

CARDIFF BUSINESS SCHOOL PHD PROGRAMME/MSc SSRM
ADVANCED RESEARCH ISSUES IN FINANCE, BANKING AND ACCOUNTING
2016-2017

COURSE OUTLINE



Cardiff Business School
Ysgol Busnes Caerdydd

Module Leader Prof Jens Hagendorff
Room Q28 Aberconway Building
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Classes

Fridays, 9.00 to 13.00, Room 1.28 (PTC)

Assessment

For students enrolled on BST210, the course is assessed in two parts:

(1) An individual presentation on the theory, interpretation, research design and methods in your area of research (20%) on **Friday 7 April, 2017**.

(2) An essay based assignment (4,000 words) at the end of the second semester (80%).

Deadline: **Wednesday 19 April, 2017**.

Please note that students enrolled on BST291 (Economics) will be assessed based on (2) only.

Course Aims

The aims of the course are to provide students with an understanding of relevant theories, research questions, research design, and methodology in the related areas of finance, accounting and banking. It introduces students to important topics and issues in corporate finance, corporate governance, financial markets, asset pricing, banking, financial accounting and management accounting and involves studying the variety of methodologies and approaches employed in addressing key research questions in these fields.

Delivery and Format

Throughout the module students will be exposed to recent and influential streams of research in finance, accounting and banking. A broad framework will be provided within which many of the different theories, methods and research approaches may be located. Sessions will be delivered by researchers who have different interests in the fields covered by the course. Practical experience of reproducing results in key areas may also be provided in some classes. Students will discuss how researchers in their area view the research process and summarise typical research problems, theories, findings and issues.

Students must attend and be active participants in ALL classes. Active participation will require extensive and thorough reading of the literature. You should bring ALL articles and notes you have made on the articles to the class. Students must come to classes prepared to critically discuss readings.

If you miss a class (e.g. for health reasons), you will be required to submit a 6-10 page paper critically evaluating the subject you missed. This will be due in the following class.

Intended Learning Outcomes

On completion of the module students should be able to:

Identify, discuss and critically evaluate key theoretical and empirical issues, concepts and techniques in finance, accounting and banking research

Synthesize the main findings and debates within your focal stream of research

Compare and contrast different approaches to research design and reflect on their appropriateness for addressing different kinds of research questions

Present research projects in a clear manner to a range of different audiences

Apply appropriate methodologies and techniques to reproduce published results

Demonstrate an understanding of the publication process and publication strategies in finance, banking and accounting.

Topics and Timetable

Week	Date	Lecturer	Topic
1	27/01	Jens Hagendorff	Introduction to Module Efficient Market Hypothesis
2	03/02	Jens Hagendorff	Asset Pricing Identification Strategies
3	10/02	Kevin Holland	Corporate Taxation and Company Behaviour
4	17/02	Svetlana Mira	Event Studies
5	24/02	Wissam Abdallah	IPO's and Cross Listings
6	03/03	Simon Norton	Bank Failure and Regulation:
7	10/03	Kent Matthews	Bank Performance, Efficiency and Profitability
8	17/03	Nina Sharma	Talk and Text
9	24/03	Kent Matthews	Bank Competition Relationship Banking
10	31/03	Felix Irresberger	Systemic Risk in Insurance Markets
11	07/04	Jens Hagendorff	<i>Student Presentations</i>

Week 1: Introduction to the Module & The Efficient Market Hypothesis: Theory, Implications & Tests

Prof Jens Hagendorff

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Office: Q28

Are asset prices predictable? Do asset prices fully reflect information? How quickly do prices adjust to reflect new information? The framework for examining these questions is the Efficient Markets Hypothesis (Fama, 1970; 1991) in its weak, semi strong and strong forms. This session discusses the theoretical foundations of the EMH, the methodologies employed to test its various forms and the recent developments in this research area.

Reading:

Royal Swedish Academy of Sciences (2013). Understanding Asset Prices. Scientific Background on the Nobel Prize in Economics 2013. [background reading only] available online:

http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2013/advanced-economicsciences2013.pdf

French, K. (2008). The Cost of Active Investing. *Journal of Finance* 63, 1537–1573.

Nobel Lecture in Economics, 2013. <https://www.youtube.com/watch?v=WzxZGvrpFu4>

Week 2: Asset Pricing & Identification Strategies in Finance

Prof Jens Hagendorff

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Office: Q28

Asset prices are fundamental to investors, the macroeconomy and individuals. Understanding the behaviour and determinants of asset prices is therefore of crucial importance and lies at the heart of financial economics. Central to this issue is the understanding that returns are explained by risk and the discipline of asset pricing research involves the development of theoretical models that describe this relationship and empirical tests of these models. The Fama-French three factor model has become the benchmark model for explaining the cross section of returns that new models, empirical anomalies and investment performance are measured against. This session discusses the development of the three factor model and the empirical methodologies that are used to test it, and emphasises its importance for academic research and practical applications.

