



CORPORATE FINANCE TOPICS

C15.0008
Spring 2009

Professor: **JUAN-PEDRO GÓMEZ**

Short Bio

I currently work as full time assistant professor at Instituto de Empresa (IE) Business School in Madrid, Spain. Previously, I have worked at Universidad Carlos III in Madrid, ITAM in Mexico City, BI in Oslo and UPF in Barcelona.

My teaching interests include **Corporate Finance** and **Portfolio Management**.

The focus of my research is on the role of institutional investors in equity trading. Within this topic, I have work in **Asset Pricing** and **Management Compensation**, my two fields of specialization. More concretely, I employ contract theory to study the micro-economic foundations of manager's compensation schemes and to analyze how different schemes affect the managers' optimal portfolio decisions and their performance. In a general equilibrium context, I derive the theoretical and empirical asset pricing implications of equity trading carried out by institutional investors, both domestically and overseas.

My work has been published in the European Journal of Finance, Economic Theory a Finance Research Letters. I'm a referee for the Journal of Economic Dynamics and Control, the Journal of Banking and Finance, and the Journal of International Money and Finance.

Copies of my current research projects can be downloaded from
<http://juanpedrogomez.profesores.ie.edu/>

Course Description

This course is an introduction to the main concepts and issues in modern financial management. After a brief introduction to corporate finance and financial markets, we will concentrate on the two main decision financial managers face everyday: capital budgeting and capital structure decisions. In other words, what the firm "does" with the money and where the firm "gets" the money from. Obviously, both types of decisions are interconnected. We close the course analysing the link between capital budgeting and structure: the cost of capital. The key concept here is risk and how it affects the cost of capital.

As for the first type of decisions, capital budgeting, we will study two main concepts: the time-value-of-money and how to create value for shareholders. Free cash-flow analysis is the main instrument here. We will value investment projects using alternative methods like real options. With respect to the second type of decisions, we can distinguish between short-term financial planning (estimating the cash needs for the firms in the short run) and long term capital structure decisions (how the firm chooses the right balance among different sources of financing, mainly long-term debt and equity). We pay special attention to the company's payout policies. Dividends, share buybacks... We close the course with two advanced topics: project finance and corporate risk management.

An important aspect of the financial decisions nowadays is given by its social impact. In this sense we will explore what we understand by a "true" socially responsible company in relation to its different stakeholders: share and bold holders, clients, workers, the community,... In this regard, Free Cash Flows will be proved to be the most transparent measure of the project's

profitability versus other accounting or “book” measures. Value creation and agency problems (between the managers and shareholders and between the later and bondholders) will be analysed. Is the Net Present Value rule good enough to make sure that managers do really create value for shareholders?

Course Objectives

The main emphasis is in the concepts rather than in the techniques. By the end of the course, the student should feel “comfortable” enough to understand and discuss the firm’s financial decisions presented in the Course Description.

The prerequisites for this course are C15.0002 Foundations of Financial Markets and C15.0007 Financial Management. You should have a command of the materials from these courses, including discounted cash flow valuation, capital budgeting, cost of capital, the CAPM, basic option pricing and basic capital structure theory. Many of these concepts will be reviewed briefly in class but not in sufficient depth to learn them from scratch.

Course Material

Lecture notes are the main source for the theory. Additional material (like exercises and reading handouts) will be updated periodically in Blackboard. We will use this tool as the main interface for communication. Please, check it regularly.

All lectures have their corresponding chapter/s reference in the following course book (please, see the program for details):

Principles of Corporate Finance, R. Brealey, S. Myers and F. Allen (BMA). Irving McGraw-Hill, 8th edition (2006)

Of course, you are most encouraged to read the financial newspapers:

Wall Street Journal.
The Economist
Financial Times

Class Dynamic

Every session will typically contain 2 of the following 3 elements: Presentation and discussion of a reading handout, case presentation and discussion and lecturing (theory concepts) The recommended dynamic for the student is to work on the readings handout or case before the lecture, attend the lecture and participate actively in the readings or case discussion. Then read the corresponding references and work on the suggested problems after the lecture.

The Course Schedule below includes a detailed list of all the cases, readings and lecture topics that will be covered through the course. The reading handouts will be updated periodically on Campus Online or distributed in hand during class. In what follows you will find a description of each of these elements, the class dynamic and the grading criterion.

Reading handouts

When appropriate, reading handouts based on press articles, mainly from The Economist and The Wall Street Journal or Financial Times will be distributed among students. These readings are meant to motivate the main topics in the lecture. All the students are expected to read the articles in order to contribute to the class discussion. This will be graded through class participation.

Cases

Some lectures include a “Case Discussion.” The cases are meant to summarize and exercise the concepts studied in the previous lecture/s. As a guideline to the case resolution, a set of questions will accompany each case. You can find these questions on Blackboard. All the

students are expected to read the cases with the questions in mind in order to contribute to the class discussion. This will be graded through class participation.

