

NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS

Investment Banking
B40.2334.30. 070 , Summer, 2009

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Goals of the Course

This course provides a broad overview of investment banking and of the forces that are continuing to change it worldwide. It focuses on three big questions: (1) How are things done in this business? (2) Why are they done that way? (3) How are they likely to be done in the future? It turns out that in order to address these questions, it is necessary to distinguish “investment banking” from “investment banks”, since “investment banking” can be carried out by a number of different financial service firms, and “investment banks” have, in recent years, extended their reach far beyond “investment banking”. Our approach will be to examine each of the principal businesses in which investment banks and related financial service firms have been involved, including: raising capital; advising on mergers and acquisitions; serving as a broker/dealer; trading and investing the firm’s own capital; and managing the assets of others, both institutions and individuals.

Throughout, there are a number of overarching themes. Among these are: the interplay of regulation, globalization, and technology; the emergence of private equity funds and hedge funds as both critical clients and potential competitors for the major investment banks; the search for new, high-margin products, and whether that process has reached its limits; and the changing relationships among the different groups within a bank, of which “the bankers” are only one.

By the end of the semester, each student should be well prepared either for an entry-level position in any financial service firm or for a comparable position at a client firm, where he or she needs to interact with financial service firms. All students should find that they are able to read the financial press through new eyes by the end of the semester.

Required Readings

A course packet (in lieu of a text) is available at the Professional Bookstore. Other required readings—e.g., current articles—will be distributed in class. **Students are expected to keep up with the financial news throughout the course.**

Blackboard

“Blackboard” is an integral part of this course, and you are responsible for any information posted there. **In particular, be sure to look under the “Assignments” tab in preparing for each class.**

Grading

There will be two exams with each approximately 90 minutes. These will be equally weighted and the final will be non-cumulative. Class participation is taken into consideration in the overall grading process. The grade distribution will follow the Stern guidelines, i.e., no more than 35% of the grades will be “A” or “A-”. **It goes without saying that students are expected strictly to abide by the NYU Stern Honor Code.**

Schedule of Classes

Lecture 1—Overview of the Financial Services Industry and the Role of Investment Banks

- Investment banks (“IBs”) in the context of “financial intermediation”
- The concept of “trusted advisor”
- The transformation of investment banking over the past few decades
- The legal/regulatory framework of investment banking in the U.S.

Readings: Course Packet (“CP”), Articles #1-#4

Lecture 2 — Private Equity and Hedge Funds

- The private equity market: size, principal investors, and the range of issuers
- Specialized intermediaries, merchant banking, and the role of investment banks
- Hedge funds and their multiple relationships with investment banks

Readings: CP, Articles #5-#7

Lecture 3 —Raising Public Equity: Initial Public Offerings

- The decision to go public
- Getting the mandate to lead an IPO
- The league tables and their significance
- Origination, underwriting, distribution, and after-market support
- The allocation and justification of the fees

Readings: CP, Article #8

Lecture 4 —Other Aspects of Raising Publicly Traded Equity

- Privatizations, seasoned and secondary offerings, and rights issues
- The impact of the internet on equity underwriting
- The changing roles of “sell-side” and “buy-side” research

Readings: CP, Articles #9-#12

Lecture 5 — Publicly Traded Investment Grade Debt & Private Debt

- The role of the rating agencies vs. that of fixed-income research
- The increased importance of credit analysis in investment banking
- Shelf registration and competitive vs. negotiated deals
- Private Placements and Rule 144A issues

Readings: CP, Articles #13-#16

Lecture 6 — First Exam ,Bank Loans, and High Yield Debt

- Syndicated lending and “leveraged loans”
- The evolution of the high-yield market

Readings: CP, Articles #17-#18

(Note: The first half of the evening will be devoted to the exam)

Lecture 7 —Convertible Securities and Securitizations

- Hybrids of debt and equity
- The logic of convertible securities and the changing nature of that market
- The mechanics of mortgage-backed and asset-backed issues
- How securitization can lower the all-in-cost of financing
- “Financial engineering”: tailoring risk and return to individual tastes

Readings: CP, Articles #19-#21

Lecture 8 —Derivatives and Introduction to Mergers and Acquisitions

- Forwards, futures, swaps, and options, and their importance for raising capital
- Recent trends in M&A activity
- Winners and losers, and the elements of a successful deal

Readings: CP, Articles #22-#24

Lecture 9 —Mergers, Acquisitions, and Strategic Advisory

- Analysis of a current deal and the mechanics of M&A
- Roles of the respective players in the M&A process
- The art of negotiating the deal

Lecture 10—Secondary Market Sales & Trading and Proprietary Trading

- The importance of sales and trading to capital raising
- Market-making vs. brokerage; institutional vs. retail clients
- The skills of traders and salespeople

- The evolution of the exchanges and the new world of electronic trading
- Proprietary trading vs. market-making

Readings: CP, Articles #25-#28

Lecture 11 —Asset Management and Private Banking

- Institutional asset management and its relationship with investment banking
- Private banking and its evolution
- Synergies vs. conflicts

Readings: CP, Articles #29-#31

Lecture 12 —Managing Risks: Market Risk and People Risk; Final Exam

- The variety of risks faced by an IB
- Measuring and managing market risk and the concept of “VAR”
- The “people risks” at investment banks
- Firm values and firm culture: their importance for success
- The lessons from recent years and the challenges ahead

Readings: CP, Articles #32 & #33

(Note: the second half of the evening will be devoted to the final exam.)