



CORPORATE FINANCE
SYLLABUS AND OUTLINE
SPRING 2021

General Information

2

- Office: In cyberspace.
- E-mail: adamodar@stern.nyu.edu
- Office Hours
 - ▣ Monday: 11 am – 12 pm, EST
 - ▣ Wednesday: 11 am – 12 pm, EST
 - ▣ All office hours will be online, with breakout rooms for privacy
 - ▣ The “fair game” principle applies.
- The teaching assistants/fellows for this class are:
 1. Samuel Greene (sg3097@stern.nyu.edu)
 2. Siddharth Kejriwal (siddharth.kejriwal@stern.nyu.edu)

Pre-season prep!

Getting ready for the class

- **Accounting:** The raw material you need to value a company comes primarily from accounting statements. Understanding how to read a financial statement and where to find the information need is critical.
 - ▣ My primer: http://people.stern.nyu.edu/adamodar/New_Home_Page/AccPrimer/accstate.htm
 - ▣ My YouTube Accounting class: <https://www.youtube.com/playlist?list=PLUkh9m2BorqmKaLrNBjKtFDhpdFdi8f7C>
- **Statistics:** Statistics is designed to help us make sense of data that is large and contradictory. That is exactly the problem we face in valuation.
 - ▣ My primer: http://people.stern.nyu.edu/adamodar/New_Home_Page/StatFile/statistics.htm
- **Finance:** There are tools that we draw on in valuation extensively.
 - ▣ Risk and return models: <http://www.stern.nyu.edu/~adamodar/pdfiles/acf3E/ch3.pdf>
 - ▣ Present value: http://people.stern.nyu.edu/adamodar/New_Home_Page/PVPrimer/pvprimer.htm
 - ▣ Corporate finance: http://people.stern.nyu.edu/adamodar/New_Home_Page/corpfm.html (just to wander down memory lane)
 - ▣ My YouTube Foundations of Finance class: <https://www.youtube.com/playlist?list=PLUkh9m2BorqndWimijiJ-VCAXjJUrZJQU>

Class structure

4



Classes Online

- Platform: We will use Zoom (meeting) as the platform for all classes. The classes will be live at the scheduled time. I will also record the classes to be accessible for those who miss the class or portions of it. I will also make the class available on
 - ▣ YouTube, as a playlist
 - ▣ as a downloadable video file (for a computer, a tablet or a smart phone)
 - ▣ as a downloadable audio file.
- Class Material: The only material you will need access to during the class is the lecture note packet (which will be available right about 2-3 weeks before class to download). Once available, you can find them at:
http://www.stern.nyu.edu/~adamodar/New_Home_Page/cflect.htm
- Zoom rules: Please try to be at the class, and unless you have really good reasons you do not want to, please have your camera on, and audio ready to go. I will mute audios to start the class, but you will have the power to unmute yourself.
- Class discussions: Please use the hand raise feature in Zoom to ask questions or raise issues. Please be ready to be called upon during class.

Information Hubs

6

- The Website: The central location for everything related to this class is on the home page for the class on my website:
 - ▣ http://www.stern.nyu.edu/~adamodar/New_Home_Page/corpfm.html
I will try to also keep the material on NYU Classes, but I don't like closed systems.
Enough said!
- YouTube Channel: There is a final option, if your broadband connection is not that great and you are watching on a Tablet/smartphone. There is a YouTube playlist for this class, where all class sessions will be loaded.
<https://www.youtube.com/playlist?list=PLUkh9m2Borql2njENzmUX2DoZr5E2-YXs>
When you get a chance, check it out.

More ways that I can harass you!!

7

- The Google calendar: The Google calendar for the class is available at:
https://calendar.google.com/calendar/embed?src=c_fpurlbdb5jupkrqucdku07tt0c%40group.calendar.google.com&ctz=America%2FNew_York
- Blog: I post on finance and valuation on my blog. If you have time on your hands:
<http://aswathdamodaran.blogspot.com/>
- Twitter: I have a twitter feed (@AswathDamodaran). I don't tweet much and you will learn nothing about my personal life, but I hope to keep you posted on corporate finance and valuation.

