



北京大學  
汇丰商学院

Peking University HSBC Business School

EE&FE

# An Industrial Organization Approach to Finance 4th Module, 2017

## Course Information

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### **1.1. Instructor: David Ong**

Office: PHBS Building, Room 708

Phone: 86-755-2603- 2655

Email: dvdong@gmail.com

Office Hour: Mon-Thursday 4:00pm-5:00pm and by appointment.

### **1.2. Teaching Assistant:**

Phone: TBA

Email: TBA

### **1.3. Classes:**

Lectures: Mon & Thur 13:30-15:20

Venue: PHBS Building, rm 231

## 2. Course Description

### **1.1. Course overview:**

Financial institutions in emerging markets are generally far from meeting the assumptions of most standard models in finance. In emerging markets, institutions are underdeveloped, participants are strategic and information is scarce. As a consequence, participants trade on insider information and try to learn from and manipulate each other. Government tends to dominate these markets. Political connections are crucial for financing through formal channels like banks. Family and friend networks are often necessary for small firms and individuals who cannot get financing through formal channels which tend to favor SOEs. A growing body of financial research has begun to take these factors into account. This course will explore that new literature and seek out applications in emerging markets, in particular, China.

This will be a research orientated course. The goal will be a preliminary research project. I will lecture for the first third of the course to motivate topics for the presentations. Students will

make two presentations for the second two thirds of the course. While I lecture on these topics, the student's role is to find an issue of particular interest. The student may choose any area of finance not covered in a traditional finance course and related to emerging markets. The student is required to make two presentations. For the 1<sup>st</sup> literature review presentation, the student, with my guidance, should find a paper(s) which is (are) closest to their interest which they will present in a ½ hr presentation. I will offer you a menu of papers, help you find an interesting topic, related literature and structure the proposal. They will then adapt the methodology of the paper to address an issue of particular interest to the student for the 2<sup>nd</sup> ½ hr research proposal presentation.

Students often gather data and do preliminary analysis for the extension presentation. However, the analysis of actual data is not necessary, though it certainly does improve the presentation, if it empirical.

The lectures will be based on Wong and Piotroski (2010) "Institutions and Information Environment of Chinese Listed Firms" which describes the effects on market performance of the two features which define the Chinese financial market: implicit bureaucratic control and scarcity of reliable information. Once the Chinese context is established, I will discuss Putnigš (2010) "Market Manipulation: a Survey," which goes into specific strategies of market manipulation found in empirical studies. This will be followed by Hu & Noe (1997) "The Insider Trading Debate" which surveys the literature on insider trading. I will also discuss my field experiment on detecting and punishing insider trading using market forces without government intervention.

### **1.2. Prerequisites:**

The course has no formal prerequisites.

### **1.3. 1.2 Textbooks and Reading Materials**

The course will be based on my lecture notes which I will distribute before class.

## **3. Learning Outcomes, Assessment/Grading Details**

Research is risky, and the quality of an idea can be hard to judge at the beginning. Furthermore, it's hard to come up with something interesting if it's not fun. Thus, to encourage you to choose a fun topic and to hedge you against risk, a lot of your grade will depend on things that require only diligence, e.g., attendance and class participation.

About 80% of the course grade will be based on two presentations: 5% for the topic, 35% for the literature review and 40% for a research proposal. The literature review will be judged on your ability to present one or two papers and to answer related questions from me and the rest of the class. The research proposal will be judged on the originality, feasibility (i.e., low cost), availability of the data, and interestingness of the research idea. Both must be submitted to me

the day before your presentation. They will then be distributed to the class. The presentation of the literature review is a chance for you to check and complete your understanding. The presentation of your ideas is a chance to get feedback.

Since this is a research orientated course, and the beginning of research is questioning and independent thinking, your participation in questioning is important for your learning. To encourage you to speak up, I will record your questions and comments in class. Students will then be ranked based on this record and be allotted the 5% accordingly. A further 15% of the grade is based on a quiz to check for basic understanding of the material, which requires minimal preparation to do well, given steady participation. Thus, the total percentage of credit for the course is as follows:

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|--------------------------------------|-----|
| • Class attendance and participation | 5%  |
| • Midterm Quiz                       | 15% |
| • Presentation 1                     | 40% |
| • Presentation 2                     | 40% |

Actual implementation of the research design in Presentation 2 to a pilot study using actually data, though not required, is eligible for a 10% bonus points. I have funding for promising designs.

## 4. Topics of lectures

Section 1: China's information environment

Section 2: Institutions and China's information environment

Institutions influencing the supply and demand for information in China

Recent research on the supply of and demand for information in China

Politics and suppression of bad news

Bureaucratic control and financial markets

Conservativeness of state control

Bad news and political events

2.2.2 Penalties for accounting scandals and relationship-based contracting

Accounting scandals and reputations

Accounting scandal and share price

Corruption scandal and share price

2.2.3 Earnings management and related party transactions

Partial listing

Related party transactions

Valuing partially listed firms

2.3.4 Weak demand for external auditing

Market share of top 10 auditors

Collusion with auditors

Section 3: Other dimensions of corporate transparency in China

Role of institutional investors

Financial analysts

Media and other information dissemination mechanisms

Section 4. Potential benefits to China from an improvement in corporate transparency

Section 5. Market manipulation

## **5. Rules for Course**

Lecture notes will be provided, so laptops must be closed and cell phones turned off. Past experience suggests that if a student misses classes, the quality of their class participation will be poor, and their presentations will be a waste of time for everyone. Therefore, attendance is mandatory, with exceptions for student's documented medical emergency and job interviews. There will be plenty of office hours. However, students are required to send me an email of their notes so we have a permanent record.