Goals of the Course

The principal goal of this course is to provide a broad overview of investment banking and of the forces that are changing it worldwide. The focus is on the major activities of investment banks: (1) raising capital for clients; (2) advising on and executing merger and acquisition transactions; (3) making markets and providing brokerage services; (4) trading and investing for the bank’s own account; and (5) managing third-party assets. The final section of the course will examine some of the challenges of managing a global investment bank.

Throughout the course, attention will be given to the clients of investment banks as well as to the banks themselves, and to the inherent tensions and potential conflicts between the two. While much of the course will focus on the U.S. experience, we will strive to maintain a global perspective. The evolving impact of technology on investment banking will be explored in each part of the course rather than treated as a separate topic.

By the end of the semester, each student should be well prepared for either an entry-level position in an investment bank or for a comparable position in a client firm in which he or she needs to interact with investment banks. All students should be able to read the financial press through new eyes upon completion of the course. **Students are expected to keep up with the financial news, particularly as it relates to investment banking.**

Required Readings

Students should purchase the course packet, available at the bookstore. Other required readings--mainly articles from the financial press--will be distributed in class.

Blackboard

“Blackboard”, which can be accessed through your browser at [http://sternclasses.nyu.edu](http://sternclasses.nyu.edu), is an integral part of this course, and you are responsible for any information posted there. **Be sure to read the “Assignments” found there in preparing for each class.**
**Grading**

There will be mini-exams of 40 minutes each on September 27 and October 27 and a final exam on December 20. They will be weighted 20%, 20%, and 60%, respectively. The grade distribution will follow the guidelines of the Finance Department. **It goes without saying that students are expected strictly to abide by the NYU Stern Honor Code.**

**Teaching Assistant**

The TA for this course is Andrew Horn, who may be reached at andrew.horn@stern.nyu.edu.

**Schedule of Classes**

**September 6 and 8—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

**September 13 and 15—Raising Capital: 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 of the fees

Readings: CP, Articles #5 & #6

**September 20 and 22—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 role of “sell-side” research

Readings: CP, Article #7
September 27 and 29, October 6—Publicly Traded Investment Grade Debt and Private Placements

- **Mini-exam #1, first 40 minutes on September 27**
- **No class on October 4**
  - The role of the rating agencies vs. that of fixed-income research
  - From shelf-registration to offerings over the internet
  - Competitive vs. negotiated deals
  - Private placements and Rule 144A issues

Readings: CP, Articles #8–#12

October 11 and 18—High-Yield Debt and Convertible Securities

- **No class on October 13**
  - The evolution of the high-yield market
  - The development of the leveraged loan market
  - Hybrids of debt and equity
  - The logic of convertible securities and the changing nature of that market

Readings: CP, Articles #13 & #14

October 20 and 25—Securitizations and Derivatives

- 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
- Forwards, futures, swaps, and options, and their importance for raising capital

Readings: CP, #15–#17

October 27, November 1 and 3—Mergers, Acquisitions, and Strategic Advisory

- **Mini-exam #2, first 40 minutes on October 27**
- Recent trends in M&A activity
- Motivations for acquisitions and divestitures
- Winners and losers, and the elements of a successful deal
- The Telecom Italia case and the mechanics of M&A

Readings: CP, #18–#21

November 8, 10, and 15—The Sales and Trading Function

- The importance of sales and trading to capital raising
- Market-making vs. brokerage; institutional vs. retail clients
- The skills of traders and of salespeople
- The evolution of the exchanges and the new world of electronic trading
- Financing the inventory of an investment bank: call money and “repos”
Readings: CP, #22-#26

November 17, 22, and 29—Proprietary Trading, Hedge Funds, and Merchant Banking
  • Proprietary trading vs. market-making
  • Risk-arbitrage at investment banks
  • Hedge funds and their multiple relationships with investment banks
  • The private equity market: size, principal investors, and the range of issuers
  • Specialized intermediaries, merchant banking, and the role of investment banks

Readings: CP, #27-#32

December 1 and 6—Asset Management and Private Banking
  • Institutional asset management and its relationship with investment banking
  • Private banking and its evolution
  • Synergies vs. conflicts

Readings: CP, #33-#36

December 8—Managing Risks
  • The variety of risks faced by an IB
  • Measuring and managing market risk and the concept of “VAR”

Readings: CP, #37

December 13—Professional Standards and Ethics
  • 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, #38

Final Exam—December 20, 3:45PM-5:45PM