

**NYU Stern School of Business**  
**Corporate Finance**  
**B40.2302.11, B40.2302.12**  
**Fall 2001**

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Ofc hrs: (1) immediately after class; (2) Thursdays 4:30-5:45pm; (3) by appointment  
Course page: (up soon)

Description: This course covers the major topics in modern corporate finance. The course is organized into two parts. The first part – investment policy – includes investment decision rules in general and net present value in particular, the valuation of investment projects, the cost of capital, and the valuation of options. The second part – financial policy – includes the mechanics and vocabulary of financing, the irrelevance of financial policy in unrealistically perfect (but pedagogically useful) capital markets, and the relevance of financial policy in real-world capital markets characterized by taxes, financial distress costs, asymmetric information, inefficient market prices, and agency problems.

The course is designed to serve as the backbone for several subsequent finance courses. It therefore emphasizes breadth over depth. Topics not covered for lack of space include: financial statement analysis, measuring corporate performance, financial planning, credit management, cash management, a detailed analysis of bankruptcy, and specialized topics in international corporate finance. These topics are covered by other offerings at Stern (B10.2303, Financial Statement Analysis; B40.3198, Bankruptcy and Reorganization; B40.3388 International Financial Management; B40.3387 Global Banking, among others).

Required text: (“BM”) Richard A. Brealey and Stewart C. Myers, 2000, *Principles of Corporate Finance* (6<sup>th</sup> ed.) (Available at bookstore. It is important to get the 6<sup>th</sup> edition. The in-class discussion will be heavily framed around this textbook, and the slides I use will be modified versions of the slides included in the Student CD-ROM in the inside back cover of the textbook. You may want to bring the text or a CD-ROM/laptop combination to class.)

Required article: (“GH”) John R. Graham and Campbell R. Harvey, 2001, “The theory and practice of corporate finance: Evidence from the field,” *Journal of Financial Economics* 60, p. 187-244. (We will not use it until the last class. It will be distributed in class or as otherwise noted.)

Handouts/notes: Hard copies available in class and posted on course page.

Grading: 40% Final -- open book, open notes, open calculator/laptop  
30% Midterm -- open book, open notes, open calculator/laptop  
**Regrading policy:** Submit whole exam again, along with written summary of perceived discrepancy. Note that exams are photocopied before being returned.  
21% Three problem sets (7% each)  
**Group policy:** Up to three students may turn in a single solution. To maximize learning, however, you should give all problems your best effort before meeting with others.  
**Late policy:** One problem set contributes at most 6% to total grade if one day late, 5% if two days late, etc. ... if more than six days late, don't bother  
9% Class participation (roughly, attendance + constructive discussion)

Following departmental guidelines (sorry!) final grades will be curved to an approximate distribution of: 10% A, 10-15% A-, 10% B+, 50-60% B/B-, 10-15% C+/C/C-, 0-10% D/F

<b>Dates (W, R section)</b>	<b>Major topics</b>	<b>Reading</b>	<b>Assignment</b>
	<b>PART I. INVESTMENT POLICY</b>		
9/5, 9/6	Course introduction, corporate structure, present value, opportunity cost of capital	BM 1, 2, 3, end-of-chapter quizzes	
9/12, 9/13	No class (Terrorism)*		
9/19, 9/20	Using present value (e.g. valuing stocks), superiority of NPV, examples	BM 4, 5, 6, end-of-chapter quizzes	
9/26, 9/27	Risk and return, capital budgeting under risk	BM 7, 8, 9, end-of-chapter quizzes	
10/3, 10/4	Option structures, Black-Scholes, real options	BM 20, 21, end-of-chapter quizzes	Problem set #1 due in class
10/10, 10/11 (first half)	Midterm examination		
	<b>PART II. FINANCIAL POLICY</b>		
10/10, 10/11 (second half)	Overview of financial instruments (equity/related): common stock, preferred stock, venture capital	BM 14.1-14.3, 15.1, end-of-chapter quizzes	
10/17, 10/18	Overview of financial instruments (debt/related): debt overview, warrants, convertibles, debt contracts and markets, leasing (intro.)	BM 14.4 - 14.5, 22.1-22.3, 23, 24, 25.1, end-of-chapter quizzes	
10/24, 10/25	The security issue process <u>Irrelevance</u> of financing and dividend policy in idealized capital markets (the Modigliani-Miller theorems)	BM 15.2-15.6, 16.1-16.4, 17, end-of-chapter quizzes	
10/31, 11/1	<u>Relevance</u> of financial policy under taxes and/or financial distress, leasing (cont.)	BM 16.5-16.8, 18.1-18.3, 18.5, 19, 25.2-25.6, end-of-chapter quizzes	
11/7, 11/8	<u>Relevance</u> of financial policy under taxes and/or financial distress (cont.): Risk management, international risk management	BM 26, 27, end-of-chapter quizzes	Problem set #2 due in class
11/14, 11/15	<u>Relevance</u> of financial policy under asymmetric information and/or market inefficiency	BM 13, 18.4, 22.4-22.5, end-of-chapter quizzes	
11/21, 11/22	No class (Thanksgiving)		
11/28, 11/29	<u>Relevance</u> of financial policy under agency problems: incentives, mergers and acquisitions, other governance mechanisms	BM 12.3, 33, 34, end-of-chapter quizzes	
12/5, 12/6	Course review	GH	Problem set #3 due in class
12/19, 12/20	Final examination (will be held 6-8pm on day of class; location TBA)		

\* Note that BM chapters 10 and 11 and the associated topics were deleted in response to the missed class session on 9/12 and 9/13. You should skim these chapters for your own knowledge, but they will not represent “testable material.”