NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS

Investment Banking
B40.2334.30, Spring 2005

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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. We will cast a critical eye at the activities in which investment banks are currently engaged and ask which of these activities make sense for the long run. Particular emphasis will be placed on the conflicts inherent in having one financial institution provide a broad range of services, including raising capital, providing strategic advice, serving as a broker/dealer, trading and investing the firm’s own capital, and managing the assets of others.

Throughout the course, attention will be given to the perspective of the client as well as to that of the investment bank, and to the inherent tensions between the two. While much of the course will focus on the U.S. experience, a global perspective will be maintained throughout. 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 Reading

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

Grading

There will be two mini-exams (half-hour each) on March 2 and March 30 and a (non-cumulative) final exam. These will be weighted 25%, 25%, and 50%, respectively. It goes without saying that students are expected strictly to abide by the NYU Stern Honor Code.
Schedule of Classes

February 9—Overview of the Financial Services Industry and the Role of Investment Banks

How did we get into this mess? Two models of raising capital: who bears the risk? Who’s in charge: bankers or product specialists; banks or clients? Which functions make sense, and which do not?

Readings: Course Packet (“CP”), Articles #1-#3

February 16—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 #4 & #5

February 23—Other Aspects of Raising Publicly Traded Equity

Privatizations; seasoned and secondary offerings; rights issues; the impact of the internet on equity underwriting; and the changing role of “sell-side” research.

Readings: CP, Article #6

March 2—Publicly Traded Investment Grade Debt, Private Placements, and Bank Loans
First Mini Exam
The role of the rating agencies; fixed-income research; from shelf-registration to offerings over the internet; competitive vs. negotiated deals; private placements and Rule 144A issues.

Readings: CP, Articles #7-#11

March 9—High-Yield Debt and Convertible Securities

The evolution of the high-yield market: a valid “asset class”. Hybrids of debt and equity: the logic of convertible securities and the changing nature of the convertible market.

Readings: CP, Articles #12 & #13

March 16—No Class; Spring Break

March 23—Securitizations and Derivatives
Mortgage-backed and asset-backed issues; tailoring risk and return to individual tastes; the concept of “bankruptcy remote”; credit enhancements; forwards, futures, swaps, and options, and their importance for raising capital.

Readings: CP, Articles #14-#16

**March 30— Mergers and Acquisitions**  
**Second Mini Exam**

Recent trends in M&A activity; motivations for acquisitions and divestitures; winners and losers, and the elements of a successful deal.

Readings: CP, Articles #17-#19

**April 6— Mergers and Acquisitions; The Sales and Trading Function**

The mechanics of M&A: the Telecom Italia case. The importance of sales and trading to capital raising; brokers and dealers; institutional and retail clients; the skills of traders and of salespeople.

Readings: CP, Articles #20-#22

**April 13—Sales and Trading; Proprietary Trading**

The evolution of the exchanges and the new world of electronic trading. Proprietary trading vs. market-making; risk-arbitrage at investment banks.

Readings: CP, Articles #23-#27, #35

**April 20— Hedge Funds and Proprietary Investing**

Hedge funds and their multiple relationships to investment banks. Merchant banking activities of investment banks; the size and significance of the private equity market; the principal investors; the range of issuers; and the role of the specialized intermediaries.

Readings: CP, Articles #28-#31

**April 27—Asset Management and Private Banking**

Institutional asset management; private banking and its evolution; the relative synergies of both activities with the other areas of an investment bank.

Readings: CP, Articles #32-#34

**May 4—Professional Standards and Ethics**
Final Exam

The “people risks” at investment banks; firm values, firm culture, and the importance of both for success; the lessons from recent years. (Note: the second half of the evening will be devoted to the final exam.)

Readings: CP, Article #36