PADP 8870 SEMINAR IN DEBT MANAGEMENT

Thursdays @ 15:30-18:15, FALL 2017

Department of Public Administration & Policy

School of Public & International Affairs

The University of Georgia

Instructor: Tima T. Moldogaziev, Ph.D. Office Hours: Wed 09:30-11:00; or

Office #: Baldwin Hall 280B by appointment.

Course Materials: Posted on eLC Classroom: Journalism 507

E-mail: [timatm@uga.edu](mailto:timatm@uga.edu) Course #: 34738

Course Description & Objectives:

SHORT DESCRIPTION: Access to capital markets for state and local governments to finance infrastructure projects and cash flow needs, with special emphasis on major economic and financial theories related to financial intermediation and market regulation. Cost of capital and efficiency effects due to institutions (legal, fiscal, and political), debt management networks/intermediaries and practices, debt structure, primary/secondary market processes, and financial engineering.

OBJECTIVES: The seminar is designed for advanced graduate students interested in studying the issues and theories in managing access to capital for sub-national governments. The objective of the course goes beyond a simple introduction to the municipal market structure, participants, institutions, and regulatory architecture. Special attention is given to the theories of financial economics and markets, capital asset management and pricing, and cash flow management in the state and local governments.

Students are introduced to the seminal theoretical studies in debt management and policy. Moreover, the students are exposed to empirical literature on fiscal and non-fiscal institutions, economic and political factors, debt structure and valuation, debt networks and financial intermediaries, and regulatory environments. In addition, background readings for each topic will be provided for students who are unfamiliar with introductory material in capital markets or municipal securities. Every student is expected to finish all readings as preparation for the class; and each is required to participate in the discussion and critique of the reading material.

In addition to reading theoretical and empirical studies from the literature, students develop technical skills to evaluate different instruments that are frequently used for financial product development and engineering in sub-national capital markets. The research paper assigned to the class requires the use of theories relevant to debt management and policy, review of relevant literature on a pertinent public policy problem, and descriptive or inferential evaluation of that problem using relevant data sources.

**Required Reading Materials, Skills, & Tools:**

1. Textbooks:

**SIFMA (Neil O’Hara).** (2011). *The Fundamentals of Municipal Bonds*. Wiley: Hoboken, NJ. ISBN-13: 9780470903384 / ISBN-10: 0470903384. (5th edition by Judy Temel will also work.)

**Johnson, Craig L., Martin J. Luby, and Tima T. Moldogaziev.** (2014*). State and Local Financial Instruments: Policy Changes and Management.* Cheltenham, UK: Edward Elgar Publishing. ISBN: 9781783476169/eISBN (e-book): 9781783476176.

1. Extra articles and book chapters ALL available on eLC in ***Readings*** directory (you should also be able to find the assigned journal articles through UGA’s electronic library access system).
2. Access to a computer station that has a range of necessary work applications (Word, Excel, Powerpoint, etc.). **Expertise with EXCEL is expected. Major home assignments will require the use of Excel.**
3. Access to a basic data analysis application (e.g., Stata, SPSS, R or others) and familiarity with descriptive and quantitative approaches (e.g., univariate statistics, multiple regression methods, and hypothesis testing) is expected. It is **highly encouraged** that students enroll in this seminar after Data Applications in Public Administration (PADP 7120).
4. It is also **highly encouraged** that students enroll in this seminar after Public Financial Administration (PADP 6930). Those with public sector debt finance or economics experiences, economics, finance, or accounting majors can enroll without PADP 6930—please speak to the course instructor if you are unsure about your level of preparedness.
5. PhD students: please see the course instructor for additional and/or alternative assignments & arrangements.