Required Material

8

I. Text: Lecture Notes; The lecture notes are available in pdf format on the web:

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

II. Supplementary Text:

http://people.stern.nyu.edu/adamodar/New_Home_Page/ACF4E/appldCF4E.htm

[Applied Corporate Finance: A User's Manual \(Fourth Edition\)](#) by Aswath Damodaran

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:

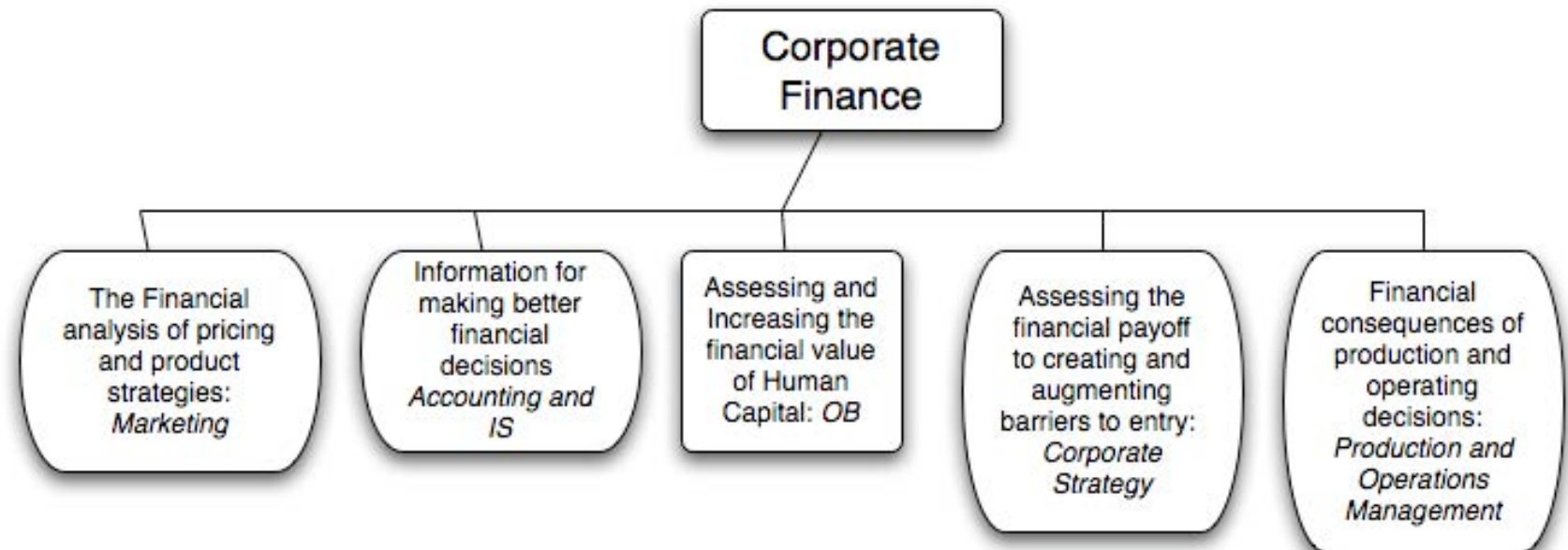
www.stern.nyu.edu/~adamodar/New_Home_Page/data.html

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

What is corporate finance?

9

- 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

10

- 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.
 - ▣ Question for class: Are we having fun yet?

