THIRTY UNANSWERED QUESTIONS IN CORPORATE FINANCE

Copenhagen Business School June 2010
Randall Morck

Lecturer: Prof. Dr. Randall Morck (Randall.morck@ualberta.ca)
Time and location: 7-11 June, Seminar Room 0.78
Copenhagen Business School Porcelaenshaven 24A Copenhagen, Denmark

ECTS points: This course counts for 4 ECTS points
Prerequisites: Basic preparation in finance, macroeconomics, microeconomics, and econometrics or statistics

Contents: The course covers gaps in our understanding of financial economics, and is partitioned into three blocks of lectures. These are:

1. Finance and Long-run Economic Growth: The proposed role of financial markets and institutions in the long run; finance and creative destruction, finance and political economy, behavioral finance and business cycles, manias and panics, etc.

2. Finance and the Economics of Information. Thinking about costly information; information flow into stock markets, costly arbitrage, herding and information cascades, the information industry, information institutions, etc.

3. Finance and the New Institutional Economics. Firms, corporate executives and investors as information processors, agency problems very broadly interpreted, market failures and government failures in financial history, what pressures shape institutions, how institutions evolve, behavioral finance and institutions, etc.

Each of the three sets of topics will include a review of the stylized facts surrounding key holes in our knowledge of the area, the historical development of thinking about the various holes, empirical and theoretical progress towards filling them, and why the work is not yet complete. After completing the course, students should be better able to identify useful research projects.

Assessment: Class participation and presentation.

Registration: ccg@cbs.dk

Structure and content of lectures: Each lecture comprises six questions, and one reading is indicated as the main for each question. Day 1 we deal with questions 1-6, Day 2 we deal with questions 7-12, and so on.

Readings: This is a list of thirty important and incompletely resolved questions in corporate finance. Other problems may be more important, but these are the ones we will consider. Beneath each question is a main reading, used to highlight the question, plus a list of other works relevant to the question. Other articles or books may be more important, but these are the ones we will consider.

The thirty unanswered questions are:

1. **Why are some countries rich and others poor?**
   Main readings
   - King, Robert G. & Ross Levine, 1993. Finance & Growth: Schumpeter Might Be Right. *Quarterly Journal of Economics* 108:3, 717–737.

   Additional readings
   - Acemoglu, Daron, Simon Johnson & James A. Robinson. 2002. Reversal of Fortune. *Quarterly Journal of Economics* 117(4)1231-1294.
   - Acemoglu, Daron, Simon Johnson & James Robinson. 2001. The Colonial Origins of Comparative Development. *American Economic Review* 91(5)1369-401.
   - Barro, Robert. 1991 Economic Growth in a Cross-Section of Nations. *Quarterly Journal of Economics* 106(2)407-43.
   - Djankov, Simeon, J.G. Montalvo & M. Reynal-Querol. 2008. The curse of aid. *Journal of Economic Growth* 13(3)169-194
   - Easterly, William. 2006. *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. Penguin.
   - Hall, Robert E. and Charles I. Jones. 1999. "Why Do Some Countries Produce so Much More Output per Worker than Others? *Quarterly Journal of Economics* 114(1)83-116.
   - Lucas, Robert E. 1988. On the Mechanics of Economic Development. *Journal of Monetary Economics* 22(1)3-42.
   - Marx, Karl. 1867, 85, 94. *Das Kapital*. (esp. Vol 3, c. 13-15)
   - Sachs Jeff & Andrew Warner. 2001. The curse of natural resources. *European Economic Review* 45 827–838.
   - Schumpeter, Joseph A. 1912. *Theorie der Wirtschaftlichen Entwichlung*, Leipzig, Dunker und Humbolt.
   - Smith, Adam. 1776. *An Inquiry into the causes & Consequences of the Wealth of Nations*.
   - Solow, Robert. 1957. Technical Change & the Aggregate Production Function. *Review of Economics & Statistics* 39 312-20.

2. **What is the social purpose of finance?**
   Main readings
   - Wurgler, Jeffrey. 2000. Financial Markets & the Allocation of Capital, *Journal of Financial Economics* 58 187-214.

