

Norwegian School of Economics

Identification Strategies in Finance

SYLLABUS – FALL 2016

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BRIEF DESCRIPTION

This is a thorough PhD level class covering modern empirical work. For concreteness, the course is designed to help students understand how to operationalize empirical research on topics that are central to empirical finance. The overarching goal is to expose students to “state-of-the-art” empirical research methods and prepare them to conduct their own work using new tools. All students with an interest in finance, economics, accounting, human resources, and related disciplines are welcome to take it.

TEXT AND MATERIALS

There is no required textbook. Readings will be based on articles. Reading assignments will follow the sequence provided below. Papers anteceded by an asterisk (*) are strongly recommended and covered during lectures. The readings are all available for free on the web (e.g., from JSTOR, SSRN, the journal’s website, or authors’ websites). Students themselves should locate listed articles.

GRADING

Students will prepare a term paper based on the ideas and techniques discussed in the course. The course has 4 ECT credit points, and grades will be “pass” or “fail”.

LECTURE SCHEDULE

| | Subject | Time/Venue |
|----------|--|-------------------|
| Class #1 | Course Introduction Endogeneity & Treatment Effects Framework | |
| Class #2 | Empirical Methods I & II Difference-in-Differences & LATE Estimators | |
| Class #3 | Empirical Methods II & III Instrumental Variables & Regression Discontinuity Design | |
| Class #4 | Empirical Methods III Matching Estimators | |

LIST OF TOPICS AND READING MATERIALS

1. Empirical Methods I

Almeida, H. and M. Campello, 2007, "Financial Constraints, Asset Tangibility, and Corporate Investment," *Review of Financial Studies* 20, 1429-1460.

(*) Bertrand, M. and S. Mullainathan, 2003, "Enjoying the Quiet Life? Corporate Governance and Managerial Preferences," *Journal of Political Economy* 111, 1043-1075.

Besley, T. and A. Case, 2000, "Unnatural Experiments? Estimating the Incidence of Endogenous Policies," *Economic Journal* 110, 672-694.

(*) Blanchard, O., F. Lopez-de-Silanes, and A. Shleifer, 1994, "What do Firms do with Cash Windfalls?" *Journal of Financial Economics* 36, 337-360.

(*) Butler, A. and J. Cornaggia, 2011, "Does Access to External Finance Improve Productivity? Evidence from a Natural Experiment," *Journal of Financial Economics* 99, 184-203.

(*) Campello, M. and J. Graham, 2012, "Do Stock Prices Influence Corporate Decisions? Evidence from the Technology Bubble," forthcoming, *Journal of Financial Economics*.

Heckman, J., Lalonde, R., Smith, J., 1999, Handbook of Labor Economics, Vol. 3, O. Ashenfelter, and D. Card, eds. Lesevier North-Holland, Amsterdam.

Imbens, G., 2003, "Nonparametric Estimation of Average Treatment Effects under Exogeneity: A Review," NBER Technical Working Paper #294.

(*) Jayaratne, J. and P. Strahan, 1996, "The Finance-Growth Nexus: Evidence from Bank Branch Deregulation," *Quarterly Journal of Economics* 111, 639-670.

(*) LaPorta, R, F. Lopez-De-Silanes, A. Shleifer, R. Vishny, 1998, "Legal Determinants of External Finance." *Journal of Finance* 52, 1131-1150.

Rosenzweig, M. and K. Wolpin, 2000, "Natural 'Natural Experiments' in Economics," *Journal of Economic Literature* 38, 827-874.

Tang, T., 2009, "Information Asymmetry and Firms' Credit Market Access: Evidence from Moody's Credit Rating Format Refinement," *Journal of Financial Economics* 93, 325-351.

Wooldridge, J. M., 2002, Econometric Analysis of Cross Section and Panel Data, MIT Press. Cambridge, Mass. (Chapters 6, 10, and 18.)

2. Empirical Methods II & III

Abadie, A., D. Drukker, J. Herr, and G. Imbens, 2004, "Implementing matching estimators for average treatment effects in Stata," *Stata Journal* 4, 290-311.

Abadie, A. and G. Imbens, 2002, "Simple and Bias-Corrected Matching Estimators for Average Treatment Effects," Working Paper.

(*) Almeida, H., M. Campello, B. Laranjeira, and S. Weisbenner, 2011, "Corporate Debt Maturity and the Real Effects of the 2007 Credit Crisis," *Critical Finance Review* 1, 3-40.

(*) Angrist, J., 1990, "Lifetime Earnings and the Vietnam Era Draft Lottery: Evidence from Social Security Administrative Records," *American Economic Review* 80, 313-336.

Angrist, J. and V. Lavy, 1999, "Using Maimonides' Rule To Estimate The Effect Of Class Size On Scholastic Achievement," *Quarterly Journal of Economics* 114, 533-575

Becker, S. and A. Ichino, 2002, "Estimation of Average Treatment Effects Based on Propensity Scores," *Stata Journal* 2, 358-377.

(*) Bennedsen, M., K. Nielsen, F. Pérez-González, and D. Wolfenzon, 2007, "Inside the Family Firm: The Role of Families in Succession Decisions and Performance," *Quarterly Journal of Economics* 122, 647- 691.

Chava, S. and A. Purnanandam, 2011, "The Effect of Banking Crisis on Bank-Dependent Borrowers," *Journal of Financial Economics* 99, 116-135.

(*) Chava, S. and M. Roberts, 2008, "How does Financing Impact Investment? The Role of Debt Covenants," *Journal of Finance* 63, 2085-2121

Dehejia, R. and S. Wahba, 1999, "Causal Effects in Nonexperimental Studies: Reevaluating the Evaluation of Training Programs," *JASA* 94, 1053-1062.

Dehejia, R. and S. Wahba, 2002, "Propensity Score Matching Methods for Non-Experimental Causal Studies," *Review of Economics and Statistics* 84, 151-161.

Imbens, G. and T. Lemieux, 2008, "Regression Discontinuity Designs: A Guide to Practice," *Journal of Econometrics* 142, 615-635.

Lee, S., 2008, "Randomized Experiments from Non-Random Selection in U.S. House Elections," *Journal of Econometrics* 142, 675-697.

(*) Malmendier, U. and G. Tate, 2009, "Superstar CEOs," *Quarterly Journal of Economics* 124, 1593-1638.

(*) Rauh, J., 2006, "Investment and Financing Constraints: Evidence from the Funding of Corporate Pension Plans." *Journal of Finance* 61, 33-71.