Grading Scale:

A 93-100 B- 80-82 D+ 67-69

A- 90-92 C+ 77-79 D 63-66

B+ 87-89 C 73-76 D- 60-62

B 83-86 C- 70-72 F < 60

**Final Grading Components:**

**Assignment/Task Percent of Final Grade Total**

Assignment 1 15%

Assignment 2 15

Assignment 3 15

(15% x 3) **45%**

Final Research Paper 25

Research Paper Presentation 10

(25% + 10%) **35**

Article Critiques & Discussions 20 (5% x 4) **20**

**GRAND TOTAL 100%**

Assignments (45%):

There are three assignments dealing with risk analysis, structure & pricing, and a review of the debt issuance process– all from the perspective of subnational governments (a.k.a. obligors or issuers). The first assignment groups students in teams of two to engage in data collection on risk “fundamentals” for a single obligor/issuer (city, county, or state) and provide an assessment of credit quality/financial capacity. The second assignment is an individual homework that requires students to complete a technical assessment for a fixed-income security, yield curve analysis, debt structuring, risk-exposure analysis, and issue pricing by discounting cash flows from serial components and other relevant fees and charges. Finally, the third assignment is an individual homework that requires students to assess a debt issuance network (detailing intermediaries and secondary market dynamics, in lieu of relevant regulatory rules & institutions) for a single debt issue.

Final Research Paper (35%):

There is a final research project in this course, which consists of two parts. The actual research component: complete with developing a theoretical framework relevant for one’s research question(s), completing a literature review and conducting hypothesis tests, writing sections on descriptive and inferential data analyses, and reporting of empirical findings and their policy/practical implications. The presentation component: all research papers are to be presented during the last class of the semester.

**Article Critiques & Discussions (20%):**

Each student is responsible for four individual reports on journal articles for select topics throughout the semester. These need to be completed by Tuesdays @ 5pm of each week and sent out to all students in the class. The authors of these reports then discuss their articles in the classroom for about 10-15 minutes and pose 2-3 questions to all students in the class. Of course, all other students are expected to participate in these discussions with their own reflections and critiques of journal articles. Needless to remind you that, in a graduate seminar such as this, students are expected to have completed the readings before class regardless of whether they were assigned to lead a discussion or not.

**Attendance & Participation:**

It is expected that students attend classes. Work in graduate seminars is based on student attendance and participation. It is our common ‘job’ to make sure that all of us are doing our part to teach ourselves and our peers the course materials assigned in the seminar. We must all participate, and we must do so in an ethical and respectful manner toward each other.

**Note 1:** I do understand that we all have the days when we are late. Should you be late, don’t be upset, you are very welcome to join the class. However, **chronic lateness** will be considered as negative participation and will be graded correspondingly (after a short while, it becomes obvious who is chronically late).

**Note 2:** Leaving class early (without a serious reason or prior notice; i.e. before class) is very disrespectful. If you leave in the middle of the class without any substantive justification, your action will be considered as disruptive participation.

Note 3: To reiterate, please participate in class discussions by using the widely expected and accepted norms of civility. Please adhere to the norms of university student conduct. If you are not sure what these are, please study the link: Office of Academic Integrity: <http://www.uga.edu/honesty/ahpd/culture_honesty.htm>.

A student that accumulates three instances of disruptive participation will see a 10% deduction from his/her final course grade.

**Academic Honesty:**

The University of Georgia requires all members of the University community to be responsible for knowing and understanding the policy on academic honesty. In addition, every student must agree to abide by the University of Georgia’s academic honesty policy and procedures when applying for admission to the University of Georgia.

The University of Georgia defines academic honesty as “performing all academic work without plagiarism, cheating, lying, tampering, stealing, giving or receiving unauthorized assistance from any other person, or using any source of information that is not common knowledge without properly acknowledging the source.” Academic dishonesty is defined as “performing, attempting to perform, or assisting any other person in performing any academic work that does not meet this standard of academic honesty.”

According to the policy’s prohibited conduct, “No student shall perform, attempt to perform, or assist another in performing any act of dishonesty on academic work to be submitted for academic credit or advancement. A student does not have to intend to violate the honesty policy to be found in violation. For example, plagiarism, intended or unintended, is a violation of this policy.” The policy also states that, “Any behavior that constitutes academic dishonesty is prohibited.”

ANY INSTANCE OF ACADEMIC DISHONESTY WILL NECESSARILY RESULT IN A **GRADE OF F FOR THIS COURSE**. In addition, the instructor reserves the right to pursue further academic disciplinary action through all channels available in the department, school, and the university. It is your responsibility to adhere to the University of Georgia’s policies concerning academic honesty.