Additional readings

- King, Robert & Ross Levine. 1993. Entrepreneurship & growth: Theory & evidence. *Journal of Monetary Economics* 32(3) 513-43.
- King, Robert, Ross Levine & Rodolfo Manuelli. 1994. Capital fundamentalism, economic development & economic growth *Carnegie - Rochester Conference Series on Public Policy* 40 259-30.
- Levine, Ross, 1997. Financial Development & Economic Growth: Views & Agenda. *Journal of Economic Literature* 35, 688-726.
- North, Douglass & Robert Thomas. 1973. *The Rise of the Western World: A New Economic History*. Cambridge University Press.
- North, Douglass. 1981. *Structure & Change in Economic History*. Norton & Co.
- North, Douglass. 1990. *Institutions, Institutional Change & Economic Performance.* Cambridge University Press.
- North, Douglass. 1991. Institutions. *Journal of Economic Perspectives* 5(1) 97-112
- Rajan, Raghuram & Luigi Zingales. 2003. The great reversals: the politics of financial development in the twentieth century. *Journal of Financial Economics* 69(1) 5-50.
- Rosenberg, Nathan & L.E., Jr. Birdzell. 1987. *How the West Grew Rich: The Economic Transformation of the Industrial World*. Basic Books. New York.
- Solow, Robert. 1956. A Contribution to the Theory of Economic Growth. *Quarterly Journal of Economics* 70 65-94.
- Tobin, James. 1982. On the Efficiency of the Financial System. *Lloyd's Banking Review*. July

3. Does geography matter to finance?

Main readings

- Siegel, Jordan. 2005. Can Foreign Firms Bond Themselves Effectively by Renting U.S. Securities Laws? *Journal of Financial Economics* 75, 319

Additional readings

- Beck, Thorsten, Ross Levine & Norman Loayza. 2000. Finance & the Sources of Growth. *Journal of Financial Economics* 58:1-2, pp. 261-300.
- Bekaert, Geert & Campbell R. Harvey. 2000. Foreign Speculators & Emerging Equity Markets. *Journal of Finance* 55(2) 565-613.)
- Bekaert, Geert & Campbell R. Harvey, 2004, Does Financial Liberalization Spur Growth? *Journal of Financial Economics* 77 3-55.
- Caves, Richard E. 1982. *Multinational enterprise & economic analysis*. Cambridge University Press.
- Diamond, Jared. 1997. *Guns, Germs, and Steel*. New York: Norton.
- Glaeser, Edward, H. Kallal, Jose Sheinkman & Andrei Shleifer. 1992. Growth in cities. *Journal of Political Economy* 100 1126–52.
- Henry, Peter Blair. 2000. Do stock market liberalizations cause investment booms? *Journal of Financial Economics* 58(1/2)301
- Henry, Peter Blair. 2000. Stock market liberalization, economic reform & emerging market equity prices. *Journal of Finance* 55(2) 529-62.
- Henry, Peter Blair. 2003. Capital-account liberalization, the cost of capital & economic growth. *American Economic Review* 93(2) 91.
- Jacobs, Jane. 1985. *Cities & the Wealth of Nations*. Vintage Books.

- Krugman, Paul. 1991. Increasing returns & economic geography. *Journal of Political Economy* 99 483–99
- Marshal, Alfred. 1907. *Principles of Economics.* Prometheus Books 1997 edition.
- Harris, David, Randall Morck, Joel Slemrod & Bernard Yeung. 1993. Income Shifting in U.S. Multinational Corporations. In J. Slemrod et al., eds. *International Aspects of Taxation*, University of Chicago Press.
- Morck, Randall & Bernard Yeung. 1991. Why Investors Value Multinationality. *Journal of Business.* 64(2) April 65-87.
- Morck, Randall & Bernard Yeung. 1992. Internalization: An Event Study Test. *Journal of International Economics* 33 41-56.
- Porter, Michael. 1990. *The Competitive Advantage of Nations*. Free Press.
- Reese Jr., W., Weisbach, M., 2002. Protection of minority shareholder interests, cross-listings in the United States & subsequent equity offerings. *Journal of Financial Economics* 66, 65–104.
- Ricardo, David. 1817. *On the Principles of Political Economy & Taxation*. J. Murray, London.
- Romer, Paul M 1986. Increasing Returns & Long-Run Growth. *Journal of Political Economy* 94(5)1002-38.