Every case will be assigned to a group/s of students (see the Course Schedule below) who will be in charge of:

1. Handing in an executive summary before the session addressing the questions for the case (synthesis will be rewarded).
2. Presenting the topic in front of the class.
3. Leading the discussion (extra material, complementary questions, ...)

The 3 tasks will be graded. The average will constitute the homework grade for the particular group (all the students in a group will obtain the same grade except the group *unanimously* decides otherwise). I expect the material from the presenting group/s (executive summary + material for the presentation) to be sent to me by email the day before the presentation.

Lecturing

Class slides (when used) will cover the main aspects of every topic. Slides will be available on Global Campus before every session. The objective is to make lectures as participative and dynamic as possible. Therefore, students are encouraged to intervene with clarifying and constructive questions or remarks anytime during the lecture. Remember that class participation is graded.

Grading Policy

The grade will be based on homework (cases), class participation (discussion of readings and cases and general class intervention), and the final exam. The grade will be assigned according to the following distribution:

Homework:	30%
Class participation:	20%
Final exam:	50%

At Stern, we want to ensure fair and consistent grading across courses. As such, grades for this course will be distributed following the Stern Grading Guidelines for Core Courses at the Undergraduate College:

Suggested Percent Grade Distributions for Undergraduate Finance Courses	
A's	25 to 35
B's	50 to 70
C's and below	5 to 15
IP and IF	No more than 5

Office Hours

To be determined

Code of Conduct

Students are expected to adhere to the NYU Stern Undergraduate Code of Conduct, a copy of which can be found at <http://www.stern.nyu.edu/uc/codeofconduct>. A student's responsibilities include, but are not limited to, the following:

- A duty to acknowledge the work and efforts of others when submitting work as one's own. Ideas, data, direct quotations, paraphrasing, creative expression, or any other incorporation of the work of others must be clearly referenced.
- A duty to exercise the utmost integrity when preparing for and completing examinations, including an obligation to report any observed violations.

Course Outline

	DATE	TOPICS	READING
1	Tue., Jan. 20	Introduction: Course Overview.	Lecture Notes 1
2	Thu., Jan. 22	Review. DCF Valuation I: Free CFs	Lecture Notes 2
3	Tue., Jan. 27	Review. Exercises on Free CFs	Exercises on FCF
4	Thu., Jan. 29	Review. DCF Valuation II: Discount Rate: CAPM and alternative models (APT)	Lecture Notes 3
5	Tue., Feb. 03	Case Discussion: Super Project (HBS-9-112-034)	
6	Thu., Feb. 05	Debt or Capital: Deciding The Company's Financial Structure.	BMA 15 (skim)
7	Tue., Feb. 10	Optimal Capital Structure I: M & M Irrelevance Propositions. Tax incentives of debt: WACC	BMA 17.1, 17. 2 and 17.3
8	Thu., Feb. 12	Optimal Capital Structure II: Costs of Financial Distress. The Static Tradeoff Theory/Asymmetric Information and Agency Problems: the Pecking Order Theory	BMA 18.3 and 18.4 Lecture Notes 4
9	Tue., Feb. 17	Case Discussion: Diageo (HBS 9-201-033)	
10	Thu., Feb. 19	Payout Policy: dividends and share re-purchases	BMA 16
11	Tue., Feb. 24	Case Discussion: Dividend Policy at FPL Group, Inc. (HBS 9-295-059)	
12	Thu., Feb. 26	Business Valuation I APV, FTE and WACC	BMA 19
13	Tue., Mar. 03	Business Valuation II Examples and valuation by multiples	The Uralia valuation
14	Thu., Mar. 05	Case Discussion: Radio One Inc. (HBS 9-201-025)	
15	Tue., Mar. 10	REVIEW SESSION	
16	Thu., Mar. 12	MID-TERM EXAM	
SPRING BREAK			
17	Tue., Mar. 24	Understanding Options. Applications to corporate securities	BMA 20.1 and 20.2
18	Thu., Mar. 26	Valuing Options I: Price determinants	BMA 20.3
19	Tue., Mar. 31	Valuing Options II: BS and the Binomial model	BMA 21
20	Thu., Apr. 02	Real Options I: the option to expand and to abandon	BMA 22.1 and 22.3
21	Tue., Apr. 07	Real Options II: the timing option	BMA 22.2
22	Thu., Apr. 09	Kinds of Debt I: Bonds	BMA 25.1-25.5
23	Tue., Apr. 14	Kinds of Debt II: Convertible Bonds and Warrants	BMA 25.6
24	Thu., Apr. 16	Kinds of Debt III: Project Finance	BMA 25.7
25	Tue., Apr. 21	Case Discussion: Southport Minerals (HBS 9-274-110)	
26	Thu., Apr. 23	Corporate Risk Management	Lecture Notes 5
27	Tue., Apr. 28	REVIEW SESSIONS	
28	Thu., Apr. 30		