The Traditional Accounting Balance Sheet

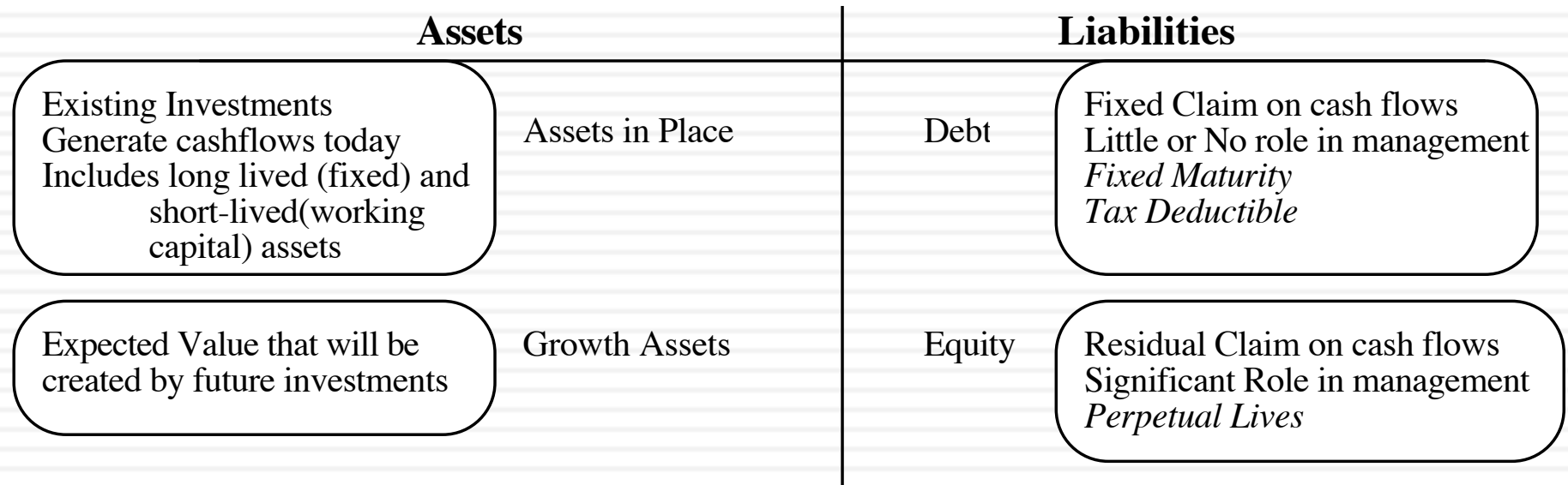
11

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

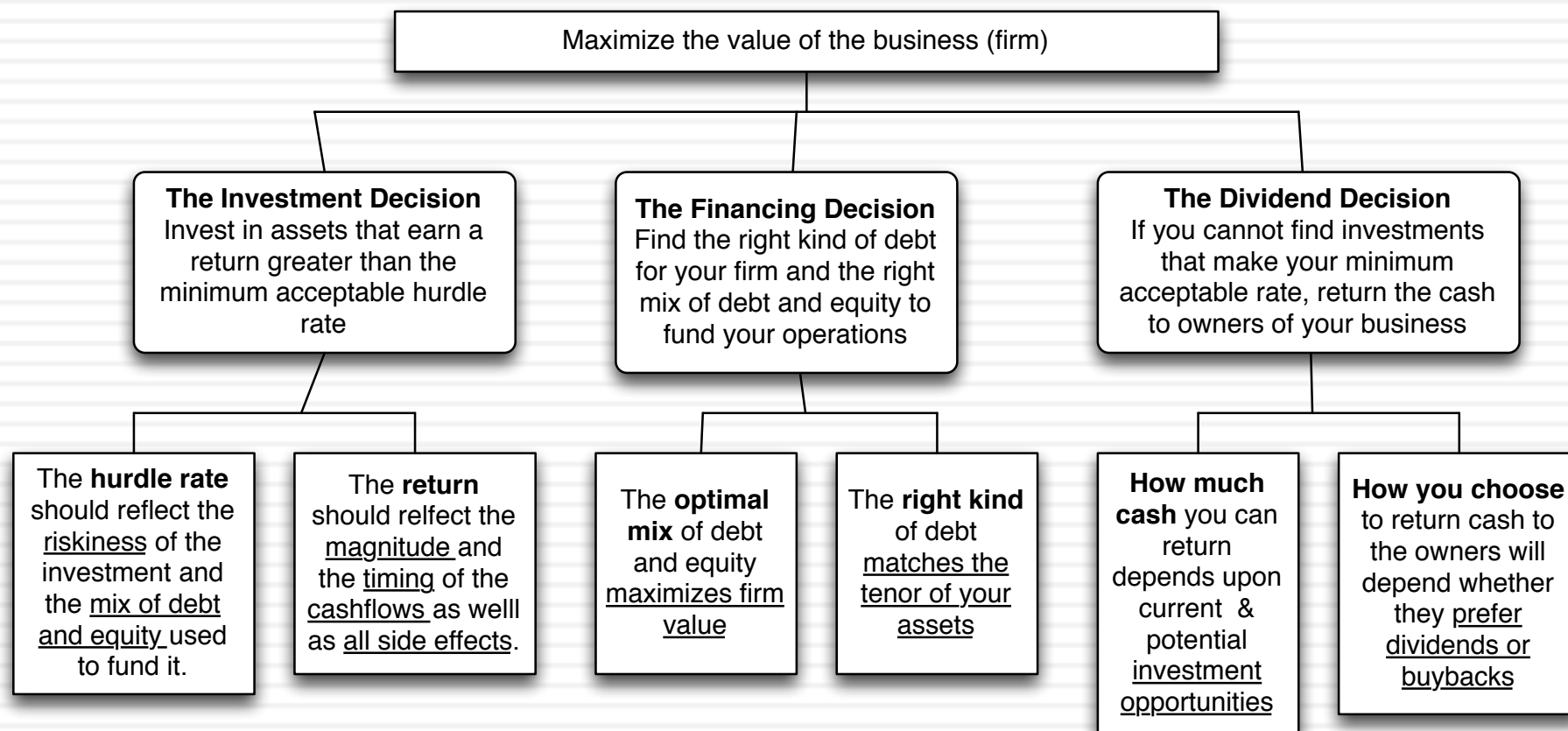
The Financial View of the Firm

12



First Principles & The Big Picture

13



Theme 1: Corporate finance is “common sense”

14

- There is nothing earth shattering about any of the first principles that govern corporate finance.
 - Arguing that taking investments that make 9% with funds that cost 10% to raise seems to be stating the obvious (the investment decision)
