IFB Seminar Summer Term 2014

„Endogeneity in Empirical Corporate Finance"

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Course Description & Main Objectives

The seminar covers topics in empirical corporate finance. All allocated topics will cover a specific issue concerned with endogeneity in applied corporate finance research. Participating students should be equipped with a solid background of applied econometrics and corporate finance theory.

Topics will be based on the basic readings:


General Information

Application

- Registration is open now until February 15, 2014. Students will be informed at latest on March 01, 2014 if they can participate in the seminar. Students have to bindingly confirm their seminar place by March 05, 2014. The link for application is available from our homepage.

Participants

- All students must have passed „Basiskurs Finance“ and/or „Commercial Banking“ in order to be eligible for this seminar.
Allocation of topics

- The topics will be allocated at the kick-off meeting. Each topic will be briefly presented at this meeting. Depending on the number of participants we will assign 4 topics. Students will work on a chosen topic in groups of 2-3 persons. In case of a large number of participants topics will be assigned twice. The number of participants is limited to 20-24 students.

Language

- English.

Schedule

- The kick-off meeting will be on May 05, 2014 at 12 p.m. (Room t.b.a.).
- Student papers shall be submitted until June 06, 2014 (noon).
- The seminar will take place in Munich on June 24 and 25, 2014. Detailed schedule and room t.b.a.

Credits

- 6 ECTS

Exam

- Students have to write an essay and present their results in front of other students. Furthermore, each group has to discuss another student paper (Co-Referat).
- The course language is English. Hence, all students have to write their seminar paper in English and have to present in English.
- The final grade is determined by the grade of the essay and by the grade of the presentation and class participation.
- A successful participation in the seminar will be credited with 6 ECTS.

Qualification

- Participating successfully in this seminar grants eligibility for writing a bachelor or diploma thesis at the Institute for Finance & Banking.
Seminar Topics

1. **Omitted Variables Bias**

   Especially in finance, omitted variables bias can occur due to information asymmetries and heterogeneities at the market. Omitted variables are those variables that are not included in the regression analysis despite their impact on the dependent variable. This may arise from difficulties in quantifying or observing determinants of a dependent variable. A correlation of the omitted variable with any of the included explanatory variables will lead to inconsistent estimates.

   Wooldridge (2002, chap. 4.3)
   Roberts and Whited (2011, chap. 2.1.1+7)

2. **Simultaneity**

   Simultaneity bias is frequently encountered in corporate finance, especially in market or stock value issues. Simultaneity arises when at least one of the explanatory variables simultaneously depends on the endogenous variable. The independent variable has an effect on the dependent variable and vice versa.

   Wooldridge (2002, chap. 9)
   Roberts and Whited (2011, chap. 2.1.2)

3. **Measurement error in the dependent variable**

   Especially empirical studies dealing with financial valuations are prone to measurement errors in the dependent variable. Measurement errors in the dependent variable include imperfectly measured variables due to incorrect data recordings or conceptual differences. These measurement errors only have an impact on OLS estimates, if it is correlated with one of the other explanatory variables.

   Wooldridge (2002, chap. 4.4)
   Roberts and Whited (2011, chap. 2.1.3+8)
4. Measurement error in the independent variable

In corporate finance researchers often face measurement errors in an independent variable in investment topics (e.g. when measuring Tobin’s q). The measurement error includes mismeasurements of the exogenous variable due to inherently unobservable variables. The estimated coefficients from OLS can be inconsistent if the error term includes the measurement error that is correlated with the explanatory variable. Thus, the measurement error in the independent variable is a special variation of an omitted variable since the error term is partly omitted from the regression model.

Wooldridge (2002, chap. 4.4)
Roberts and Whited (2011, chap. 2.1.3+8)