**Students with Disabilities:**

Students with a disability that requires special accommodations should contact the Disability Resource Center to discuss their needs and obtain appropriate paperwork. I cannot make special accommodations for students with disabilities unless students have completed the appropriate paperwork to register with the Disability Resource Center.

**eLC:**

This syllabus, relevant reading materials, and homework materials will be posted on eLC. More on this will be discussed in the classroom throughout the semester.

**Other…**

It is the student’s responsibility to keep all copies of graded/returned assignments for this course. This will protect all the parties involved should any misunderstandings arise.

“Cell phones, pagers, walky-talkies, or any other similar electronic devices” must be switched off during the class time. No texting will be tolerated either. Should the student need to keep such a device switched on for any important reason, the course instructor should be consulted before the start of the class. The course instructor reserves the right to define what an “important reason” constitutes. Finally, laptops and computers can be used, but they should be used for the purposes that are directly related to students’ tasks and performance in the class. At a minimum, the use of technology should not disrupt the learning process in the classroom.

Class schedule: Aug 14th through December 13th, 2017

(this class schedule is subject to adjustments; any changes will be announced in advance and/or posted on eLC.)

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| WEEKS (DATES) | THEMES/READINGS/EXTRA MATERIALS  \*!\* Finish ALL readings PRIOR to class. | ASSIGNMENTS OUT/DUE |
| Week 1 (Aug 17) | Course Introduction  Syllabus & Textbooks: JLM (2014) Chapter 1; SIFMA (2011) Chapter 1. |  |
| Week 2 (Aug 24) | The Subnational/Municipal Debt Market  Textbooks: JLM (2014) Chapter 1; SIFMA (2011) Chapters 1 & 3.  Buchanan, James. 1967. “The Institution of Public Debt.” Chapter 17 in *Public Finance in Democratic Process: Fiscal Institutions and Individual Choice*. Indianapolis, IN: Liberty Fund, Inc.  Bifulco, Robert, Beverly Bunch, William Duncombe, Mark Robbins and William Simonsen. 2012. “Debt and Deception: How States Avoid Making Hard Fiscal Decisions.” *Public Administration Review* 72(5): 659-667.  Hildreth, W. Bartley and C. Kurt Zorn. 2005. “The Evolution of the State and Local Government Municipal Debt Market over the Past Quarter Century.” *Public Budgeting and Finance* 25(4S): 127-153.  U.S. Securities and Exchange Commission. 2012. (July 31). “Report on the Municipal Securities Market.” <http://www.sec.gov/news/studies/2012/munireport073112.pdf>. | \*\*HW #1 Assigned\*\* |
| Week 3 (Aug 31) | **Issuers & Financial Risk Fundamentals**  Textbooks: JLM (2014) Chapter 3; SIFMA (2011) Chapter 3.  Hildreth, W. Bartley. 1993. “State and Local Governments as Borrowers.” *Public Administration Review* 53(1): 41-49.  Feldstein, Sylvan G. and Terry J. Goode. 2008. “How to Analyze General Obligation Bonds.” Chapter 48 in Sylvan G. Feldstein et al. eds., *The Handbook of Municipal Bonds*. Hoboken, NJ: Wiley.  Prunty, Robin. 2013. “The State Credit Rating Process: How Healthy Are State Public Finance Systems?” Lexington, KY: The Council of State Governments, The Book of the States.  Moody’s. 2013. (April 17). “Rating Methodology: US States Rating Methodology.” New York, NY: Moody’s Investor Service.  Ederington, Louis H., Jess B. Yawitz and Brian E. Roberts. 1987. “The Informational Content of Bond Ratings.” *The Journal of Financial Research* 10(3): 211-226.  Palumbo, George and Mark Zaporowski. 2012. “Determinants of Municipal Bond Ratings for General-Purpose Governments: An Empirical Analysis.” *Public Budgeting and Finance* 32(2): 86-102.  Moldogaziev, Tima and Tatyana Guzman. 2015. “Economic Crises, Economic Structure, and State Credit Quality Through-the-Cycle.” *Public Budgeting and Finance* 35(4): 42-67. |  |