4. Do politics matter to finance?

Main readings

- Baumol, William J. 1990. Entrepreneurship: Productive, Unproductive & Destructive. *Journal of Political Economy* 98 893-921.

Additional readings

- Buchanan, James. 1965. An Economic Theory of Clubs. *Economica* 32 1-14.
- Faccio, Mara, John McConnell & Ronald Masulis. 2006. Political connections & corporate bailouts. *Journal of Finance* 61(6)2597-2635.
- Glaezer, Edward & Andrei Shleifer. 2003. The Curley Effect: The Economics of Shaping the Electorate. *Journal of Law, Economics & Organization* 21(1)1-19.
- Krueger, Anne. 1974. The Political Economy of the Rent-Seeking Society. *American Economic Review* 64 291-303.
- Lenway, Stephanie, Randall Morck & Bernard Yeung. 1996. Rent Seeking, Innovation & Protectionism & the American Steel Industry: An Empirical Study. *Economic Journal* 106(435) 410-421.
- Murphy, Kevin M., Andrei Shleifer & Robert Vishny. 1991. The Allocation of Talent: Implications for Growth. *Quarterly Journal of Economics*. May. 503-530.
- Murphy, Kevin., Andrei Shleifer & Robert Vishny 1993. Why is Rent-seeking Costly to Growth? *American Economic Review* 82(2)409-414.
- Olson, Mancur. 1965. *The Logic of Collective Action*. Harvard University Press.
- Stigler, George. 1971. The Theory of Economic Regulation. *Bell Journal of Economics & Management Science* 2 Spring 3-21.
- Tiebout, Charles. 1956. A Pure Theory of Local Expenditures. Journal of Political Economy 64 416-24.
- Tullock, Gordon. 1967. The Welfare Costs of tariffs, Monopolies & Theft. *Western Economic Journal* 5 224-32.

5. Why are there bubbles?

Main reading

- MacKay, Charles. 1842. Memoires of Extraordinary Popular Delusions. Richard Bentley, Publisher in Ordinary to Her Majesty. London.

Additional reading

- Andrade, G., M. Mitchell & E. Stafford. 2001. New Evidence & Perspectives on Mergers. *Journal of Economic Perspectives* 15 (1)103–120.
- Balen, Malcolm. 2003. *The Secret History of the South Sea Bubble: The World's First Great Financial Scandal.* Fourth Estate.
- Chopra, Navin, Lee, Charles M C, Shleifer, Andrei, Thaler, Richard 1993. Yes, discounts on closed-end funds are a sentiment index. *Journal of Finance* 48(2) 801-9.
- Garber, Peter. 1989. Tulipmania. *Journal of Political Economy* 97 535-60.
- Golbe, D. L. & L. White. 1993. Catch a wave: The Time Series Behaviour of Mergers. The *Review of Economics & Statistics* 75(3)494-499.
- Gort, M. 1969. An Economic Disturbance Theory of Mergers. Quarterly Journal of Economics 83(4)624-42.
- Jovanovic, Boyan & Peter Rousseau. 2002. The Q-Theory of Mergers. American Economic Review 92(2)198-204.
- Jung, Jeeman & Robert J Shiller. 2005. Samuelson's Dictum & the Stock Market. *Economic Inquiry* 43(2) 221-9.
- Lambrecht, Bart. 2004. The timing & terms of mergers motivated by economies of scale, *Journal of Financial Economics* 72(1)41-62.
- Lee, Charles M. C., Shleifer, Andrei, Thaler, Richard. 1991. Investor Sentiment & the Closed-End Fund Puzzle. *Journal of Finance*/ 46(1) 75-110.
- Moeller, Sara, Frederik Schlingemann & René M. Stulz. 2006. Wealth Destruction on a Massive Scale? A Study of Acquiring-Firm Returns in the Recent Merger Wave. *Journal of Finance*
- Morck, Randall, Andrei Shleifer & Robert Vishny. 19990. The Stock Market & Investment: Is the Market a Side Show? *Brookings Papers on Economic Activity*2(Fall).
- Murphy, Antoin. 1997. *John Law: Economic Theorist & Policy maker*. Oxford University Press.
- Nelson, Richard. 1959. Merger Movements in American Industry 1895-1956. Princeton University Press.
- Rhodes-Kropf, Matthew & S. Viswanathan. 2004. Market Valuation & Merger Waves. *Journal of Finance* 59(6)2685-2718.
- Rhodes-Kropf, Matthew, David T. Robinson,and S. Viswanathan. 2004. Valuation Waves & Merger Activity: The Empirical Evidence. *Journal of Financial Economics*
- Roll, Richard. 1986. The Hubris Hypothesis of Corporate Takeovers. *Journal of Business* 59(2)197-216.
- Shleifer, Andrei & Robert Vishny. 2003. Stock market driven acquisitions. *Journal of Financial Economics* 70 295–311

