



## CORPORATE FINANCE TOPICS

C15.0008

### SAMPLE SYLLABUS

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### Course Description

C15.0008 Corporate Finance Topics is the third course in the finance sequence, following C15.0007 Financial Management. 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. During this course you will expand your knowledge of option pricing and capital structure, learn valuation with agency issues and financial distress, and apply these analytical tools to various advanced topics in corporate finance such as dividend policy, hedging and risk management, and mergers and acquisitions. Every effort will be made to integrate current business news into the presentation and discussion of the material.

Prior to taking this course you should have mastered the material in C15.0002 Foundations of Financial Markets and C15.0007 Financial Management. By now you should be familiar with discounted cash flow valuation, capital budgeting, cost of capital, the CAPM, and basic option pricing. Many of these concepts will be reviewed briefly in class but not in sufficient depth to learn them from scratch. If you are not comfortable with this material, then you should talk to me before committing to the course.

### Required and Recommended Materials

The textbook for the course is a customized version of

Stephen A. Ross, Randolph W. Westerfield, and Jeffrey F. Jaffe, **Corporate Finance**, Seventh Edition, McGraw-Hill Irwin, 2005.

There are also three required HBS cases:

"Arundel Partners: The Sequel Project"  
"American Home Products Corp."  
"USG Corporation"

The cases should come in a separate soft-bound booklet, available at the bookstore.

Finally, there will be lecture notes, handouts (e.g., case questions) and supplementary materials (e.g., sample Excel spreadsheets) for many classes. Lecture notes are available on Blackboard (see the URL above).

Handouts and slides will be distributed at the beginning of class, and made available on Blackboard, usually before the relevant class session.

## **Course Requirements**

### ***Problem Sets:***

Problem set questions are posted on Blackboard.

- Each student should hand in solutions with his/her name and section prominently displayed on the top. You may discuss the problem sets with other students.
- Problem sets will be checked but not graded. You will receive 1 point for a problem set that is complete in each of its parts; ½ points for a problem set that is complete in most of its parts; 0 points for a late/never handed in problem set.

You should do the problem sets for your own benefit, as working through them will help you think through the concepts learnt in class, and will be immensely beneficial when it comes to the exams.

Solutions will be posted on Blackboard two days after the due date. The TA will also go over the solutions during TA sessions.

### ***Cases:***

Cases will give you the opportunity to apply the concepts learned in class to real world business situations.

- You should work in teams of 3-4 students, write a short analysis (up to 3 pages, plus appendices with spreadsheet printouts, etc.), and prepare for the class discussion.
- Everybody is encouraged to participate in the solutions of the cases. At the end of the course you will have the opportunity to evaluate the team mates you have worked on the cases with.
- Everyone should also come to class prepared to contribute and express their opinions about the case. Specific groups will be assigned case questions for which they are expected to lead the discussion, to which everybody is expected to participate.

In contrast to problem sets and exams, cases do not have a single correct answer. Moreover, they are often ambiguous, do not provide complete information, and require you to make assumptions (just like the real world). In grading the case write-ups, I will not be looking for an answer; rather I will be judging the process that went into getting to the answer. I will be looking for logic, consistency, thoughtful application of finance theory, and justification for any assumptions that you need to make. Your answer should not only be logically consistent, but also clear, as in the real world it is important not only to understand the ideas, but also to explain them to your boss and co-workers.

Preparing cases can be a time-consuming and frustrating experience. It is best to start as early as possible.

### ***Midterm and Final Exams:***

The midterm and the final exams will consist of a number of problems like those on the problem sets and in the lecture notes.

They will all be closed book exams. I will provide a formula sheet with all the relevant formulas.

Most of the questions will come directly or indirectly from the problem sets, lecture notes, cases, and the text. However, there may also be one or more problems that appear unfamiliar. These problems are a deliberate effort on my part to see if you can apply what you have learned to slightly different settings.

There will be no early exams, no exceptions, so please make your plans accordingly.

### ***Discussion Board:***

There is a discussion board on Blackboard on which you can post questions about the material and discuss them with your classmates. You are encouraged to answer your classmates' questions, and good answers will be counted toward class participation.