| Week 4 (Sep 7) | Federalism, Intergovernmentalism, & Public Debt  Textbooks: JLM (2014) Chapters 2 & 4; SIFMA (2011) Chapter 9.  Luby, Martin J. 2012. “Federal Intervention in the Municipal Bond Market: The Effectiveness of the Build America Bond Program and Its Implications on Federal and Subnational Budgeting.” *Public Budgeting and Finance* 32(4): 46-70.  Fortune, Peter. 1998. “Tax-Exempt Bonds Really Do Subsidize Municipal Capital!” *National Tax Journal* 51(1): 43-54.  Clark, Wes and Robert Bland. 2003. “State Income Tax and Local Government Borrowing Cost Revisited.” *Municipal Finance Journal* 24(2): 1-15.  Benson, Earl D. and Barry R. Marks. 2005. “”Robin Hood” and Texas School District Borrowing Costs.” *Public Budgeting and Finance* 25(2): 84-105.  Moldogaziev, Tima, Sharon N. Kioko and W. Bartley Hildreth. 2014. “Bankruptcy Risk Premium in the Municipal Securities Market.” *Municipal Finance Conference.* Boston, MA. |  |
| Week 5 (Sep14) | **Theories of Debt Finance I**  Textbooks: JLM (2014) Chapter 5.  Akerlof, George A. 1970. “The Market for ‘Lemons’: Qualitative Uncertainty and the Market Mechanism.” *Quarterly Journal of Economics* 84(3): 488-500.  Rothschild, Michael and Joseph Stiglitz. 1976. “Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information.” *Quarterly Journal of Economics* 90(4): 629-649.  Stiglitz, Joseph E. and Andrew Weiss. 1981. “Credit Rationing in Markets with Imperfect Information.” *American Economic Review* 71(3): 393-410.  Stiglitz, Joseph E. 1985. “Credit Markets and the Control of Capital.” *Journal of Money, Credit and Banking* 17(2): 133-152.  Stiglitz, Joseph E. 1985. “Information and Economic Analysis: A Perspective.” *The Economic Journal* 95(1): 21-41.  Peng, Jun and Peter F. Brucato. Jr. 2004. “An Empirical Analysis of Market and Institutional Mechanisms for Alleviating Information Asymmetry in the Municipal Bond Market.” *Journal of Economics and Finance* 28(2): 226-238. |  |
| Week 6 (Sep 21) | **Theories of Debt Finance II**  Textbooks: JLM (2014) Chapter 5.  Leland, Hayne E. and David H. Pyle. 1977. “Informational Asymmetries, Financial Structure, and Financial Intermediation.” *The Journal of Finance* 32(2): 371-387.  Millon, Marcia H. and Anjan V. Thakor. 1985. “Moral Hazard and Information Sharing: A Model of Financial Information Gathering Agencies.” *The Journal of Finance* 40(5): 1403-1422.  Allen, Franklin. 1990. “The Market for Information and the Origin of Financial Intermediation.” *Journal of Financial Intermediation.* 1(1): 3-30.  Rajan, Raghuram G. and Luigi Zingales. 1998. “Which Capitalism? Lessons from the East Asian Crisis.” *Journal of Applied Corporate Finance* 11(3): 40-48.  Martell, Christine and George Guess. 2006. “Development of Local Government Debt Financing Markets: Application of a Market-Based Framework.” *Public Budgeting and Finance* 26(1): 88-119.  Robbins, Mark D. and Daehwan Kim. 2003. “Do State Bond Banks Have Cost Advantages for Municipal Bond Issuance?” *Public Budgeting and Finance* 23(1): 92-108.  Easley, David and Maureen O’Hara. 2004. “Information and the Cost of Capital.” *The Journal of Finance* 59(4): 1553-1583. | \*\*Final Paper Assigned\*\*  \*\*HW #1 DUE\*\*  \*\*HW #2 Assigned\*\* |