Reading:

Fama, E. F. and French, K. R. (1993) 'Common Risk Factors in the Returns on Stocks and Bonds', *Journal of Financial Economics* 33, 3-56.

Fama, E. F. and French, K. R. (1996) 'Multifactor Explanations of Asset Pricing Anomalies' *Journal of Finance* 51, 55-84.

Savov, A., 2011. Asset pricing with garbage. *The Journal of Finance*, 66(1), pp.177-201.

Bowen, Frésard, and Taillard (2015), What's your Identification Strategy? *Innovation in Corporate Finance Research*. Available online: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2378460

Week 3: Corporate Taxation and Company Behaviour

Professor Kevin Holland

Email: HollandK2@cardiff.ac.uk

Office: B41

Each year companies are required to calculate income figures under two different sets of rules, financial reporting standards and tax legislation. The difference between the two figures is commonly referred to as the book-tax difference (BTD) and may reveal information about companies' earnings management and tax planning activities. This session will examine methods of calculating BTDs, their interpretation and the literature on the information content of BTDs. In addition the session will also consider broader taxation topics within accounting and finance frameworks.

Reading:

Schmidt, A. P. (2006). 'The persistence, forecasting, and valuation implications of the tax change component of earnings.' *The Accounting Review* 81(3), 589-616.

Graham, J. R., Raedy, J. S., and Shackelford, D. A. (2012). 'Research in accounting for income taxes.' *Journal of Accounting and Economics* 53(1-2), 412-434.

Week 4: Event Studies in Accounting and Finance

Dr Svetlana Mira

Email: MiraS@cardiff.ac.uk

Office: T24

Event studies examine the behaviour of firms' stock prices around corporate events. This methodology has many applications but it has been particularly successful in the area of corporate finance. The event study literature is vast and it continues to grow. Therefore, it is essential for a researcher in the accounting and finance field to be able to apply this methodology and be aware of any potential problems associated with it. This session will discuss the procedure of conducting an event study and analyse an example disseminated by Mackinlay (1997).

Reading:

MacKinlay, A. G. (1997). 'Event studies in economics and finance.' *Journal of Economic Literature* 35, 13-39.

Kothari, S. P., and J. B. Warner (2005). 'Econometrics of event studies', in: B. EckboEspan, ed., *Handbook of Corporate Finance: Empirical Corporate Finance (Handbooks in Finance Series, Elsevier, North-Holland)*, 3-36 (also available on www.ssrn.com/abstract=608601).

Corrado, C. J. (2011). 'Event studies: A methodology review.' *Accounting and Finance* 51(1), 207-234.

Week 5: IPOs and Cross-listings

Dr Wissam Abdallah,

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Office: room C01

The lectures will cover the firm's decision to go public and the decision to cross-list on another stock market. The first part of the session will discuss the reasons for going public, short term underpricing of IPOs, and the long term performance of IPOs. The second part will discuss the reasons for cross-listing and the implications of a cross-listing on the firm's information environment.

Reading:

Abdallah, W. and Goergen, M. (2008). 'Does corporate control determine the cross-listing location?' *Journal of Corporate Finance* 14(3), 183-199.

Lang, M., Lins, K.V., and Miller, D. (2003). 'ADRs, analysts and accuracy: Does cross listing in the U.S. improve a firm's information environment and increase market value?' *Journal of Accounting Research* 41(2), 317-345.

Loughran, T. and Ritter, J. (1995). 'The new issues puzzle.' *Journal of Finance* 50(1), 23-51.

Ritter, J. (1984). 'The "host issue" market of 1980.' *Journal of Business* 57(2), 215-240.

Ritter, J. (1991). 'The long-run performance of initial public offerings.' *Journal of Finance* 46(1), 3-27.

Week 6: Bank Failure and Regulation: Too much or Too little?

Dr Simon Norton

Email: NortonSD@cardiff.ac.uk

Office: E06

The session looks at Basel, but from a qualitative perspective and free banking, which will form the basis of the presentation.

Simon will also look at regulatory frameworks in a few countries, and how FB may be appropriate for developing countries where regulatory capture is a problem, amongst others.

Reading:

To be advised

Week 7: Bank Performance, Efficiency and Profitability

Prof Kent Matthews

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Office: D09

Studies of company profitability have typically included aspects of the structure of the market, whether it is concentrated or diffuse. Banking is an industry that has traditionally tended towards greater concentration. This lecture will examine the relationship between concentration, profitability, efficiency and competitiveness in the banking industry.