 - So is noting that it is better to find a funding mix which costs 10% instead of 11% (the financing decision)
 - And positing that if most of your investment opportunities generate returns less than your cost of funding, it is best to return the cash to the owners of the business and shrink the business.
- Shrewd business people, notwithstanding their lack of exposure to corporate finance theory, have always recognized these fundamentals and put them into practice.

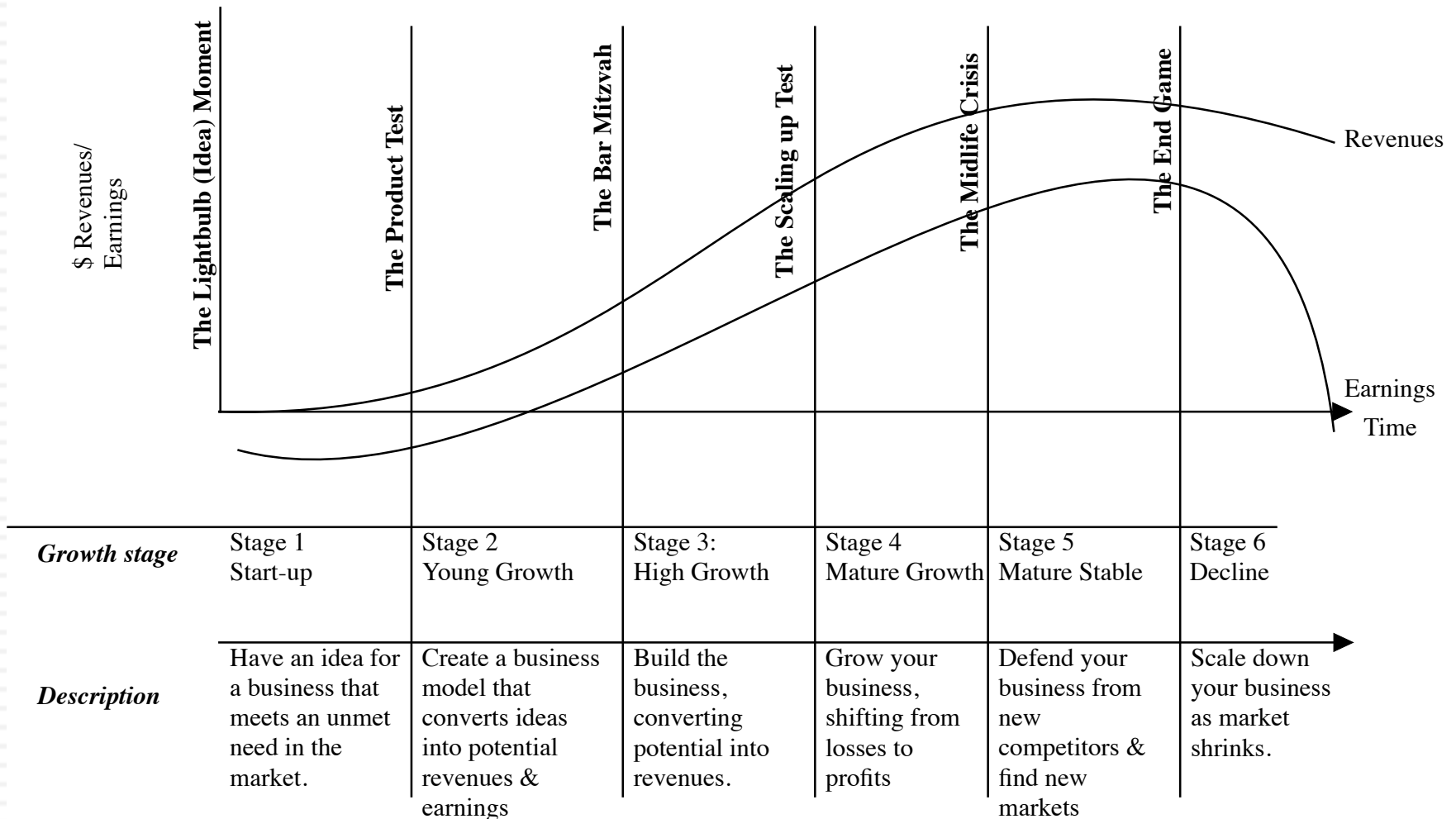
Theme 2: Corporate finance is focused...

