



**CORPORATE FINANCE**  
FINC-UB.7.1.001.FA12

Professor: **JUAN-PEDRO GÓMEZ**

### Office Hours

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**Office hours:** Monday and Wednesday 16:00-18:00 or by appointment. It helps if you let me know in advance (phone, personally in class or email) about your visit. If I have to cancel any office hour, I will let you know via announcement on Blackboard.

### Short Bio

I currently work as full time associate professor at 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 and NYU in New York.

My teaching interests include **Corporate Finance** and **Portfolio Management** for undergraduate, MBAs and Executive Programs.

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. In particular, 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 internationally.

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

As for the first type of decisions, capital budgeting, we will review two main concepts: the time-value-of-money and how to create value for shareholders. Free cash-flow analysis is the main instrument here. 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...

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 bond 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

If you are looking for a word describing this course that's probably VALUE. We want to understand how and when investment and financing decision (including payout) add value for stakeholders (and not only for shareholders!) 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.

## Course Material

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

There is no mandatory book for the course. Nevertheless, all lectures have their corresponding chapter/s reference in the following recommended course books (please, see the program for details):

Principles of Corporate Finance, R. Brealey, S. Myers and F. Allen (BMA). Irving McGraw-Hill, 10<sup>th</sup> edition (2011)

Corporate Finance: Theory and Practice, A. Damodaran (D), John Wiley and Sons, 2nd edition (2003)

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: exercises, case presentation and discussion and lecturing (theory concepts) The recommended dynamic for the student is to work on the readings handout, exercises or case before the lecture, attend the lecture and participate actively in the readings or case/exercises 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, exercises, suggested problems and lecture topics that will be covered through the course. In what follows you will find a description of each of these elements and the grading policy.

## Exercises Sets

Statements and solutions to the Exercises Sets are posted in Blackboard. Don't cheat yourself! The recommend book also contains innumerable tests and questions with the corresponding answers in the Solutions Manual. Neither the Exercises Sets nor the book questions will be marked. Keep in mind, however, that they are the best way to prepare for the exams and to get a full understanding of the theory concepts.

Some of the exercises (not all of them) will be corrected in class. There will be a Teaching Assistant with whom you can discuss solutions to the exercises. It's probably a good idea to resort to him for questions related to exercises and to me for general questions/concepts. But I'm open to any type of question related to the course.

## Lecture notes and reading handouts

Most of the lecture notes have attached one or several articles and short notes, mainly from The Economist, The Wall Street Journal or Financial Times. These readings are meant to motivate the main topics in the lecture. **All the students are expected to read the lecture notes and the articles in advance in order to contribute to the class discussion.** I will ask questions about this material in class. Additionally, extra articles may be distributed in hand or posted on Blackboard (BB) during the course. Please, check Blackboard regularly for updates. You're much encouraged to send me press clips or any other material related to the topics discussed in class. If I deem them to be of public interest, I'll post them in Blackboard.

## 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 of them. You can find these questions (and, sometimes, an Excel template) on Blackboard.

**All the students** are expected to read and discuss the cases with the questions in mind in order to contribute to the class discussion. Each group (see next section about groups below) will send me **a maximum of 2 pages write-up by email at least 24 hours before the case is due for discussion** answering the case questions posted in Blackboard. You can also attach any spreadsheet you may have used to answer the questions. Failure to comply with this deadline will qualify as a FAIL.

On top of that, every case will be assigned to **two groups** of students in particular (see the Course Schedule below). The **two assigned groups** will prepare **a presentation of maximum 20 minutes** using power point or any other support of your choice. Send me the presentation as well by email at least 24 hours before the session. Both groups will work independently.

I will mark your case write-up as PASS or FAIL. If you are presenting, I will also take the presentation into consideration before marking the write-up.

I can (and will) ask **any student in class** to share her/his opinion on any given topic along the discussion. Come ready!

## Groups

Groups should consist of maximum **7 students (total 10 groups)**. They should be formed **within the first week of classes**. There will be a discussion board on the course homepage on Blackboard for the purpose of setting up groups. Students looking for groups and groups looking for additional members can post messages there. Groups should stay together for the whole course. Once you have a group, please send me a message including the group members' surname (first column), first name (second column) and email (third column).

## Lecturing

Class slides (when used) will cover the main aspects of every topic. Slides will be available on Blackboard 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.

## Grading Policy and Exams

Both the mid-term and the final exams will consist of two parts: Multiple choice questions and up to three short exercises. Further details will be provided in due time (before the exams). The mid-term exam will comprise the material covered in the first 12 sessions. The final exam will comprise ALL the course material.

If you PASS at least four of the five case write-ups, your grade will be the higher between the following two options:

### Option one:

Class Participation:	15%
Midterm exam:	35%
Final exam:	50%

### Option two:

Class Participation:	15%
Final exam:	85%

If you FAIL more than one write-up, your grade will be determined by option two.

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

## Class Norms

**Punctuality:** The door will remain open until **5 minutes past the starting time**. After that moment, the door will be closed and no student will be allowed in. Please do not leave before the end of the class unless it is well justified (it is very distracting for the instructor and the class)

Turn off all electronic devices prior to the start of class. Laptops, cell phones and other electronic devices are a distraction to everyone.

## Honor Code

This course will be conducted according to the rules specified in the "Stern Honor Code", which mandates zero tolerance for academic dishonesty. You are expected to be familiar with the School's Honor Code and to follow the procedures outlined therein. All discussions about case assignments are to be limited to your group. Materials like case reports from other students, previous years or other courses or other publicized information on cases are not to be consulted. All work handed in for grading has to be your own or your group's, and all sources of information used have to be accounted for. Each assignment should include a signed statement indicating adherence to the Stern Honor Code.