6. Are corporate takeovers good or bad for an economy?

Main reading

- Morck, Randall, Andrei Shleifer & Robert Vishny. 1990. Do Managerial Objectives Drive Bad Acquisitions? Journal of Finance. March. 45(1) 31-48.

Additional readings

- Bebchuk, Lucien & Allen Ferrell. 1999. Federalism & Corporate Law: The Race to Protect Managers from Takeovers. Columbia Law Review 99
- Bruck, Connie. 1989. The Predators' Ball: The Inside Story of Drexel Burnham & the Rise of the Junk Bond Raiders. Penguin Books.
- Daines, Robert. 2001. Does Delaware Law Improve Firm Values? Journal of Financial Economics 62
- Dong, Ming, David Hirshleifer, Scott Richardson, & Siew hong Teoh. 2006. Does Investor Misvaluation Drive the Takeover Market? Journal of Finance 61(2) 725
- Fischel, Daniel. 1987. Payback - The Conspiracy to Destroy Michael Milken & his Financial Revolution. Harper & Collins.
- Eckbo, B. Espen. 1986. Mergers & the market for corporate control: The Canadian evidence, Canadian Journal of Economics 19 236-260.
- Hartzell, Jay, Eli Ofek & David Yermak. 2004. What's In It for Me? CEOs Whose Firms Are Acquired. Review of Financial Studies 17(1) 37
- Jensen, Michael, 1986. Agency Costs of Free Cash Flows, Corporate Finance & Takeovers. American Economic Review. 76 323-329.
- Karpoff, Jonathan & Paul Malatesta. 1995. State Takeover Legislation & Share Values: The Wealth Effects of Pennsylvania's Act 36. Journal of Corporate Finance, 1(3 4)367 82.
- Morck, Randall, Andrei Shleifer & Robert Vishny. 1988. Characteristics of Targets of Hostile & Friendly Takeovers. In Allan Auerbach, ed. Corporate Takeovers: Causes & Consequences. University of Chicago Press.
- Shleifer, Andrei & Lawrence Summers. 1988. Breach of Trust in Hostile Takeovers. In Allan Auerbach, ed. Corporate Takeovers: Causes & Consequences. University of Chicago Press.

7. What causes markets to crash?

Main reading

- Roll, Richard. 1988. The International Crash of October 1987. Financial Analysts Journal Sept/Oct 19-35