| Week 7 (Sep 28) | **OUT OF CLASS ASSIGNMENT #1**  Contemporary public debt issues: survey peer-reviewed journals (e.g., *PAR, PB&F, JPBAFM, ARPA, PA, etc.*) for empirical articles regarding current issues in public debt. Write a 1-2 page review. More details TBA. | \*\*Current issue empirical article review\*\* |
| Week 8 (Oct 5) | **Mathematics of Bond Pricing & Risk Management I**  Textbooks: JLM (2014) Appendices A & B, Chapter 7; SIFMA (2011) Chapters 2, 6 & 8.  Lawrence, Edward R., and Siddharth Shankar. 2007. “A Simple and Student Friendly Approach to the Mathematics of Bond Prices.” *Quarterly Journal of Business and Economics* 46(4): 91-99.  Brainstorm about a final research project; write a (1-2 page) research proposal, complete with a theoretical framework and potential hypothesis tests (identify outcome and explanatory variables). More details TBA. | \*\*Final Paper Proposals Due: Discussions & Feedback\*\*  \*\*Current issue empirical article review: discussions\*\* |
| Week 9 (Oct 12) | **Mathematics of Bond Pricing & Risk Management II**  Textbooks: JLM (2014) Appendices A & B, Chapter 7; SIFMA (2011) Chapters 2, 6 & 8.  Fabozzi “Price Volatility.” Chapters 9, 11, and 12. |  |
| Week 10 (Oct 19) | **Debt Structure, Enhancements, & Refunding**  Textbooks: JLM (2014) Chapters 7, 10, and 12.  Robbins, Mark D., Bill Simonsen and Bernard Jump. Jr. 2000. “Maturity Structure and Borrowing Costs: The Implications of Level Debt Service.” *Municipal Finance Journal* 21(3): 40-64.  Perez, Javier J. and Rocio Prieto. 2015. “Risk Factors and the Maturity of Subnational Debt: An Empirical Investigation for the Case of Spain.” *Public Finance Review* 43(6): 786-815.  Guzman, Tatyana and Temirlan Moldogaziev. 2012. “Which Bonds Are More Expensive? The Cost Differentials by Debt Issue Purpose and the Method of Sale: An Empirical Analysis.” *Public Budgeting and Finance* 32(3): 79-101.  Kidwell, David, Eric H. Sorensen, and John M. Wachowicz. 1987. “Estimating the Signaling Benefits of Debt Insurance: The Case of Municipal Bonds.” *Journal of Financial and Quantitative Analysis* 22(3): 299-313.  Drake, Pamela P. and Faith R. Neale. 2011. “Financial Guarantee Insurance and the Failures in Risk Management.” *Journal of Insurance Regulation* 30(2): 29-76.  Ely, Todd. L. (2012). “No Guaranties: The Decline of Municipal Bond Insurance.” *Public Budgeting and Finance* 32(1): 105-127.  Liu, Gao. 2012. “Municipal Bond Insurance Premium, Credit Rating, and Underlying Credit Risk.” *Public Budgeting and Finance* 32(1): 128-156.  Luby, Martin J. 2014. “Not All Refinancing’s Are Created Equal: A Framework for Assessing State and Local Government Debt Refinancing Measures.” *State and Local Government Review* 46(1): 52-62.  Moldogaziev, Tima and Marty Luby. 2012. “State and Local Government Bond Refinancing and the Factors Associated with the Refunding Decision.” *Public Finance Review* 40(5): 614-642. |  |