15

- It is the focus on maximizing the value of the business that gives corporate finance its focus. As a result of this singular objective, we can
 - ▣ Choose the “right” investment decision rule to use, given a menu of such rules.
 - ▣ Determine the “right” mix of debt and equity for a specific business
 - ▣ Examine the “right” amount of cash that should be returned to the owners of a business and the “right” amount to hold back as a cash balance.
- This certitude does come at a cost. To the extent that you accept the objective of maximizing firm value, everything in corporate finance makes complete sense. If you do not, nothing will.

Theme 3: The focus in corporate finance changes across the life cycle...

16



Theme 4: Corporate finance is universal...

17

- Every business, small or large, public or private, US or emerging market, has to make investment, financing and dividend decisions.
- The objective in corporate finance for all of these businesses remains the same: maximizing value.
- While the constraints and challenges that firms face can vary dramatically across firms, the first principles do not change.
 - A publicly traded firm, with its greater access to capital markets and more diversified investor base, may have much lower costs of debt and equity than a private business, but they both should look for the financing mix that minimizes their costs of capital.
 - A firm in an emerging market may face greater uncertainty, when assessing new investments, than a firm in a developed market, but both firms should invest only if they believe they can generate higher returns on their investments than they face as their respective (and very different) hurdle rates.

Theme 5: If you violate first principles, you will pay a price, no matter who you are..