Additional reading

- Akerlof, George. 1970. The Market for ‘Lemons’: Quality Uncertainty & Market Mechanism. Quarterly Journal of Economics 84(3)488-500.
- Andrew, A. Piatt. 1908. Substitutes for Cash in the Panic of 1907. *Quarterly Journal of Economics* 22(2)290-299.
- Fama, Eugene F. & Kenneth R. French. 1993. Common Risk Factors in the Returns on Stock & Bonds. *Journal of Financial Economics* 33 3-56.
- Gali, Jordi & Luca Gambetti. 2008. On the Sources of The Great Moderation. National Bureau of Economic Research working paper 14171.
- Gorton, Gary & Andrew Metrick. 2009. The Run on Repo & the Panic of 2007-2008. Yale working paper.
- Kindleberger, Charles. 2000. Manias, Panics & Crashes, 4th edition. Wiley.
- McGrane, Reginald. 1924. *The Panic of 1837*. University of Chicago Press.
- Minsky, Hymen. 1986. 1986]. *Stabilizing an Unstable Economy*. McGraw-Hill.
- Noyes, Alexander. 1894. Banks & the Panic of 1893. *Political Science Quarterly* 9(1)12-30.
- Reinhart, Carmen & Kenneth Rogoff . 2009. *This Time is Different: Eight Centuries of*

Financial Folly. Princeton University Press.
- Stevens, Alber. 1894. Analysis of the Phenomena of the Panic in the United States in 1893. *Quarterly Journal of Economics* 8(2)117-148.

8. Do firms really use NPVs to allocate capital?

Main readings

- Keynes, John Maynard. 1935. The General Theory of Employment, Interest & Money. Harcourt, Brace & Co. London. Chapter 12.

Additional readings

- Bernardo, Antonio & Ivo Welch. 2001. On the Evolution of Overconfidence & Entrepreneurs. Journal of Economics & Management Strategy 10:3, 301-30.
- Bhattacharya, Sudipto. 1978. Project Valuation with Mean-Reverting Cash Flow Streams. Journal of Finance 33(5) 1317
- Bikhchandaqni, Sahil, David Hirschleifer & Ivo Welch. 1992. A Theory of Fashion, Custom & Cultural Change. Journal of Political Economy 100:5, 992-1026.
- Blanchard, Olivier, Changyong Rhee & Lawrence Summers. The Stock Market, Profit & Investment. The Quarterly Journal of Economics 108 (February 1993), 115–136.
  Econometrica 50 213–224.
- Froot, Kenneth, Scharfstein, David, Stein, Jeremy. 1993. Risk management: Coordinating corporate investment & financing policies. Journal of Finance 48(5) 1629.
- Harris, Milton, Raviv, Artur. 1996. The capital budgeting process: Incentives & information. Journal of Finance 51(4) 1139-75.
- Hayashi, Fumio. 1982. Tobin's Marginal Q & Average Q: A Neoclassical nterpretation.
- Mace, Myles. 1971. Directors: Myth & Reality. Place?: Harvard Business School Press.
- Morck, Randall, Eduardo Schwartz & David Stangeland. 1989. The Valuation of Forestry Resources under Stochastic Prices & Inventories. Journal of Financial & Quantitative Analysis 24(4) Dec.
- Raghuram Rajan, Henri Servaes, Luigi Zingales. 2000. The cost of diversity: The diversification discount & inefficient investment. Journal of Finance 55(1) 35-81.
- Scharfstein, David & Jeremy C Stein. 2000. The dark side of internal capital markets: Divisional rent-seeking & inefficient investment. Journal of Finance. Cambridge: Dec 55(6) 2537-65.
- Tobin James. 1969. A general equilibrium approach to monetary theory. Journal of Money Credit & Banking 1(1) 15-29.

9. Are there bubbles in research?

Main readings

- Summers, Lawrence H. & Robert Stambaugh. 1986. The Does the Stock Market Rationally Reflect Fundamental Values. *Journal of Finance* 41(3) 591-603

Additional readings

- Chan, Su-han., John Martin & John Kensinger. 1990. Corporate Research & Development Expenditures & Share value. *Journal of Financial Economics* 26 255-266.
- Cremers & Mei. 2007. Turning over turnover. *Review of Financial Studies* 20(6) 1749-82
- Friedman, Milton. 1953. The case for flexible exchange rates. *Essays in Positive Economics*. University of Chicago Press.