| Week 11 (Oct 26) | **Financial Advising & Underwriting**  Textbooks: JLM (2014) Chapter 6; SIFMA (2011) Chapter 4.  Miller, Gerald J. 1993. “Debt Management Networks.” *Public Administration Review* 53(1): 50-58.  Luby, Martin J. and W. Bartley Hildreth. 2014. “A Descriptive Analysis of the Municipal Advisors Market.” *Municipal Finance Journal* 34(4): 69–98.  Clarke, Wes. 1997. “The Interest Cost Implications of the Financial Advisor Turned Underwriter.” *Public Budgeting and Finance* 17(3): 74–86.  Allen, Arthur and Donna Dudney. 2010. “Does the Quality of Financial Advice Affect Prices?” *The Financial Review* 45(3): 387-414.  Moldogaziev, Tima and Martin J. Luby. 2016. “Too Close for Comfort: Does the Extent of Municipal Advisor and Underwriter Relationships Impact Bond Borrowing Costs?” *Public Budgeting and Finance*.  Simonsen, William and Mark B. Robbins. 1996. “Does It Make Any Difference Anymore? Competitive versus Negotiated Municipal Bond Issuance.” *Public Administration Review* 56(1): 57-64.  Kriz, Kenneth A. 2003. “Comparative Costs of Negotiated versus Competitive Bond Sales: New Evidence from State General Obligation Bonds.” *The Quarterly Review of Economics and Finance* 43(2): 191-211. | \*\*HW #2 DUE\*\*  \*\*HW #3 Assigned\*\* |
| Week 12 (Nov 2) | **OUT OF CLASS ASSIGNMENT**  TBA |  |
| Week 13 (Nov 9) | Financial Disclosure  Textbooks: JLM (2014) Chapter 4; SIFMA (2011) Chapter 9.  Johnson, Craig L., Sharon Kioko and W. Bartley Hildreth. 2012. “Government-wide Financial Statements and Credit Risk.” *Public Budgeting and Finance* 32(1): 80-104.  Reck, Jacqueline L. and Earl R. Wilson. 2006. “Information Transparency and Pricing in the Municipal Bond Secondary Market. *Journal of Accounting and Public Policy* 25(1): 1-31.  GAO. 2012. “Municipal Securities: Options for Improving Continuing Disclosure.” Washington, D.C.: United States Government Accountability Office Report GAO-12-698.  Fairchild, Lisa M. and Nan S. Ellis. 1998. “Municipal Bond Disclosure: Remaining Inadequacies of Mandatory Disclosure Under Rule 15c2-12.” *The Journal of Corporation Law* 23(1): 439–467.  Gabaldon, Theresa A. 2009. “Financial Federalism and the Short, Happy Life of Municipal Securities Regulation.” *The Journal of Corporation Law* 34(3): 739-769. | \*\*Out of class assignment #2 due\*\* |
| Week 14 (Nov 16) | Secondary Market  Textbooks: JLM (2014) Chapter 8; SIFMA (2011) Chapter 5.  Downing, Chris and Frank Zhang. 2004. “Trading Activity and Price Volatility in the Municipal Bond Market.” *The Journal of Finance* 59(2): 899–931.  Harris, Lawrence E. and Michael S. Piwowar. 2006. “Secondary Trading Costs in the Municipal Bond Market.” *The Journal of Finance* 61(3): 1361-1397.  Green, Richard, Burton Hollifield, and Norman Schurhoff. 2007. “Dealer Intermediation and Price Behavior in the Aftermarket for New Bond Issues.” *Journal of Financial Economics* 86(3): 643-682.  Green, Richard, Burton Hollifield, and Norman Schurhoff. 2007. “Financial Intermediation and the Costs of Trading in an Opaque Market.” *The Review of Financial Studies* 20(2): 275-314.  Green, Richard, Dan Li, and Norman Schurhoff. 2010. “Price Discovery in Illiquid Markets: Do Financial Assets Prices Rise Faster Than They Fail?” *The Journal of Finance* 65(5): 1669-1702.  GAO. 2012. “Municipal Securities: Overview of Market Structure, Pricing, and Regulation.” Washington, D.C.: United States Government Accountability Office Report GAO-12-265. |  |
| Week 15 (Nov 23) | THANKSGIVING BREAK: NO CLASS |  |
| Week 16 (Nov 30) | **Course Wrap-up & Research Presentations** | \*\*HW #3 DUE\*\*  \*\*Presentations\*\* |
| Week 17 (Dec 7) | THIS IS A FINAL EXAM WEEK  Submit an electronic copy of your research paper on eLC by *December 7, 2017 (Thursday) @ 16:00.* | \*\*Research Papers DUE\*\* |
| Grades Available: | The course grades will be submitted to the Registrar’s Office on or before the date determined by the university. | You are all done here. Good luck elsewhere! |