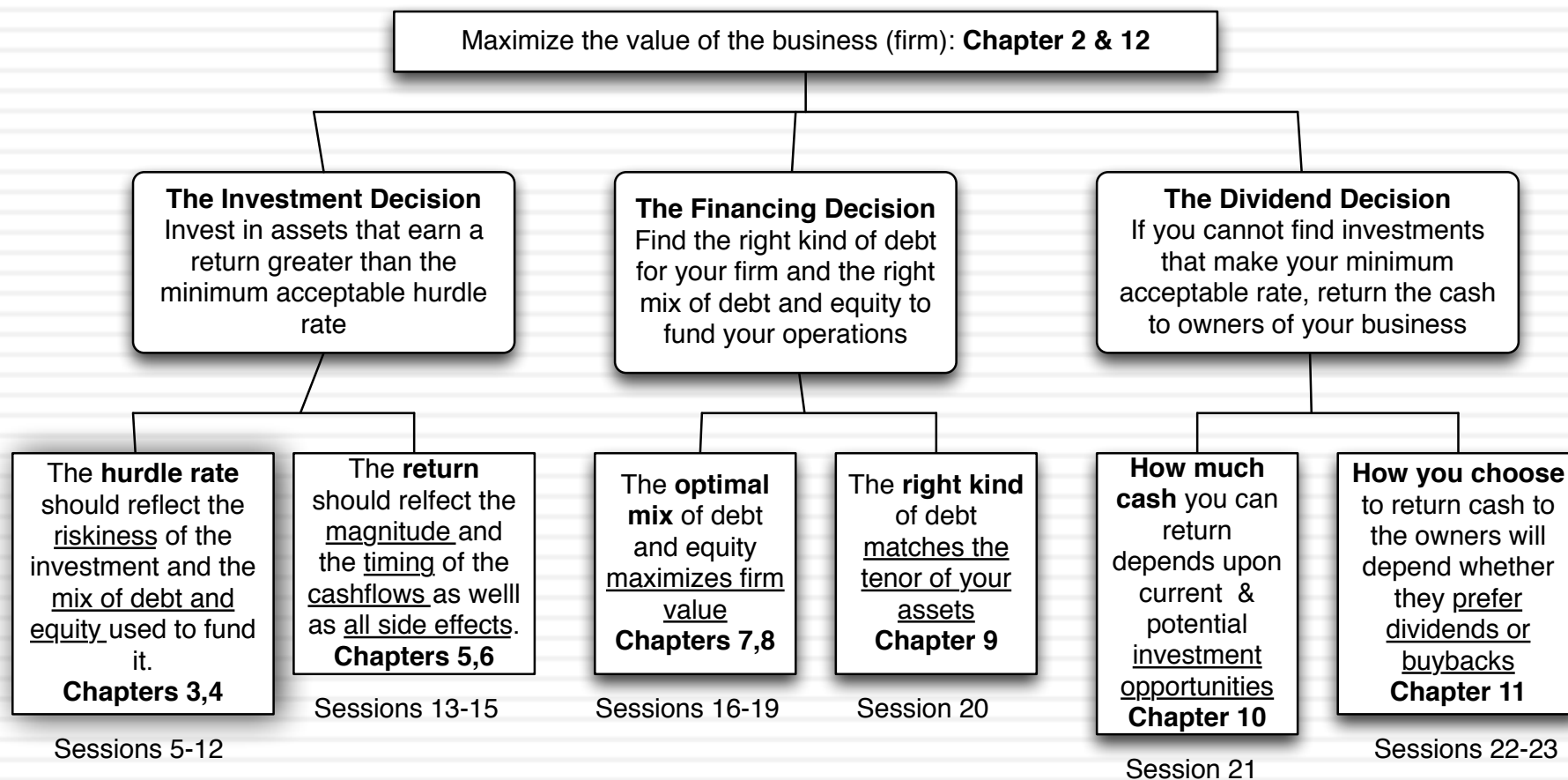
18

- There are some investors/analysts/managers who convince themselves that the first principles don't apply to them because of their superior education, standing or past successes, and then proceed to put into place strategies or schemes that violate first principles.
 - Sooner or later, these strategies will blow up and create huge costs.
 - Almost every corporate disaster or bubble has its origins in a violation of first principles.