- Grossman, Sanford. 1976. On the Efficiency of Competitive Stock Markets Where Traders Have Diverse Information. *Journal of Finance* 31(2) 573-585.
- Grossman, Sanford & Joseph Stiglitz. 1980. On the Impossibility of Informationally Efficient Markets. *American Economic Review* 70(3) 393
- Hall, Bronwyn. 1993. Industrial research during the 1980s: Did the Rate of Return fall? *Brookings Papers on Economic Activity* 1993(2) 289-343.
- McConnell, John & Chris J. Muscarella. 1985. Corporate Capital Expenditure Decisions & the Market Value of the Firm. *Journal of Financial Economics* 14(3)399-422.
- Porter, Michael. 1990. *The Competitive Advantage of Nations*. Free Press. New York.
- Surowiecki, James. 2004. *The Wisdom of Crowds: Why the Many Are Smarter Than the Few & How Collective Wisdom Shapes Business, Economies, Societies & Nations.* Little, Brown.

10. How complete is arbitrage?

Main reading

- Kaul, Aditya, Vikas Mehrotra & Randall. Morck. 2000. Demand Curves for Stocks Do Slope Down. Journal of Finance 55 893--912.

Additional reading

- Bagwell, Laurie S., 1991, Shareholder heterogeneity: Evidence & implications, American Economic Review 81 218-221.
- Bagwell, Laurie S., 1992, Dutch auction repurchases: An analysis of shareholder heterogeneity, Journal of Finance 47 71-105.
- Field, Laura & Gordon Hanka. 2001. The expiration of IPO share lock-ups. Journal of Finance 56 (2) 471–500.
- Froot, Kenneth & Emil Dabora. 1999. How are stock prices affected by the location of trade? Journal of Financial Economics 55(2) 189-228.
- Hodrick, Laurie S., 1999. Does stock price elasticity affect corporate financial decisions? Journal of Financial Economics 52 225–56.
- Scholes, Myron, 1972, The market for securities: Substitution versus price pressure & the effects of information on share price. Journal of Business 45, 179-211.
- Shleifer, Andrei. 1986. Do Demand Curves for Stocks Slope Down? Journal of Finance 41(3) 579-91.
- Shleifer, Andrei & Robert Vishny. 1997. The Limits of Arbitrage. *Journal of Finance* 52(1)35-55.

11. How does private information become public?

Main readings

- Kim, Jung-wook, Jason Lee & Randall Morck. 2010. Characteristics of Observed Limit Order Demand & Supply Schedules for Individual Stocks. National Bureau of Economic Research working paper 14733

Additional readings

- Admati, Anat & Paul Pfleiderer. 1990. Direct & indirect sale of information. *Econometrica* 58 910-928.
- Brennan, Michael & Patricia Hughes. 1991. Stock prices & the supply of information. *Journal of Finance* 46 1665-1691.

- Diamond, Douglas & Robert Verrecchia. 1981. Information aggregation in a noisy rational expectations economy. *Journal of Financial Economics* 9 221–235.
- Hameed, Allaudeen, Randall Morck, Jianfeng Shen & Bernard Yeung. 2010. Information, analysts & stock return comovement. National Bureau of Economic Research working paper.
- Kandel, Shmuel, Oded Sarig & Avi Wohl. 1999. The demand for stocks: An analysis of IPO auctions. *Review of Financial Studies* 12 227-247.
- Loderer, Claudio, John Cooney & Leonard van Drunen. 1991. The Price Elasticity of Demand for Common Stock. *Journal of Finance* 46(2) 621-52.
- Roll, Richard. 1988. R2. Journal of Finance 43(2) 541-566.
- Varian, Hal. 1985. Divergence of opinion in complete markets: A note. *Journal of Finance* 40 309-17.
- Varian, Hal. 1989. Differences of opinion in financial markets, in Courtenay C. Stone (ed.), *Financial Risk: Theory, Evidence & Implications*. Kluwer, Boston, 3-37.
- Veldkamp, Laura. 2006. Information markets & the comovement of asset prices. *Review of Economic Studies* 73 823-845.

12. How important are noise traders?

Main readings

- Black, Fischer. 1986. Noise. Journal of Finance 41(3) 529-543.

