



Financial Management, Spring 2007
C15.0007.001: Tisch UC60, Mon/Wed 8:00-9:15am
Website: <http://sternclasses.nyu.edu/> (log in with your Stern ID)

Professor **Yuliy Sannikov**

Office Hours (KMC 9-84): Mon 9:30-11am, Wed 3:30-5:00pm, or by appointment

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Course Description: This is an introductory course in corporate finance. The course's main objective is to provide the students with an understanding of the tools that have been developed to value real world companies and investment projects (valuation). We will also have an introductory discussion about how firms should raise funds for their real investments (capital structure). One key objective of the course is to discuss the limitations and challenges that you will face when applying the theoretical framework of corporate finance to real world problems.

The prerequisite for this class is a passing grade in Foundations of Financial Markets. As such, students should be comfortable with the following topics: time value of money (very comfortable), calculating present values (very comfortable), internal rates of return (somewhat comfortable) and the CAPM (somewhat comfortable).

Texts:

➤ **Required**

- ✓ S. Ross, R. Westerfield and B. Jordan (RWJ), 2005, *Fundamentals of Corporate Finance*, 7th edition, **Customized Version**, Irwin McGraw-Hill

We will be using a customized version of the textbook (available in the bookstore), which only includes the chapters that we need together with the solutions manual. However, it is also ok (though more expensive) to buy the full 7th edition. In addition, if you already own the 5th or 6th editions of the textbook, it is probably not necessary for you to buy the 7th edition. Note that I will use the page, chapter, and problem numbers of the new customized edition. It is your job to keep track of the right match in the other editions.

Lecture Notes: These will be posted on the course website at <http://sternclasses.nyu.edu/>.

Case Studies: These will be distributed in class

- Harvard Business School (HBS) Case Study: The Super Project
- Harvard Business School (HBS) Case Study: Marriot Corporation: The Cost of Capital

These cases are required reading. There will be an additional case on valuation, which will be assigned in class.

COURSE REQUIREMENTS

The course requirements consist of several homework assignments, case projects, an in-class midterm and a final examination. I will not accept late homework and cases.

The homework assignments will be posted on our website. I will indicate the date when the assignments are due as we go along. They should be handed in at the beginning of the class, and they will be graded pass/fail.

Collaboration and discussion among students are encouraged, but *the final versions must be individual work*. If you have problems to find students to work with, please send me an email. I can help you find others in a similar situation who can work with you.

Regarding case projects, you can work in groups of at most three students, or less if you want. It is ok to work with students in the other classes. In this case, you should hand in the case in the earlier class. I will indicate the specific dates in which each case is due as we go along.

Students are not allowed to email neither their homework nor their case projects to me.

Students are expected to be prepared for each class, and to contribute in a constructive manner to classroom discussion.

The midterm and final will be held during class on dates to be determined. There will be no make-up exams.

TOOLS

It is strongly recommended that you own a computer (desktop or laptop). The Stern computer labs can be overcrowded at certain times. The homework and case projects can be done using a computer, but I will eventually ask you to do the problems using a calculator as well. Thus, you should also own a financial calculator. Make sure the calculator has net present value (NPV) and internal rate of return (IRR) functions. Why should you buy a calculator? During your job interviews, you may be asked to solve problems “on the spot”, using a calculator. And you will be allowed to use a calculator when doing the exams.

GRADING POLICY

The final grade will be constructed as follows:

Class participation	5%
Homework	10%
Case write-ups	20%
Midterm	25%
Final	40%

No incompletes will be given.

Following departmental guidelines, the course will be graded on a curve. I have no control over the curve. The grading standards for the finance department are posted on the following link:

http://w4.stern.nyu.edu/finance/academic.cfm?doc_id=4007

COURSE SCHEDULE

The schedule of activities is subject to change depending on the needs of the class.

<i>Topics</i>	<i>Assigned Readings/Assignment</i>
Introduction: Overview of Corporate Finance	RWJ Ch. 1 Lecture Notes Session 1
Review: Valuation of Future Cash-Flows	RWJ, Ch. 5 and Ch. 6, sections 6.1 and 6.2 Lecture Notes Session 2 <i>Assignment 1</i>
Capital Budgeting NPV and other investment evaluation criteria	RWJ, Ch. 9, sections 9.1, 9.2, 9.3, 9.5, 9.7 Lecture Notes Session 3 Lecture Notes Session 4 <i>Assignment 2</i>
Financial Statements and Cash Flows	RWJ, Ch. 2 Lecture Notes Session 5 <i>Assignment 3</i>
Setting up a discounted cash flow analysis	RWJ, Ch. 10 Lecture Notes Session 6 <i>Assignment 4</i>
Evaluating NPV estimates – where positive NPV comes from Sensitivity and Scenario analysis	RWJ Ch. 11, sections 11.1, 11.2, 11.3 (up to page 341) Lecture Notes Session 7 <i>Assignment 5</i>
The Superproject Case	Case due in class
Review for the Midterm	
Midterm in class	

Calculating Discount Rates: An Introduction	Lecture Notes Session 8
Bond Valuation and the Cost of Debt	RWJ, Ch. 7, sections 7.1, 7.2, 7.3, 7.5, 7.6, 7.7 Lecture Notes Session 9 <i>Assignment 6</i>
Stock Valuation and the Cost of Equity	RWJ, Ch. 8 (all sections), Ch. 12 (sections 12.2, 12.3, 12.4, 12.5), Ch. 13 (13.1, 13.4, 13.5, 13.6, 13.7) Lecture Notes Session 10 <i>Assignment 7</i>
Capital Structure and the Cost of Capital for a Firm: The Theory	RWJ, Ch. 17 (section 17.1, 17.2, 17.3, 17.4) Lecture Notes Session 11 <i>Assignment 8</i>
Implementing the WACC The Practice	RWJ, Ch 15 (sections 15.1, 15.2, 15.3, 15.4) Lecture Notes Session 12 <i>Assignment 9</i>
The Cost of Capital for a Division and for a Project	RWJ, Ch 15 (section 15.5) Lecture Notes Session 13
The Marriot Case	Case due in class
Firm Valuation	Lecture Notes Session 14 <i>Assignment 10</i>
Valuation Case (to be determined)	Case due in class
Using multiples for valuation	Lecture Notes Session 15 <i>Assignment 11</i>
Review for the final exam	