



CORPORATE FINANCE

B40.2302

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Prof. Robert Whitelaw

Office: K-MEC 9-97
Office Hours: Mon./Wed. 4-6pm
Telephone: 998-0338
FAX: 995-4233
Email: rwhitela@stern.nyu.edu
Homepage: <http://www.stern.nyu.edu/~rwhitela/teaching.html>

Course Description

This course covers the major topics in corporate finance and financial management including capital budgeting, cost of capital, capital structure, dividend policy, mergers and acquisitions, and financial distress. The objective of the course is to provide an understanding of both the theory of corporate finance and how it applies to the "real" world. Every effort will be made to integrate current business news into the presentation and discussion of the material.

Required and Recommended Materials

The textbook for the course is

Stephen A. Ross, Randolph W. Westerfield, and Jeffrey F. Jaffe, **Corporate Finance**, Fifth Edition, Irwin McGraw-Hill, 1999.

There are also four required HBS cases that are available in a course pack in the bookstore:

"The Super Project"
"Marriott Corporation: The Cost of Capital"
"American Home Products Corp."
"Interco"

In addition, there is a recommended (although not required) collection of articles:

Joel M. Stern and Donald H. Chew, Jr., editors, **The Revolution in Corporate Finance**, Third Edition, Blackwell, 1998.

Some of the readings from this book will be covered in class. They often provide a different or more detailed treatment of the material covered in the textbook.

Course Requirements

The course requirements consist of both group and individual assignments. Groups should consist of 3-4 students, and should be organized as early as possible during the semester. Each group will be responsible for preparing all the cases, which will be discussed extensively in class. Everyone should come to class prepared to contribute and express their opinions. In addition, for each case several groups will be responsible for writing a short executive summary and either presenting their analysis or critiquing the analysis of other groups. The individual assignments consist of periodic problem sets (end-of-chapter problems from the text), an in class midterm, and a final examination.

Finally, students are expected to contribute, in a constructive manner, to classroom discussions. The assigned reading should be done before the corresponding class session, and it is also a good idea to read the Wall Street Journal.

Grading Policy

The final grade will be calculated as follows:

Cases/Problem Sets	20%
Class Participation	5%
Midterm	35%
Final	40%

Course Outline

This outline is preliminary and subject to change. The due dates of all assignments will be announced in class, however the cases are listed in the approximate session when they will be due. RWJ refers to Ross, Westerfield, and Jaffe, **Corporate Finance**, and SC refers to Stern and Chew, **The Revolution in Corporate Finance**. The RWJ readings are required, and the SC readings are recommended. Readings should be done prior to the class session in which the material is discussed.

<u>Session</u>	<u>Topics</u>	<u>Assignments</u>
1	Introduction Course overview Group formation	
2	Corporate Finance Corporate organization Goals of the corporation Agency costs and incentives	RWJ: Chapter 1 SC: "Institutional Investors and Corporate Governance" (pp.445-458)
3	Capital Budgeting I Accounting and cash flows Estimating cash flows	RWJ: Chapters 2, 7.1-7.2
4	Capital Budgeting II Why NPV? Review of PV formulas	RWJ: Chapter 3, 4
5	Capital Budgeting III NPV vs. IRR Alternative investment rules Investments of unequal lives	RWJ: Chapter 6, 7.5
6	Capital Budgeting IV Inflation Strategy Scenario/sensitivity analysis	RWJ: Chapter 7.3-7.4, 8 SC: "Corporate Strategy and the Capital Budgeting Decision" (pp.37-51)
7	Capital Budgeting V	Case: The Super Project
8	Long-Term Financing Debt, equity, and preferred stock Raising equity capital IPOs	RWJ: Chapters 14 & 19 SC: "Raising Capital: Theory and Evidence" (pp. 157-173)
9	Long-Term Debt Innovation in debt markets Ratings	RWJ: Chapter 20
10	Leasing Lease analysis Why leasing works	RWJ: Chapter 23

<u>Session</u>	<u>Topics</u>	<u>Assignments</u>
11	Review of Risk and Return Portfolio theory and diversification The CAPM	RWJ: Chapters 9, 10 SC: "In Defense of Beta" (pp.52-57)
12	Cost of Capital I Equity, debt and preferred stock WACC	RWJ: Chapter 12 Handout: "The Real Key to Creating Wealth"
13	Cost of Capital II	Case: Marriott Corporation
14	Market Efficiency The EMH Implications for decision-making	RWJ: Chapter 13 SC: "The Theory of Stock Market Efficiency" (pp.2-15)
15	MIDTERM	Study
16	Capital Structure I Irrelevance and Modigliani/Miller Taxes	RWJ: Chapter 15 SC: "The Search for Optimal Capital Structure" (pp.111-119)
17	Capital Structure II A stylized example Agency costs and bankruptcy	Case: American Home Products Corp.
18	Capital Structure III Valuation with leverage APV, FTE and WACC	RWJ: Chapter 17
19	Capital Structure IV Financial distress Bankruptcy and reorganization Predicting bankruptcy	RWJ: Chapter 30
20	Capital Structure V	Case: American Home Products Corp.
21	Dividend Policy Irrelevance revisited Signaling and taxes Stock dividends and stock splits	RWJ: Chapter 18 SC: "Does Dividend Policy Matter" (pp.137-142)
22	Mergers and Acquisitions I The empirical evidence Takeover defenses	RWJ: Chapter 29 SC: "The Takeover Controversy: Analysis and Evidence" (pp.351-377)
23	Mergers and Acquisitions II Valuation (revisited)	RWJ: Chapter 17
24	Mergers and Acquisitions III	Case: Interco

<u>Session</u>	<u>Topics</u>	<u>Assignments</u>
25	Options Option pricing Options in corporate finance	RWJ: Chapter 21
26	Warrants and Convertible Bonds Valuation Reasons for issuance	RWJ: Chapter 22 SC: "The Case for Convertibles" (pp.194-202)
27	Conclusion Course review	Study hard!