



Corporate Finance Syllabus and Outline Spring 2009

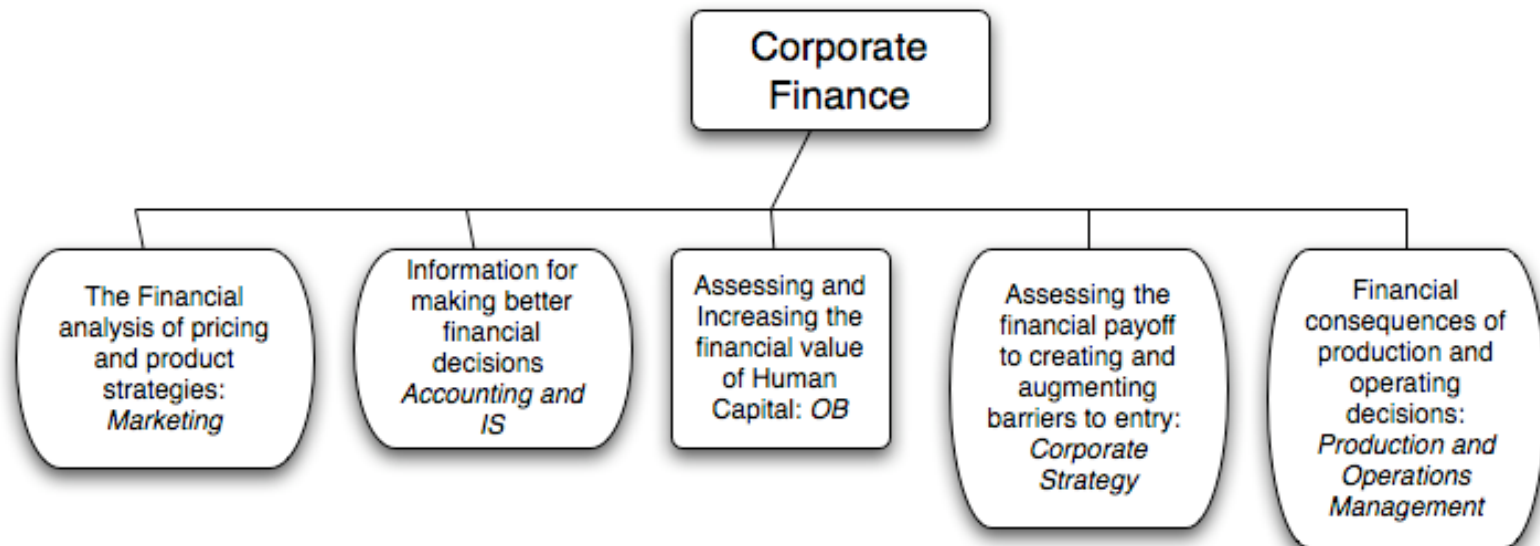
Aswath Damodaran

General Information

- Office: Room 9-96
- Phone: 998-0340
- E-mail: adamodar@stern.nyu.edu
- Home Page:
http://www.stern.nyu.edu/~adamodar/New_Home_Page/corpfin.html
- Office Hours
 - Monday 9.45-10.20, 12-1.00
 - Wednesday 9.45-10.20, 12-1.00
 - The “fair game” principle applies.
- All classes will be available online as web casts about 2 hours after the class is complete (and sometimes sooner).
- Teaching assistants for the class are
 - Abhi Gupta, abhimanyu.gupta@stern.nyu.edu
 - Justin Magner, justin.magner@stern.nyu.edu

What is corporate finance?

- Every decision that a business makes has financial implications, and any decision which affects the finances of a business is a corporate finance decision.
- Defined broadly, everything that a business does fits under the rubric of corporate finance.



Course Objectives

- To give you the capacity to understand the theory and apply, in real world situations, the techniques that have been developed in corporate finance.
Motto for class: If it cannot be applied, who cares?.
- To give you the big picture of corporate finance so that you can understand how things fit together.
Motto for class: You can forget the details, but don't miss the storyline.
- To show you that corporate finance is fun.
Motto for class: Are we having fun yet?

The Traditional Accounting Balance Sheet

The Balance Sheet

Assets		Liabilities	
Long Lived Real Assets	Fixed Assets	Current Liabilities	Short-term liabilities of the firm
Short-lived Assets	Current Assets	Debt	Debt obligations of firm
Investments in securities & assets of other firms	Financial Investments	Other Liabilities	Other long-term obligations
Assets which are not physical, like patents & trademarks	Intangible Assets	Equity	Equity investment in firm

The Financial View of the Firm

Assets		Liabilities	
Existing Investments Generate cashflows today Includes long lived (fixed) and short-lived (working capital) assets	Assets in Place	Debt	Fixed Claim on cash flows Little or No role in management <i>Fixed Maturity</i> <i>Tax Deductible</i>
Expected Value that will be created by future investments	Growth Assets	Equity	Residual Claim on cash flows Significant Role in management <i>Perpetual Lives</i>

Tale of two companies...