### ***TA Sessions:***

There will be occasional TA sessions in which Narendra Chokshi will go over the homework solutions (See Calendar below).

The TA sessions are helpful for those of you that would like extra help in going through the homework solutions. They do not cover any new material and attendance is optional.

### ***Attendance and Class Participation:***

Attendance is not required. However, class participation accounts for 5% of the final grade. Also, I think that you will find the lectures and class discussions very useful in learning the material. The lecture notes are not completely self-contained. In many cases, reading over the lecture notes without attending class will not deliver a good learning experience.

Finally, you are expected to contribute, in a constructive manner, to classroom discussions. The assigned reading should be done before the corresponding class session, and you are also expected to keep up with current business news by reading a publication such as the Wall Street Journal. I will attempt to alert you to particularly interesting news items via an announcement on Blackboard.

### **Classroom responsibilities:**

**Approach each class as though you were attending an important business meeting – prepare, arrive on time, participate, but do not try to dominate. Arrange your affairs so that you do not leave the room during class (if you have a medical problem see me at the start of the semester).** Here are some specific guidelines designed to promote a beneficial classroom experience:

**Class Participation:** Students learn from questions asked by other students as well as by answers from classmates, whether or not the proposed answers are correct. Therefore, you have a responsibility to come to class and participate in the discussions. I will encourage class participation to the best of my ability, turning to forced compliance only after friendly persuasion fails.

**Cell Phone Disturbances:** Turn off your cell phone, palm pilot or any other type of 'audible alert device' before entering class. You will be fined \$10 (towards a year end lunch party) if any of these items go off during class time. Try not to provide financial support for our end-of-semester celebration.

**Side Conversations:** Do not engage in side conversations during the lecture, even in a whisper. They are distracting to me and to your fellow students and will not be tolerated.

**No Laptops:** Laptops are not required in this class nor are they permitted during the lecture. They are distracting to your fellow classmates. If you must use a laptop for taking notes during class see me at the beginning of the semester.

**Failure to meet your classroom responsibilities may adversely affect your grade.**

### ***Policies and procedures:***

**All written assignments (problem set and cases) should be handed in before the beginning of the class session in which they are due.** (Due dates can be found on the final page of the syllabus).

They can be given to me in class, emailed, faxed, left in the digital drop box on Blackboard, or dropped in my mailbox in the Finance Department. Regardless of the method of delivery, the same deadline applies. The deadline refers to the time at which I receive the assignment, not the time at which you send it. Assignments that are late but within 24 hours of the deadline, will receive ½ credit. After 24 hours no assignments will be accepted (no exceptions); it is unfair to the other students in the class.

I will make every effort to start and end class on time. If you arrive late, please enter quietly without disturbing the rest of the class. While in class, please be courteous to your fellow classmates and me. During lectures and discussions only one person should speak at a time. I encourage you to ask questions of your fellow students and me. I consider a good question as valuable as a good answer. In lectures, it is difficult to ask good questions unless you already have some familiarity with the material. Therefore, you should do the required reading before the relevant class session.

### *Honor Code*

You are responsible for maintaining Stern's honor code which mandates zero tolerance for cheating. Violations of the honor code will be prosecuted with a minimum penalty of failure for the course as required by honor code rules. As indicated above, you may work in groups on your homework problems but you must submit your own handwritten answers. The exams are closed book. You may bring to the exams only a writing implement and your calculator. In the event that your calculator is programmable you may NOT enter any formulae or data (e.g., associated with the market tracking assignment). If you become aware of any violations of the honor code you must take whatever steps are necessary to stop the violators.

This class is challenging, but rewarding. The emphasis in the class is on learning to think, not on memorizing formulas and the procedures for plugging numbers in these formulas. A conceptual understanding of the material is essential in order to successfully complete the various assignments.

**The key to understanding the material and doing well in the course is to read the lecture notes before each class, participate to the class discussion, and put effort in solving the problem sets and the sample exams.** Ask questions and clear up misunderstandings and misconceptions before they multiply.

## **Grading Policy**

There will be two exams. The midterm exam will be given during the eighth week of classes. It will cover the material up to lecture 12 (included). The midterm will count for 30% of your final grade. The final exam will be given during exam week. It will cover the entire course, with the main focus on the last part of the course.

