the end of the lecture, I will assign three papers that make use of IV strategies. Students will present their discussions of these three papers in the second half of the next class. Each group will need to make a 10 minute presentation that discusses the paper, and each presentation will be followed by in-class discussion. The purpose of the assignment is twofold: (1) Presentations are one key way people in academia will come to know (and assess) you. So, it’s a good idea to get some practice now. And (2), this will help you apply and think critically about the empirical tools discussed in the previous lecture. Because students find it helpful to study for the final exam, I will also post each presentation on Canvas after class is finished.

   To ensure participation following each presentation, each student must also type up one concern they had about each of the two papers their group did NOT present and hand these in at the start of class. I will randomly select 1 submission for each assigned paper and have that randomly selected student
elaborate upon their comment in class. The comments should be very short [2-3 sentences maximum] and designed to do one of two things: (1) isolate what you thought the biggest problem of the paper was, or (2) identify a concern you think the presenting group might overlook. Every failure to turn in this sheet of comments will result in a 2-point reduction in participation points.

3. Write a research proposal

Basically, you will be asked to sketch out an outline for a possible empirical paper you could write using tools taught in the course. You’ll need to come up with an interesting question, place your question in the relevant literature, sketch out an identification strategy for answering that question, and identify the necessary datasets to implement your identification strategy. If you want, you can think of this as a possible start to your eventual second year paper.

Presentation Groups: The class will be organized into three presentation groups, which will each give a presentation during lectures that include student presentations of related research papers. You are free to choose your own members. I just recommend that you split yourselves into three roughly equal-sized groups. We will choose our groups in the very first lecture, but students are free to change groups later on if needed.

Limitations: Time limitations impose certain restrictions on what we can accomplish in this course. For example, we will not cover all of the methods you might need or should know. We also will not cover each method in excruciating detail. Arguably, you could build an entire course (research agenda) around each method.

Canvas: Important course materials, such as lecture notes, required assignments, and other useful information will be available on the course web page at Canvas: http://wharton.instructure.com. You will also use this website to turn in all of your exercises & research proposals.

Questions: Please, just ask. I don’t anticipate that everything I say in class or my lecture notes will be crystal clear. So, if something is confusing, please just ask me. I can’t guarantee to always have an immediate answer, especially for questions of a more technical nature, but I promise to always find one and get back to you.

Participation: You will be graded on participation. Basically, I expect each student to give in-class presentations during the semester and to turn in weekly comments on each paper their group was not assigned to present. (You will be working in groups to write the presentation, but ultimately, only one of you gets up to give the presentation each week.) You should consider yourself likely to get “full participation credit” if you split the presentations equally among group members and turn in your weekly comments on each paper. But, failure to do presentations or to turn in weekly comments on the assigned readings will result in a lower grade.

Final Exam: There will be a final exam in the last class period.
Grading: You should not be too worried about your grade; instead, you should focus on learning the tools taught in this course. Using these tools to write a solid job market paper and dissertation is far more important than your actual grade. When you’re on the job market, no one will care what grade you got in your PhD courses. Instead, you should view your grade in this course as a signal of where I think you stand in terms of your understanding and ability to apply the tools of this course.

Your grade for the course will be determined by participation, research proposal, empirical exercises, and an exam. There will be a total of 150 points available, and the points are allocated as follows:

- **Empirical Exercises**: 25 points (i.e. 5 points each)
- **In-Class Discussions/Participation**: 25 points
- **Rough Draft of Research Proposal**: 15 points
- **Research Proposal**: 35 points
- **Final Exam**: 50 points

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.

Code of Ethics: What follows is the boiler plate statement I give in my MBA and undergraduate students; I don’t expect they need to be said for PhD students… “I take the matters of academic integrity seriously and expect that you do, too. Submitted assignments for grading should be your own work only. Failure to observe this rule, will at a minimum, result in receiving zero points on that assignment, and may result in an automatic failing grade for the course and referral to the Office of Student Conduct. Refer to the Code of Academic Integrity if you have any questions.”

