



Corporate Finance Syllabus and Outline

<http://www.damodaran.com>

This class: http://www.stern.nyu.edu/~adamodar/New_Home_Page/triumdesc.html

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General Information

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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.

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.

You can forget the details, but don't miss the story.

- To show you that corporate finance is fun.

It takes more work, but it is more fun

The Traditional Accounting 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
- The Investment Principle
 - Risk and Hurdle Rates Session 1-2
 - Measuring Returns Session 2,3
- The Financing Principle
 - The Optimal Financing Mix Session 4-5
 - The Right Kind of Debt
- The Dividend Principle
 - How much to return to owners Session 5
 - How to return
- Linking financial decisions to value Session 5-6

Required Material

- I. Text: Lecture Notes
- II. Supplementary Text:
 - Applied Corporate Finance, Second Edition** by Aswath Damodaran
- III. Practice Problems/Exams:
 - Every quiz I have ever given in any corporate finance class is available on my web site, with solutions.
 - There are also problems in the supplementary book, and solutions.
- IV. Computer Spreadsheet Programs: accessible on my home page www.stern.nyu.edu/~adamodar
- V. Real World Readings
 - Wall Street Journal, New York Times, Financial Times
 - Fortune, Forbes, BusinessWeek and Barrons

Chapters and Readings by Session

Session	Readings
1	Chapter 1, 2, 3
2-3	Chapter 4, 5
4	Chapter 7-9
5	Chapter 10,11
6	Chapter 12

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.

Tests, Projects and Other Unpleasant stuff!

- There will be two quizzes, one at the start of session 3 and the other at the start of session 5.
 - Each quiz will be 30 minutes in length and cover the material from the prior day.
 - The quizzes are open book, open notes
 - Each quiz will be worth 25% of your grade.
- There will also be a comprehensive project that will be due a few weeks after the class ends. This project will be worth 50% of your grade. You can get more information on what the project involves by going to the website for the class.