Con Ed's Financial Balance Sheet

Assets		Liabilities	
\$ 15 billion	Investments already made	Debt	\$ 7 billion
\$ 3 billion	Investments yet to be made	Equity	\$ 11 billion

EBay's Financial Balance Sheet

Assets		Liabilities	
\$ 6 billion	Investments already made	Debt	\$ 0.12 billion
\$ 71.12 billion	Investments yet to be made	Equity	\$ 77 billion

First Principles

- Invest in projects that yield a return greater than the minimum acceptable hurdle rate.
 - The hurdle rate should be higher for riskier projects and reflect the financing mix used - owners' funds (equity) or borrowed money (debt)
 - Returns on projects should be measured based on cash flows generated and the timing of these cash flows; they should also consider both positive and negative side effects of these projects.
- Choose a financing mix that minimizes the hurdle rate and matches the assets being financed.
- If there are not enough investments that earn the hurdle rate, return the cash to stockholders.
 - The form of returns - dividends and stock buybacks - will depend upon the stockholders' characteristics.

Objective: Maximize the Value of the Firm

Outline for Class

- Understand the objective function: Session 1-3
- The Investment Principle
 - Risk and Hurdle Rates Sessions 4-9
 - Measuring Returns Sessions 10-13
- The Financing Principle
 - The Optimal Financing Mix Session 14-18
 - The Right Kind of Debt Session 19-20
- The Dividend Principle
 - How much to return to owners Session 21-22
 - How to return cash Session 23
- Linking decisions to value Sessions 24-25
- Review Session 26

Required Material

I. Text: Lecture Notes; They are sold in the book store in two parts. The lecture notes are also available in pdf format on the web:

http://www.stern.nyu.edu/~adamodar/New_Home_Page/cflect.htm

II. Supplementary Text:

Applied Corporate Finance: A User's Manual (Second Edition) by Aswath Damodaran

http://www.stern.nyu.edu/~adamodar/New_Home_Page/AppldCF/ApplCF2ed/appldCF2E.htm

III. Practice Problems/Exams:

Every quiz and final exam that I have ever given is online, with solutions.

http://www.stern.nyu.edu/~adamodar/New_Home_Page/cfprob0.html

There are also problems in the supplementary book, and solutions.