Class Structure & Chapter references

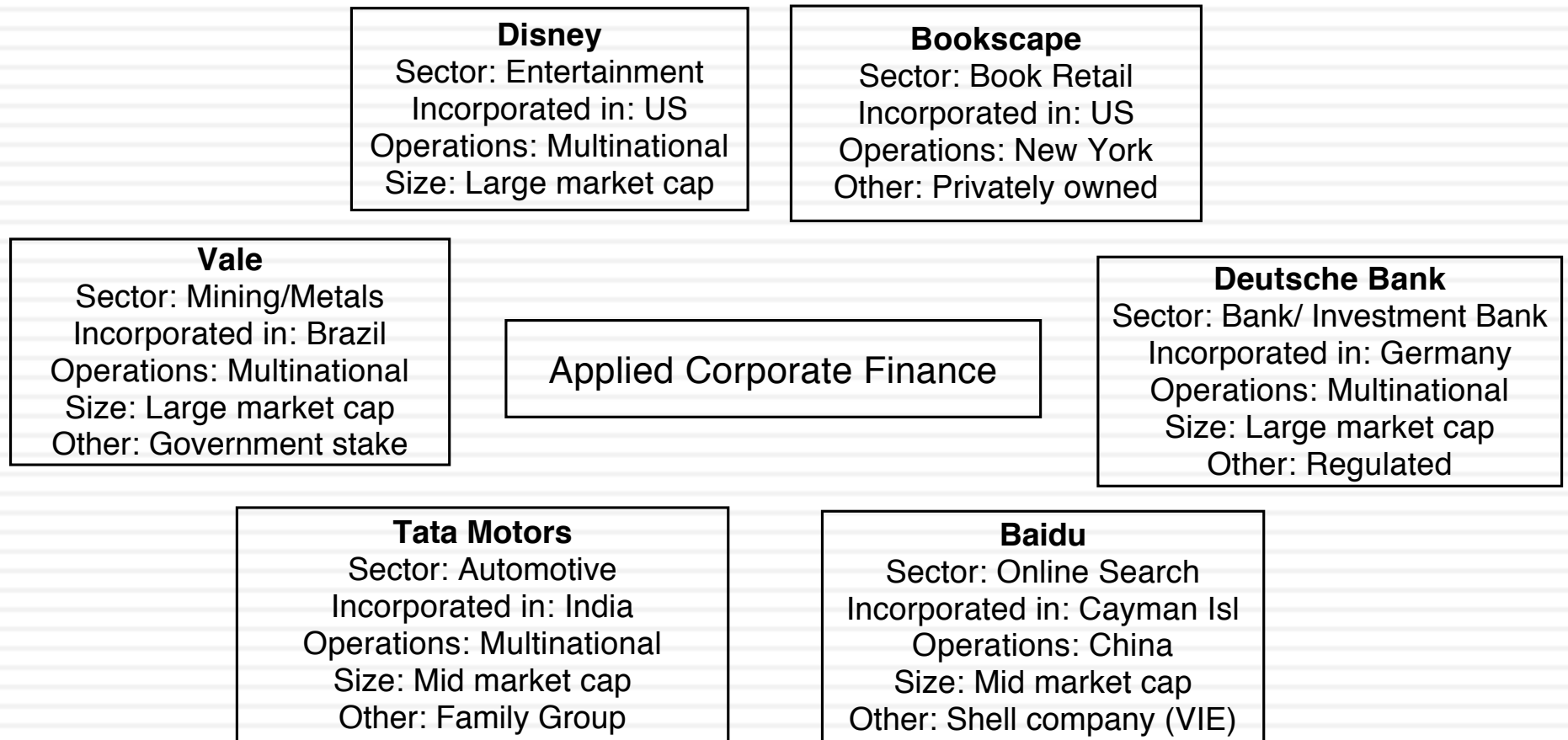
19

Session 2-4, 24-25



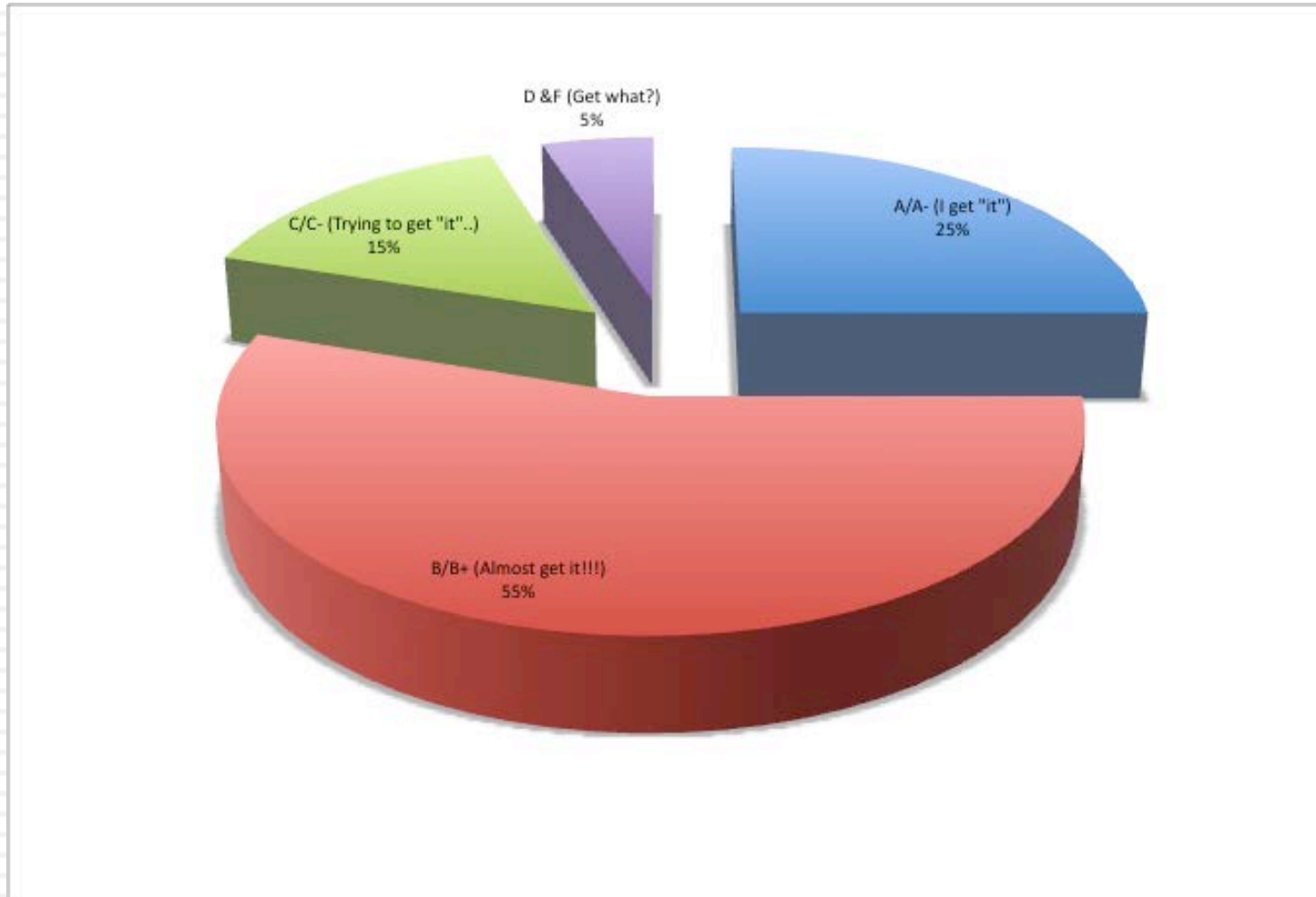
And it will be applied...

20



Grading Distribution

21



Grading Basis

22

- Group Work: 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 15 (March 29 before class) 10%
 - Group Project:
 - Numbers on your company (May 9, by 1 pm): 5%
 - Project report (May 10, by 5 pm): 25%
- 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 8)
 - Quiz 2: Session 16 - Covers sessions 10-15 (March 31)
 - Quiz 3: Session 23- Covers session 16-22 (April 28)
 - Final Exam: This will also be an open-book and open-notes cumulative exam, worth 30%. It will be on May 18.

Online Exam Ground Rules

23

1. Quizzes will be on the designated days, and will be **an hour long**, but they will be **accessible for a period of about nine hours** on the scheduled days, to give you some flexibility on when to take the exam.
2. Exams are **open book, open notes and open laptops**.
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 class. There are no cultural exceptions.
4. Each quiz is **worth 10%**.
5. 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.
6. 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.
7. The quizzes will **be multiple choice**. That is not optimal, and I apologize in advance, but open ended quizzes online, for a class of this size, is too daunting for me. If you have a beef with the grading (and I do make mistakes), please come to me.

Rules of Engagement for class and group work

24

- 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 really like you to be here. Of course, if you have to miss a class, you can always use the webcast as a fallback.
 - ▣ Cell phones ... (Please, need I say more..)
 - ▣ All participation is welcome.