Additional readings

- De Long, J. Bradford, Andrei Shleifer, Lawrence Summers & Robert J. H. Waldmann, 1990. Noise Trader Risk in Financial Markets. Journal of Political Economy. 98(4) 703-738.
- De Long, Shleifer, Summers & Waldman. 1990. Noise Trader Risk in Financial Markets. Journal of Political Economy 98, 703
- De Long, Shleifer, Summers & Waldman. 1990. Positive Feedback Investment Strategies & Destabilizing Rational Speculation. Journal of Finance 45, 379
- De Long, Shleifer, Summers & Waldman. 1991. The survival of noise traders in financial markets. Journal of Business 64 1–19.
- Drehmann, Mathias, Jörg Oechssler & Andreas Roider. 2002. Herding & Contrarian Behavior in Financial Markets: An Internet Experiment. American Economic Review 95:5, 1403-26.
- Kogan, Leonid, Steve Ross, Jiang Wang, & Mark Westerfield. 2006. The Price Impact & Survival of Irrational Traders. Journal of Finance 61(1) 195-229.
- Sandroni, Alvaro, 2000, Do markets favor agents able to make accurate predictions? Econometrica 68 1303–41.
- Samuelson, Paul. 1998. Summing upon Business Cycles: Opening Address. In Jeffrey Fuhrer & Scott Schuh, eds. Beyond Shocks: What Causes Business Cycles. Federal Reserve Bank of Boston.
- Shiller, Robert. 2000. Irrational Exuberance. Princeton University Press.
- Shleifer & Lawrence. . 1990. The Noise Trader Approach to Finance. Journal of Economic Perspectives 4, 19
- Shleifer, Andrei & Lawrence Summers. 1990. The Noise Trader Approach to Finance. Journal of Economic Perspectives, Spring.
- Shleifer, Andrei. 2000. Inefficient Markets: An Introduction to Behavioral Finance (Clarendon Lectures in Economics) Oxford University Press.

13. What moves stock prices?

Main reading

- Morck, Randall, Bernard Yeung & Wayne Yu. 2000. The Information Content of Stock Markets. *Journal of Financial Economics* 58 215-238.

Additional readings

- Campbell, John, Martin Lettau, Burton G Malkiel & Yexiao Xu. 2001. Have individual stocks become more volatile? An empirical exploration of idiosyncratic risk. Journal of Finance 56(1) 1-43.
- Durnev, Artyom, Randall Morck & Bernard Yeung. 2004. Value Enhancing Capital Budgeting & Firm-Specific Stock Returns Variation. Journal of Finance 59(1)
- Durnev, Artyom, Randall Morck, Bernard Yeung & Paul Zarowin. 2003. Does Greater Firm-specific Return Variation Mean More or Less Informed Stock Pricing? Journal of Accounting Research 41(5) 797.
- Durnev, Artyom, Merritt Fox, Randall Morck & Bernard Yeung. 2003. Law, Share Price Accuracy & Economic Performance. Michigan Law Review, (Dec) Vol. 102:3.
- Ferriera, Miguel & Nuno Fernandes. 2005. Does International Cross-listing Really Improves the Information Environment. ISCTE working paper, Escola de Gestão, Lisbon.
- Ferriera, Miguel & Nuno Fernandes. 2005. Insider Trading Laws & Stock Price Informativeness. ISCTE working paper, Escola de Gestão, Lisbon.
- Goetzmann, William N., Ning Zhu & Arturo Bris. 2003. Efficiency & the Bear: Short Sales & Markets around the World. National Bureau of Economic Research working paper 9466.
- Huang, Rocco. 2008. Tolerance for uncertainty & the growth of informationally opaque industries*. Journal of Development Economics* 87(2) 333
- Jin, Li & Stewart C. Myers. 2006. R2 around the World: New Theory & New Tests*. Journal of Financial. Economics* 79(2) 257–292
- Li, Kan, Randall Morck, Fan Yang & Bernard Yeung, 2004, Firm-Specific Variation & Openness in Emerging Markets. *Review of Economics & Statistics* 86(3) 658-69.
- Ozoguz, Arzu. 2003. Heterogeneous information, return synchronicity & equilibrium asset pricing. PhD dissertation, INSEAD, Paris.