<http://www.stern.nyu.edu/uc/codeofconduct>

## Students with Disabilities

If you have a qualified disability and will require academic accommodation of any kind during this course, you must notify me at the beginning of the course and provide a letter from the Moses Center for Students with Disabilities (CSD, 998-4980, [www.nyu.edu/csd](http://www.nyu.edu/csd)) verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

Course Outline

**BB: Blackboard; BMA: Brealey, Mayers, Allen; D: Damodaran.**

SES.	DATE	TOPICS /READINGS	LECTURE NOTES	ASSIGNMENTS
1-2	09/05 and 09/10	<b>Introduction: The Objective in Corporate Finance</b> <b>BMA:</b> Chapter 01.4 Agency Problems and Corporate Governance Chapter 13.1 We Always Come Back to NPV Chapter 13.5 The Six Lessons of Market Efficiency Chapter 33 Governance and Corporate Control Around the World <b>D:</b> Chapter 2 The Objective in Corporate Finance	<b>Lecture Notes 0</b>	Read Syllabus! Find a group!
3-4	09/12 and 09/17	<b>Net Present Value and Other Investment Criteria</b> <b>BMA:</b> Chapter 05 Net Present Value and Other Investment Criteria <b>D:</b> Chapter 3 The Time Value of Money Chapter 10 Investment Decision Rules	<b>Lecture Notes 1</b>	
5	09/19	<b>Exercises on NPV and Capital Budgeting</b>		Exercises set #1 in BB
6-7	09/24 and 09/26	<b>DCF I: Accounting Statements and Cash Flows</b> <b>BMA:</b> Chapter 6 Making Investment decisions with the NPV rule <b>D:</b> Chapter 4: Understanding Financial Statements Chapter 5: Value and Price: An Introduction	<b>Lecture Notes 2</b>	Download USCC Excel from BB before class
8	10/01	<b>Exercises on Free Cash Flows</b>		Exercises set #2 in BB
9	10/03	<b>Case Discussion: The Super Project (HBS 9-112-034)</b>		SUBMITT case answers 24H before this session
10-11	10/08 and 10/10	<b>DCF II: The Hurdle Rate</b> <b>BMA:</b> Chapter 9 Risk and Return <b>D:</b> Chapter 7 Estimating Hurdle Rates for firms	<b>Lecture Notes 3</b>	
12	10/17	<b>Case Discussion: American Chemical Corporation (HBS 9-280-102)</b>		SUBMITT case answers 24H before this session
13	10/22	<b>Review session before the Mid-term Exam</b>		
14	10/24	<b>Mid-term Quiz in class</b>		Study!
15-16	10/29 and 10/31	<b>Optimal Capital Structure (CS): The WACC approach Theory</b> <b>BMA:</b> Chapter 17 Does Debt Policy matter? Chapter 18 How Much should a Corporation Borrow?	<b>Lecture Notes 4</b>	

		<b>D:</b> Chapter 18 The Financing Mix: Tradeoffs and Theory Chapter 19: The optimal Financial Mix		
17	11/05	<b>Optimal Capital Structure (CS): The WACC approach Practice</b>		Download WACC-BOEING Excel from BB
18	11/07	<b>Exercises on Optimal Capital Structure</b>		Exercises set #3 in BB
19	11/12	<b>Case Discussion: Diageo (HBS 9-201-033)</b>		SUBMITT case answers 24H before this session
20-21	11/14 and 11/19	<b>Business Valuation: DCF</b> <b>BMA:</b> Chapter 19 Financing and Valuation <b>D:</b> Chapter 24: Valuation: Principles and Practice	<b>Lecture Notes 5</b>	
22	11/21	<b>Business Valuation: Multiples</b> <b>BMA:</b> Chapter 19 Financing and Valuation <b>D:</b> Chapter 24: Valuation: Principles and Practice	<b>Lecture Notes 5</b>	Download GAP_Comparables Excel from BB
23	11/26	<b>Exercises on Business Valuation</b>		Exercise set #4 in BB
24	11/28	<b>Case discussion: Radio One Inc. (HBS 9-201-025)</b>		SUBMITT case answers 24H before this session
25	12/03	<b>Payout Policy: Theory and Practice</b> <b>BMA:</b> Chapter 16 Payout Policy <b>D:</b> Chapter 21 Dividend Policy Chapter 22: Analyzing Cash Returned to Stockholders	<b>Lecture Notes 6</b>	
26	12/05	<b>Exercises on Payout Policy</b>		Exercise set #5 in BB
27	12/10	<b>Case Discussion: Dividend Policy at FPL Group, Inc. (HBS 9-295-059)</b>		SUBMITT case answers 24H before this session
28	12/12	Course review		<b>Study!</b>

CASE	DUE 24H BEFORE	GROUPS PRESENTING
The Super Project (HBS 9-112-034)	Session 9	GROUPS 1 AND 10
American Che. Corporation (HBS 9-280-102)	Session 12	GROUPS 2 AND 9
Diageo (HBS 9-201-033)	Session 19	GROUPS 3 AND 8
Radio One Inc. (HBS 9-201-025)	Session 24	GROUPS 4 AND 7
Dividend Policy at FPL. (HBS 9-295-059)	Session 27	GROUPS 5 AND 6