The final grade will be calculated as follows:

Class participation	5%
Problem sets	5%
Case write-ups	15%
Midterm	30%
Final	45%

Students have the option to substitute their midterm grade with  $0.75 \times (\text{grade on the final})$ .

Following departmental guidelines, the course will be graded on a curve with an approximate grade distribution of:

A	10%
A-	15%
B+	10%
B/B-	50%
C+ and below	15%

## Course Calendar

The cases and problem sets are listed in the session when they are due (see the last page for dates). RWJ refers to Ross, Westerfield, and Jaffe, *Corporate Finance*. **Prior to each session you should read the corresponding teaching notes.**

**You are responsible for the chapters of the textbook that are reported in bold in the syllabus,** while the rest of the chapters are beneficial to your learning, but not required.

<u>Session</u>	<u>Date</u>	<u>Topics</u>	<u>Assignments</u>
1	Wed., Jan. 17	<b>Introduction</b> Course objectives and goals Role of financial manager Market Efficiency and Arbitrage	Teaching notes 1
2	Mon., Jan. 22	<b>Tools: DCF Valuation I</b> The correct discount rate: CAPM Choosing the risk free rate Promised vs. expected return	Teaching notes 2
3	Wed., Jan. 24	<b>Tools: DCF Valuation II</b> Choosing $\beta$	Teaching notes 2 Group formation <b>Face Card</b>
4	Mon., Jan. 29	<b>Financial Options</b> Call and Put options Payoff diagrams Portfolios of options Application to corporate securities	Teaching notes 3 (RWJ: 22.1-6)
5	Wed., Jan. 31	<b>Option Pricing I</b> Binomial pricing Put-Call parity Comparative statics Early optimal exercise	Teaching notes 4 (RWJ: 22.7)  <b>Problem Set 1 due.</b>
TA	Thu, Feb 1	Discussion of Problem Set 1 Solutions	4.30 – 5.50 pm See Blackboard announcement for location
6	Mon., Feb. 5	<b>Investments as real options I</b> The value of time and information Opening and closing decisions	Teaching notes 5 (RWJ: 8.1, 8.4)
7	Wed., Feb. 7	<b>Investments as real options II</b> New and improved NPV Resolution of uncertainty	Teaching notes 5 (RWJ: 8.1, 8.4)  <b>Problem Set 2 due.</b>

<u>Session</u>	<u>Date</u>	<u>Topics</u>	<u>Assignments</u>
TA	Thu, Feb 8	Discussion of Problem Set 2 Solutions	
8	Mon., Feb.12	<b>Long-Term Financing</b> Equity, debt and preferred stock Raising capital IPOs and SEOs	<b>RWJ: Chapter 14, 19, 20</b>
9	Wed., Feb. 14	<b>Dividend Policy</b> Theory and evidence Dividends and tax clienteles Managers' incentives and signals of firms prospects	Teaching notes 6 (RJW: 18 (skim))  <b>Case 1 due</b>
<b>President's Day</b>			
10	Wed., Feb. 21	<b>Case Discussion</b> Arundel Partners: The Sequel Project	
11	Mon., Feb. 26	<b>Capital Structure Irrelevance</b> Debt and equity as options Modigliani-Miller Irrelevance proposition	Teaching notes 7 (RJW: 22.9-22.10)  <b>Problem Set 3 due</b>
12	Wed., Feb. 28	<b>Capital Structure I</b> Tax incentives of debt WACC vs. APV	Teaching notes 8 (RJW: 15.5)
TA	Thu, Mar. 1	Discussion of Problem Set 3 Solutions	
13	Mon., Mar. 5	<b>Review/Problem Session</b>	Study! Work on sample exams
14	Wed., Mar. 7	<b>Midterm</b>	Good Luck
<b>Spring Break</b>			
15	Mon., Mar. 19	<b>Capital Structure II</b> Bankruptcy and cost of financial distress Economic vs. financial distress	Teaching notes 9 (RJW: 16.1-16.3)
16	Wed., Mar. 21	<b>Capital Structure III</b> Capital structure with asymmetric info Sources of capital and market's reactions to financing	Teaching notes 10 (RJW: 16.5)
17	Mon., Mar. 26	<b>Capital Structure III</b> Potential solutions to asymmetric info Examples	Teaching notes 11