Office Hours and E-mail: If you have any questions or need assistance, please visit me during my office hours. If you are unable to make my office hours, just e-mail me so that we can arrange a mutually convenient time to meet in my office. You may also send me questions via e-mail.

Class Schedule: The tentative class schedule is below. The topics covered and the date in which they are covered may change, but if this occurs, I will notify you of any changes.
## SCHEDULE OF CLASSES

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<thead>
<tr>
<th>Class # (Date)</th>
<th>Lecture Topic (for first half of class on days with student presentations)</th>
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<th>Assignments due</th>
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<td>2 (01/26)</td>
<td>Linear Regression [Part 2]</td>
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<tr>
<td>3 (02/02)</td>
<td>Causality</td>
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<td>Exercise #1 due</td>
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<td>8 (03/15)</td>
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<td>9 (03/22)</td>
<td>Common Limitations &amp; Errors</td>
<td>Regression Discontinuity</td>
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<tr>
<td>10 (03/29)</td>
<td>Matching &amp; Selection Models</td>
<td>Common Limitations &amp; Errors</td>
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<td>11 (04/05)</td>
<td>Standard Errors &amp; Clustering Limited Dependent Variables</td>
<td>Matching</td>
<td>Exercise #4 due</td>
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<td>12 (04/12)</td>
<td>Randomized Experiments</td>
<td>Miscellaneous</td>
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<tr>
<td>13 (04/19)</td>
<td>Structural Estimation &lt;br&gt;<em>(Lecture given by Professor Taylor)</em></td>
<td>Randomized Experiments</td>
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<tr>
<td>14 (04/26)</td>
<td>In-Class Final Exam</td>
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<td>15 (05/03)</td>
<td></td>
<td>Final draft of research proposal due at noon</td>
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IN-CLASS STUDENT PRESENTATION PAPERS

Below is the list of readings to be presented in class by students. All students are expected to read these papers, and groups will need to select one paper to present. Groups cannot choose the same paper to present. I’ve broken down the papers into “Topics”. The “Topic” corresponds to the schedule of classes and which week the papers will be presented. We will assign the groups to present each paper in the week prior to the lecture.

Classics #1 (Non-Finance)


Classics #2 (Finance)


Causality


Panel Data


**Instrumental Variables**


**Natural Experiments #1**


**Natural Experiments #2**


**Regression Discontinuity**


Common Limitations & Errors


Matching


Miscellaneous


Randomized Experiments


METHODOLOGY READINGS FOR EACH TOPIC

For each lecture, I’ve listed some readings that will be helpful with understanding the methodology being discussed. My lectures will be largely based off of these readings, and students are expected to read these papers prior to the lecture. The lectures primarily draw from the four below sources, and I’ve provided abbreviations that will be used to refer to each.


Linear Regression

1. Angrist-Pischke, Sections 3.1-3.2, 3.4.1
2. Wooldridge, Sections 4.1-4.2
3. Greene, Chapter 3 & Sections 4.1-4.4, 5.7-5.9, 6.1-6.2

Causality

1. Roberts-Whited, Section 2
2. Angrist-Pischke, Section 3.2
3. Greene, Sections 5.8-5.9
4. Wooldridge, Sections 4.3, 4.4

Panel Data

1. Angrist-Pischke, Sections 5.1, 5.3
2. Greene, Chapter 11
3. Wooldridge, Chapter 10

Instrumental Variables

1. Roberts-Whited, Section 3
2. Angrist-Pischke, Sections 4.1, 4.4, 4.6
3. Greene, Sections 8.2-8.5
4. Wooldridge, Chapter 5
Natural Experiments

1. Roberts-Whited, Sections 2.2 and 4
2. Angrist-Pischke, Section 5.2

Regression Discontinuity

1. Roberts-Whited, Section 5
2. Angrist-Pischke, Chapter 6

Common Limitations & Errors


Matching

1. Roberts-Whited, Section 6
2. Angrist-Pischke, Sections 3.3.1-3.3.3
3. Wooldridge, Section 21.3.5

Standard Errors, Limited Dependent Variables

1. Angrist-Pischke, Chapter 8 and Sections 3.4.2, 4.6.3
4. Greene, Section 17.3

Structural Estimation