

NEW YORK UNIVERSITY

Stern School of Business

Corporate Finance Topics

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Fall 2005

Course number: C15.0008

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Required text:

1. selected chapters from:

Ross S, Westerfield R, and Jaffe J., Corporate Finance, seventh Edition, Irwin, (RWJ).
The text comes with a solutions manual for the end-of-chapter problems.

2. Class notes and homework problems, Packet at the bookstore.

3. Case Problems in Finance, Packet at the bookstore.

Prerequisite:

The prerequisites for this course are C15.0002 Foundations of Financial Markets and C15.0007 Financial Management. You should have a command of the materials from these courses, including discounted cash flow valuation, capital budgeting, cost of capital, the CAPM, basic option pricing and basic capital structure theory. Many of these concepts will be reviewed briefly in class but not in sufficient depth to learn them from scratch.

Course Objective:

The primary objective of this course is to provide the student with the theoretical background and analytical tools necessary to sound financial decision-making. Special emphasis will be placed on analyzing corporate strategy in the choice of dividend decision, financial structure, mergers and acquisitions.

Grading Policy:

40% Midterm exam

45% Final exam

15% Case solutions and class participation.

Students have the option to substitute their midterm grade with, 0.90 * Final exam grade.

Following departmental guidelines, the course will be graded on a curve with an approximate grade distribution of:

A	10%
A-	10-15%
B+	10%
B/B-	40-50%
C+ and below	15-25%

Office Hours:

Wednesday 10:50 AM - 12:00 PM

Thursday 5 PM – 6PM

Students may also make appointment to discuss the class material.

Problem sets:

Practice questions of the studied material will be assigned occasionally. The student should try and solve the problems without using the solutions. Solutions to the problems will be handed so students can verify their answers.

Cases:

Case analysis and class discussion allow the student to apply the concepts studied in class to a real life example. Each case addresses a dilemma facing a firm during its operations. The students must analyze the firm's dilemma and provide possible solutions to its problem.

The class will be organized into groups of three or four students. Each group will discuss all of the cases assigned. A case summary of no more than three typed pages + appendixes should be handed in by each group, at the beginning of the session in which the case is discussed. Each case will be thoroughly discussed in class. All students must be prepared for the class discussion. Students are expected to participate and express their opinion.

Course outline

This outline is subject to change. The due dates are listed in **Bold**, while problems and cases assigned following a session are *Italicized*. The exact session for each due date will be announced in class at least a week in advance. RWJ refers to Ross, Westerfield and Jaffe, **Corporate Finance** text book. The RWJ readings are required prior to the class session they are assigned to.

Session	Topics	Assignments
1	Introduction Course Overview Introduction to corporate finance Different forms of organization Goals of the corporation	RWJ: Chapter 1 Find a working group <i>Case: American Express</i>
2	Corporate Governance Agency cost Board of directors Management compensation Case: American Express	RWJ: Chapter 23.1
3	Securities issued by corporations I Equity securities. Voting right, dividend rights, dual class	RWJ: Chapter 2, 14.1-14.3 <i>Problem set 1</i>
4	Securities issued by corporations II Debt securities. Types of debt (Differences in maturity, payment, interest rate, currency ...) Swaps	RWJ: Chapter 20
5	Market efficiency The EMH Implications for decision-making Market efficiency and internet stocks	RWJ: Chapter 13 <i>Problem set 2</i>
6	Capital structure policy review I M&M propositions The effects of leverage on risk and return Debt and taxes	RWJ: Chapter 14.4, 14.5, 15 <i>Problem set 3</i> <i>Case: UST</i>
7	Capital structure policy II Cost of financial distress Case UST	RWJ: Chapter 16 Hand in: Group solution to UST
8	Capital structure policy III Debt and Agency cost	RWJ: Chapter 16 <i>Problem set 4</i>
9	Financial Distress and Bankruptcy The bankruptcy legal process Bankruptcy Vs. debt restructuring Bankruptcy prediction models	RWJ: Chapter 31

Session	Topics	Assignments
10	Dividend Policy M&M propositions Dividend and taxes	RWJ: Chapter 18 <i>Problem set 5</i>
11	Stock repurchase Dividend policy	
12	Midterm (October 24, 2005)	
13	Long term financing I The public issue process IPOs SEOs	RWJ: Chapter 19 <i>Case: Google IPO (from articles distributed)</i>
14	Rights ADRs Case discussion: Google IPO	
15	Long term financing II Debt offerings Debt ratings - High yield debt Investment banks Project Financing	RWJ: Chapter 20 <i>Problem set 6</i>
16	Long term financing III Early stage financing Venture capital financing	
17	DCF review Review of PV formulas NPV method capital budgeting	
18	Firm Valuation I Bond valuation Stock price valuation Dividend growth model	RWJ: Chapter 5 <i>Problem set 7</i>
19	Firm Valuation II PV of cash flow with leverage adjustments Multiplier methods	RWJ: Chapter 17 <i>Case: paramount 1</i>
20	Case Discussion: Paramount 1	Hand in: Group solution to Paramount 1
21	Mergers and Acquisitions I Reasons for mergers and acquisitions Empirical evidence	RWJ: Chapter 30
22	Mergers and Acquisitions II Valuing an acquisition Merger Tactics Merger defenses	RWJ: Chapter 30 <i>Problem set 8</i> <i>Case: paramount 2</i>
23	Case Discussion: Paramount 2	Hand in: Group solution to Paramount 2

Session	Topics	Assignments
24	Corporate restructuring I Structuring a leverage buyout Management buyouts Empirical evidence	
25	Corporate restructuring 2 Conglomerate discount Assets sales (divestitures) Spin-offs and carve outs Tracking stock	<i>Case: USX</i>
26	Case discussion: USX	Hand in: Group solution to USX
27	Options Option Review Equity and risky debt as portfolios of options	RWJ: Chapter 22
Add	Warrants and Convertible bonds Valuation Reasons for issuance Forced conversion	RWJ: Chapter 24
Add	Risk management and hedging Reasons for hedging Instruments for hedging	RWJ: Chapter 25