14. Does stock price variation reflect the real economy?

Main reading

- Chun, Hyunbae, Jung-Wook Kim, Randall Morck & Bernard Yeung. 2008. Creative Destruction & Firm-Specific Performance Heterogeneity. Journal of Financial Economics, forthcoming.

Additional readings

- Bhatacharya, Utpal, Hazem Daouk, Brian Jorgenson & Carl-Heinrich Kehr. 2000. When an event is not an event: the curious case of an emerging market*. Journal of Financial Economics* 55(1)69-101.
- Fama, E.F., French, K.R., 2004. New lists: Fundamentals & survival rates. *Journal of Financial Economics* 72, 229-269.
- Ferriera, Miguel & Paul Laux, 2006. Corporate Governance, Idiosyncratic Risk & Information Flow. *Journal of Finance* 62(2)951-989.

- Fink, Jason, Grullon, Gustavo, Fink, Kristin & Weston, James Peter, IPO Vintage & the Rise of Idiosyncratic Risk. 2006. IPO vintage & the rise of idiosyncratic risk. 7th Annual Texas Finance Festival Paper.
- Gentzkow, Matthew, Edward L. Glaeser & Claudia Goldin. 2004. The Rise of the Fourth Estate: How Newspapers Became Informative & Why It Mattered. National Bureau of Economic Research Working Paper No. 10791.
- Khanna, Tarun & Catherine Thomas. 2009. Synchronicity & Firm Interlocks in an Emerging Market. *Journal of Financial Economics*, forthcoming.
- MacKinlay, Craig. 1997. Event Studies in Economics & Finance. *Journal of Economic Literature* 35(1).
- Wei, S.X. & Chi Zhang. 2006. Why did individual stocks become more volatile? *Journal of Business* 79 259-292.
- Xu, Y. & Burton Malkiel. 2003. Investigating the behavior of idiosyncratic volatility. *Journal of Business* 76 613-644.

15. How much stability is best for an economy?

Main reading

- Fogel, Kathy, Randall Morck & Bernard Yeung. 2007. Big business stability & economic growth: Is what's good for General Motors good for America? *Journal of Financial Economics* 89(1) 83-108.

Additional readings

- Altman, Ed. 1968. Financial ratios, discriminant analysis & the prediction of corporate bankruptcy. *Journal of Finance* 23 589–609.
- Barlevy, G. 2002. The Sullying Effect of Recessions. *Review of Economic Studies* 69 41-64.
- Bebchuk, Lucian. 2000. Using Options to Divide Value in Corporate Bankruptcy. *European Economic Review* 44 829-843.
- Caballero, R. J. & M. L. Hammour. 1994. The Cleansing Effect of Recessions. *American Economic Review* 84 1350-1368.
- Cox, D. R. & Oakes, D. 1984. *Analysis of Survival Data*. Chapman & Hall
- Dichev, I. 1998. Is the risk of bankruptcy a systematic risk? *Journal of Finance* 53 1131-48.
- Dichev, Ilia. 1998. • Is the Risk of Bankruptcy a Systematic Risk? *Journal of Finance* 53(3)1131-1147.
- Djankov, Simeon, Oliver Hart, C. McLiesh & Andrei Shleifer. 2008.Debt Enforcement Around the World. *Journal of Political Economy*
- Easterbrook, Frank. 1990. Is corporate bankruptcy efficient? *Journal of Financial Economics* 27(2)411-417.
- Sandage, Scott. 2006. *Born Losers: A History of Failure in America.* Harvard University Press.
- Shumway, Tyler. 2001. Forecasting Bankruptcy More Accurately: A Simple Hazard Model. *Journal of Business* 74(1)101.
- White, Michelle. 1989. The Corporate Bankruptcy Decision. *Journal of Economic Perspectives* 3(2)129-151
- Zingales, Luigi. 1998. Survival of the Fittest or the Fattest? Exit & Financing in the Trucking Industry. *Journal of Finance* 53(3)905.

16. Does it matter who controls businesses?

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