Empirical Methods for Corporate Finance and Accounting Research

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Course Objectives

The objective of the course is to introduce you to empirical research in finance and accounting, with a focus on empirical corporate finance. Corporate finance is largely a non-experimental field with lots of data. The nature, scope, and detail of available data continue to expand rapidly. These data are used to test theories and to generate empirical facts that constitute a basis for further theories. In this class, you will discover and work with some of the main datasets used in empirical research and apply some of the main methods used to analyze them.

The overall approach in this class is to read and understand (selected) prior empirical work and replicate or extend some of these studies. The topics have been selected to make you work with specific datasets and methods. The primary expertise necessary is the understanding of how to use or manipulate STATA or SAS. You will need to appreciate the methods, approaches, and intuition of econometrics including and beyond a first graduate level of econometrics. I will cover some of the underlying approaches in class but our objectives will be different from those of an econometric course. Rather than a formal derivation of the underlying assumptions and tests, we will assess why something works the way it does.

Deliverables - Empirical exercises

You will have three exercise sets to do using Stata (or SAS). They are designed to get you up and running with financial datasets and methods. There is a lot of work going into extracting databases and matching datasets. You should treat this as a permanent lifelong investment and the costs will seem more bearable. You will have to extract data from the relevant source, run the assigned tests, and answer to question I will specify. Individual effort is necessary. This first assignment (simple event study) is due on June 1st (the first day of class). Further information will follow, after registration. The course is equivalent to 3ECTS, and students need to succeed in all three exercises to get the credits.

Schedule-Program

We will meet on June 1, June 2 and June 3 for five hours each day (3 hours in the morning and 2 hours in the afternoon). The room is TBD. Here is the program (subject to very small adjustments):
# Schedule and Topics and deliverables

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Morning Topics</th>
<th>Afternoon Topics</th>
<th>Deliverables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday, June 1</td>
<td>Morning</td>
<td>Introduction and identification/causality</td>
<td>Event studies (+ research process)</td>
<td>Exercise 1 due (event studies)</td>
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<td>Afternoon</td>
<td></td>
<td></td>
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<tr>
<td>Tuesday, June 2</td>
<td>Morning</td>
<td>Panel data estimations + Estimation of standard errors</td>
<td>Instrumental Variables</td>
<td></td>
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<tr>
<td>Wednesday, June 3</td>
<td>Morning</td>
<td>Difference-in-Differences</td>
<td>Matching Methods</td>
<td>Exercise 2 due (leverage in panel data)</td>
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<td>Afternoon</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Wednesday, June 10</td>
<td>Noon</td>
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<td>Exercise 3 due (difference-in-differences)</td>
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## Textbooks

- Selected chapters from the *Handbook of Corporate Finance: Empirical Corporate Finance*. Edited by B. Espen Eckbo: North Holland, 2007. (HCF hereafter)
- Wooldridge, Jeffrey M., 2002, *Econometrics Analysis of Cross-Section and Panel Data*, MIT Press, MA. (This has a more formal treatment of the materials).

## Course outline and Readings

All the below articles should be read in advance (I might add other papers later depending on interest and speed).

### Identification and Causality (Monday)
- AP, chapter 2
- Roberts and Whited (2012), section 2
- Bowen, Fresard, and Taillard (2014)
- Morck and Yeung (2011)
- Leamer (2010)

Event studies (Monday)

- HCF, chapter 1
- Fama, Fisher, Jensen, and Roll (1969)
- Kolari and Pynnonen (2010)
- Khotari and Warner (1997)
- Thomson (1995)

Panel Data: Fixed effects and Standard Errors Estimation (Tuesday)

- HCF, chapters 4 and 12
- CT#1, chapters 21 and 22
- CT#2, chapter 8
- Lemmon, Roberts, and Zender (2008)
- Coles and Li (2012)
- Petersen (2009)
- Bertrand and Schoar (2003)
- Gormley and Matsa (2014)

Instrumental Variables (Tuesday)

- CT#1, chapter 4
- CT#2, chapters 6 and 9.2
- AP, chapter 4
- Roberts and Whited (2012), section 3
- Angrist and Krueger (2001)
- Bennedsen, Nielsen, Perez-Gonzalez, and Wolfenzon (2007)
- Chaney, Sraer, and Thesmar (2013)

Difference-in-Differences (Wednesday)

- AP, chapter 5, Section 2
- Giroud (2013)
- Roberts and Whited (2012), section 4
- Leary (2009)

Matching Methods (Wednesday)
Bibliography