http://www.stern.nyu.edu/~adamodar/New_Home_Page/cfprset.htm

IV. Spreadsheets and data are accessible on my home page:

www.stern.nyu.edu/~adamodar/New_Home_Page/data.html

www.stern.nyu.edu/~adamodar/New_Home_Page/spreadsh.htm

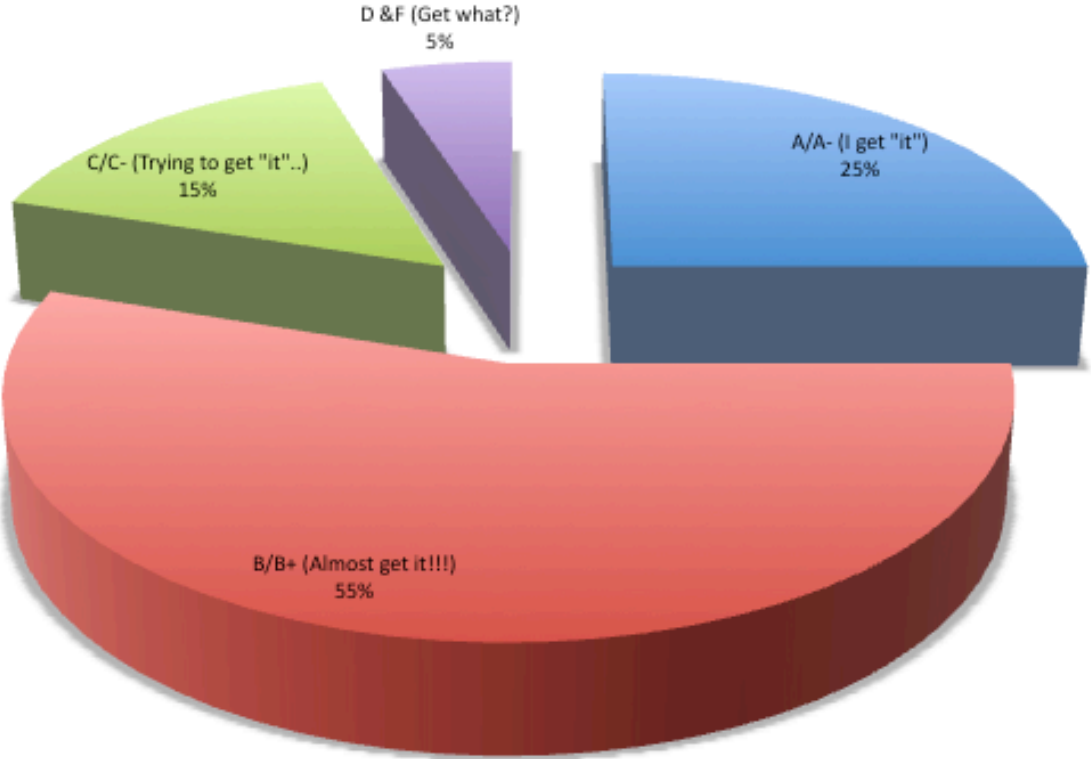
Corporate Finance Readings

	<i>Sessions</i>	<i>Chapters in book</i>
Understand the objective function:	Session 1-3	Chapters 1,2
The Investment Principle		
Risk and Hurdle Rates	Sessions 4-8	Chapter 3, 4
Measuring Returns	Sessions 9-13	Chapter 5,6
The Financing Principle		
The Optimal Financing Mix	Session 14-18	Chapter 7,8
The Right Kind of Debt	Session 19-20	Chapter 9
The Dividend Principle		
How much to return to owners	Session 21-22	Chapter 10
How to return	Session 23	Chapter 11
Linking financial decisions to value	Sessions 24-25	Chapter 12
Review	Session 26	

Other Readings

- **The New Corporate Finance Reader**, edited by Donald H. Chew.
 - This book has a number of readings on topics in corporate finance, which are both readable and informative.
- **Capital Ideas** by Peter Bernstein
 - This book looks back at the development of many of the most important ideas in corporate finance.
- **A Random Walk down Wall Street** by Burt Malkiel
 - This is not a corporate finance book, but it provides a 'skeptic's' view of Wall Street and its ways.
- **Sense and Nonsense in Corporate Finance** by Louis Lowenstein
 - This book contests much that is taken as accepted wisdom in corporate finance. I agree with very little in this book, but it is worth reading for a contrary viewpoint.

Grading Distribution



Grading Basis

- **Group Work:** You should work in groups of four to eight. Each group will be required to work on one case (you will get it in class in the fourth week) and one comprehensive project (See attached description).

Case: Due session 16 (March 30) 10%

Group Project: Due Session 26 (May 4) 30%

- **Individual Work:**

- Quizzes: There will be three open-book and open-notes quizzes worth 10% each.
 - Quiz 1: Session 10 - Covers sessions 1-9 (March 2)
 - Quiz 2: Session 17 - Covers sessions 9-14 (April 1)
 - Quiz 3: Session 23- Covers session 16-20 (April 22)
- Final Exam: This will also be an open-book and open-notes cumulative exam worth 30% on May 6 from 11.15 – 1.15.

Exam Ground Rules

1. Quizzes will be on the designated days in the first 30 minutes of the class.
2. Exams will be open book, open notes. You can bring in as much supporting material as you can carry.
3. Exams are NOT group work. You cannot consult with, talk to, communicate with or pass telepathic (or text) messages to anyone else in or out of the classroom. There are no cultural exceptions.
4. When time is called on the quiz, please stop writing.
5. Each quiz is worth 10%.
6. If you have to miss a quiz for good reason, you will have to let me know (by email) at least 15 minutes before the quiz that you will be missing the quiz.
7. If you miss a quiz for good reason, the 10% weight on that quiz will be reallocated across your remaining exams (quizzes and final). You cannot weight prior quizzes more.
8. If you take all three quizzes, the score on your worst quiz will be pushed up to the average score across all of your other exams (the other two quizzes and the final exam) (Note: It will not be thrown out). If you miss a quiz, you will not have this option, even if you miss the quiz for good reason.
9. I grade all of your quizzes and I give partial credit. So, please show all work. If you have a beef with the grading (and I do make mistakes), please come to me
10. You can bring calculators to the quiz but you cannot use your laptop (yet).

Good reasons for missing quiz: Physical or mental sickness (you, spouse or child), Stalled subway train, Important interview (and you cannot change time), Tickets to Yankee Opening day.

Not good reasons for missing quiz: Did not have time to prepare, Feeling overwhelmed, Not quite ready, Tickets to Red Sox or Mets opening day.

Rules of Engagement for class and group work

■ Rules of group work:

- Pick your own groups. (If you have trouble getting picked, I will help)
- All group work will be self policed, except in extreme circumstances.
- There will be one grade per group, no matter how the work load is distributed among the group members

■ Rules for class

- I do not enforce attendance, but I would like you to be here. Of course, if you have to miss a class, you can always use the webcast as a fall-back.
- Cell phones ... (Please, need I say more..)
- All participation is welcome.