<u>Session</u>	<u>Date</u>	<u>Topics</u>	<u>Assignments</u>
18	Wed., Mar. 28	<b>Case Discussion</b> American Home Products Corp.	<b>Case 2 due</b>
19	Mon., Apr. 2	<b>Valuation I</b> APV, FTE and WACC	<b>RWJ: Chapter 17</b> <b>Problem Set 4 due</b>
20	Wed., Apr. 4	<b>Valuation II</b> Examples Valuation using multiples	
TA	Thu, Apr. 5	Discussion of Problem Set 4 Solutions	
21	Mon., Apr. 9	<b>Risk Management and Hedging</b> Why hedging? Financial instruments used for hedging Cost of hedging	Teaching notes 12
22	Wed., Apr. 11	<b>Long-Term Financing III</b> Compound and hybrid securities Convertibles	Teaching notes 13 (RJW: 24.4-24.8) <b>Problem Set 5 due</b>
TA	Thu, Apr. 12	Discussion of Problem Set 5 Solutions	
23	Mon., Apr. 16	<b>Long-Term Financing III</b> Valuing a convertible bond Warrants	Teaching notes 13 (RJW: 24.1-24.2) <b>Case 3 due</b>
24	Wed., Apr. 18	<b>Case discussion</b> USG	
25	Mon., Apr. 23	<b>Mergers and Acquisitions I</b> Introduction to M&A Stock vs. cash acquisitions	<b>RWJ: Chapter 29.1-29.9</b> <b>Problem Set 6 due</b>
26	Wed., Apr. 25	<b>Mergers and Acquisitions II</b> Empirical evidence Takeover defenses	<b>RWJ: Chapter 29.10-29.12</b>
TA	Thu, Apr. 26	Discussion of Problem Set 6 Solutions	
27	Mon., April 30	<b>Review/Problem Session</b>	Study! Work on sample exams

## Assignment Due Dates

Assignments are due on the following dates. Cases and problem sets are due at the beginning of the corresponding class session. Assignments that are late but within 24 hours of the deadline, will receive ½ credit. After 24 hours no assignments will be accepted.

Any changes to this schedule will be announced in class and on Blackboard.

<u>Assignment</u>	<u>Due Date</u>
Face Card	Wed, Jan. 24
Problem Set 1	Wed, Jan. 31
Problem Set 2	Wed, Feb. 7
Case: Arundel Partners	Wed, Feb. 14
Problem Set 3	Mon, Feb. 26
Midterm	Wed, Mar. 7
Case: American Home Corp.	Wed, Mar. 26
Problem Set 4	Wed, Apr. 2
Problem Set 5	Wed, Apr. 11
Case: USG	Mon, Apr. 16
Problem Set 6	Mon, Apr. 23
Final Exam	See undergrad calendar online

## **Interesting Books on Finance**

These aren't readings that I want you to complete during the course. These are books that I have found interesting as well as informative. If after my class you are interested in additional reading, this list is meant to be my suggestions of where you can start looking.

*Capital Ideas*, by Peter Bernstein, 1993. This book is a great history of modern finance and how a small band of disinterested academics has revolutionized the way Wall Street and its offshore counterparts manage the world's investment wealth.

*The New Market Wizards*, by Jack Schwager, 1993. This book is a series of interviews to traders that have beaten their respective markets.

*Merchants of Debt*, by George Anders, 2002. This book is about the leverage buyout firm of Kohlberg Kravis Roberts and Co.

*When Genius Failed: The Rise and Fall of Long-Term Capital Management*, by Roger Lowenstein, 2001, is a best seller about the best and the brightest in finance. Read it for the cautionary message.

*When Washington Shut Down Wall Street*, by William Silber, 2007, tells the story of how America's triumph over the financial crisis of 1914 launched the U.S. as a world financial power.

*Investment Valuation*, by Aswath Damodaran, 2002.

*Moneyball: The Art of Winning an Unfair Game*, by Michael Lewis, 2004. For baseball lovers.

*The Essays of Warren Buffet: Lessons for Corporate America*, by Warren Buffet and Lawrence Cunningham, 2001.