Berger A. N., Demirgüç-Kunt, Levine, R. and Haubrich J. G. (2004). 'Bank concentration and competition: An evolution in the making.' *Journal of Money, Credit and Banking* 36, 433-451.

- Gilbert, R. (1984). 'Bank structure and competition: A survey.' *Journal of Money, Credit and Banking* 16, 617-644.
- Berger, A. N. (1995). 'The profit structure relationship in banking. Tests of market power and efficient structure hypotheses.' *Journal of Money, Credit and Banking* 27, 404-431.
- Berger, A. N. and Humphrey, D. B. (1997). 'Efficiency of financial institutions: International survey and directions for future research.' *European Journal of Operational Research* 98, 175-212.
- Al-Muharrami, S. and Matthews, K. (2009). 'Market power versus efficient-structure in Arab GCC banking.' *Applied Financial Economics* 19(18), 1487-1496.
- Fethi, M. D. and Pasiouras (2010). 'Assessing bank efficiency and performance with operational research and artificial intelligence techniques.' *European Journal of Operational Research* 204, 189-198.

Week 8: "Talk and Text": Analysing Discourses in Accounting Research

Dr Nina Sharma

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Office: R05, Aberconway Building

Studies of organisational discourse have become an important avenue of enquiry. Such research provides a way of understanding the sense-making activities of organisations and how discourses are mobilised within organisations to have social and institutional effects. As the "language of business" (Llewellyn and Milne, 2007), accounting discourse is increasingly the subject of such study. This session will look at the application of textual analysis to accounting contexts to examine how concepts and practices are made sense of, and how meanings are constructed within institutions.

Readings:

- Cooper, D.J. and Ezzamel, M. (2013) "Globalization discourses and performance measurement systems in a multinational firm." *Accounting, Organizations and Society*, 38, pp. 288-313.
- Phillips, N., T. Lawrence, and C. Hardy (2004) "Discourse and institutions." *Academy of Management Review* 29(4), pp. 1-18.
- Llewellyn, S. and Milne, M.J. (2007) "Accounting as Codified Discourse." *Accounting, Auditing and Accountability Journal*, 20(6), pp. 805-824

Week 9: Bank Competition and Relationship Banking

Prof Kent Matthews

Email: MatthewsK@cardiff.ac.uk

Office: D09

The New Industrial Economics approach to competitiveness provides a well-accepted methodology for evaluating the competitiveness of the banking industry in an economy. However, the methodology has been challenged as too static and unable to adapt to the fast moving changes in the banking industry. This lecture will take a critical look at the Rosse-Panzar approach and the method of conjectural variations to evaluate bank competition.

Reading:

- Bikker, J. A. and Haaf, K. (2002). 'Competition, concentration and their relationship: An empirical analysis of the banking industry.' *Journal of Banking & Finance* 26, 2191-2214.
- Claessons, S. and Laeven, L. (2004). 'What drives bank competition? Some international evidence.' *Journal of Money, Credit & Banking* 36, 563-583.

Shaffer, S. (1993). 'A test of competition in Canadian banking.' *Journal of Money, Credit & Banking* 25, 49-61.

Matthews, K., Murinde, V. and Zhao, Y. (2007). 'Competitive conditions among the major British banks.' *Journal of Banking and Finance* 31(7), 2025-2042.

Daley, J. and Matthews, K. (2012). 'Competitive conditions in the Jamaican banking market 1998-2009.' *International Review of Financial Analysis* 25, 131-135.

Week 10: The Economics, Regulation, and Systemic Risk of Insurance Markets

Dr. Felix Irresberger

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Office: R24

This session provides an overview of current theories and methodologies to assess systemic risk in the financial system with a focus on the insurance sector. First, the specific nature of the insurance business and respective balance sheet activities will be discussed. Next, participants will be introduced to general methods of assessing systemic risk in the financial system and current debates on the regulation of financial institutions. Finally, recent research on the role of insurers for financial stability will be explored and discussed in groups.

Literature:

Acharya, V. V., L. H. Pedersen, T. Philippon, And M. Richardson (2016): "Measuring Systemic Risk," *Review of Financial Studies*, Forthcoming.

Adrian, T. And M. K. Brunnermeier (2016): "Covar," *American Economic Review*, 106, 1705–1741.

Koijen, R. And M. Yogo (2016): "Shadow Insurance," *Econometrica*, 4, 1265–1287.

Chwarcz, D. And S. L. Schwarcz (2015): "Regulating Systemic Risk in Insurance," *The University of Chicago Law Review*, 81, 1569–1640

Week 11 Assessment – Student Presentations