

**NEW YORK UNIVERSITY
STERN BUSINESS SCHOOL
MBA Programs**

**FINANCE B40.2302.12
CORPORATE FINANCE
Fall 2008
Wed 6:00 to 9:00 PM
KMC 370**

**Prof. Roger Mesznik
Office: KMC 9150 Ph: TBA Fax: 212.995.4233
Office Hours: Wed (when classes meet) 4:30 to 5:45
Other days as announced, and by appointment
Home Phone 212.663.5493, E-mail: mesznik@att.net**

CORPORATE FINANCE

COURSE OBJECTIVE: The purpose of this course is to broaden and deepen the students' understanding of the central concepts of corporate finance as acquired in the preceding courses and prerequisites. The issues of project valuation; cost of capital; capital structure; firm valuation; the interplay between financial and investment decisions, strategic analyses, and economic analyses; and the provision and acquisition of funds are revisited with a greater amount of detail and with interactive references to the complexity of the use of these concepts in the real world of corporate decision making. The concepts are broadened by references to the issues of agency problems; market domination; risk structure and risk resolution, and hedging; market efficiency or lack thereof; asymmetric information; partial data; inconsistent assumptions; and others. The validity of the analytic tools is tested on issues like highly-leveraged transactions, hybrid securities, volatility in IPOs, mergers and acquisitions, corporate divestitures, acquisition and control premiums, corporate restructurings, sustainable and unsustainable market inefficiencies, and others.

COURSE FORMAT: The course is structured as a combination of lectures, class discussions, and some case analyses. The discussions involve any and all of the following: Readings from the text book; some cases; the assumed advance knowledge brought in from the preceding finance courses and other related courses; current and recent events from the financial markets and the business world; news items from the press; and the students' own experience and interests. Advance preparation of the assigned class material is imperative for a thorough understanding of the topics and for a fruitful participation in the class discussion. Every student is expected to be able to contribute to the class discussions as outlined above. It is crucial that students develop a reasonable degree of dexterity in dealing with the underlying concepts. Continuing, thoughtful, and thorough participation in all aspects of the class is imperative for a successful performance.

REVIEW SESSIONS: My assistant and/or I will hold review sessions if necessary. The dates and contents of the sessions will be set after consultations with the class and definition of the need.

NOTE: If there are any problems with the course, the material, your performance, your attendances, or the assignments, please speak to me or to my assistant as soon as possible. Early intervention and help are much more efficacious.

COURSE MECHANICS:

The required text is:

Brealey, Richard, Stewart Myers & Franklin Allan: *Principles of Corporate Finance*; 9th Edition; McGraw Hill 2008. (BMA) The NYU bookstore ordered it for you.

Handouts:

From time to time, and as needed, I will be e-mailing you additional materials in the form of handouts and examples. I will be using the email list provided by the registrar. It is your responsibility to ascertain that your address is up-to-date.

The Course Grade: The grade will be determined as follows:

Graded assignments	25%
Midterm Exam	30%
Final Exam:	<u>45%</u>
Total:	100%

The assignments are group projects. You arrange the groups in accordance with your needs and preferences.

The exams are open-books, open-notes exams. You will also be given some choice. You will need a calculator or a laptop/notebook.

You have my permission to audio-tape the class if it helps you studying and reviewing the material. This is particularly recommended if you have to miss a class, if the material is not quite familiar to you, or if you sense some problem with your proficiency in English.

I reserve the right to alter the sequence of topics, the assignments, the cases, the course coverage, the deadlines and the grading system if I deem it necessary and/or appropriate. Should such changes be made, they will be announced in class as needed, and in advance.

COURSE CONDUCT & ISSUES:

- I expect to start every class on time and end it on time. Please help me by being punctual. Tardiness is disruptive, and it affects us all adversely.
- If, for unavoidable reasons, you are late, please just come in and sit as fast and unobtrusively as possible in the proximity of the door. Do not compound the problem of missed material by waiting outside for a “good moment” to join the class. Also, do not interrupt the flow of the class by asking your neighbor what we did so far, or about the state of the world and its news, or “What’s up.” You will need to find time for it later.
- If you know that you will be absent, or late, or believe that you will have to leave early, please make sure to inform me in advance by e-mail. Excessive absence may be deemed detrimental to your grade, and this will happen at my sole discretion. I decide what is deemed excessive and detrimental.
- Please bring your name-plaque with you to each and every class.
- Checking your email, surfing the web, messaging, using the cell phone, checking who called by responding to a vibrating signal, and all other such activities are rude, inconsiderate, and unacceptable. Please do not even be tempted to engage in them.
- Please recall that you are bound by the rules and your pledge about academic conduct and the Honor Code with respect to all work submitted and behavior in class.

SCHEDULE, OUTLINE AND ASSIGNMENTS

Dates	Topics	Key Concepts Key Questions	Assignments
Pre-term			Prepare for the first meeting as per memo at the end of this outline
Mtg. 1 Sept 17	Introduction The investment decision.	Course structure The firm and its decisions How to value a project? Source of the positive NPV? What cashflows should be included? Mechanics of the calculations and using Excel	BMA: chs. 6, 7 up to page 155
Mtg. 2 Sept 24	DCF methods of project valuation. Origin of value and manifestation of value.	Where is the risk? How is risk treated? How are cashflows defined? How to treat depreciation? Amortization? What defines the project life? Market effects on project life and on firm value.	BMA: chs. 7 to end, 11 up to p. 283
Mtg. 3 Oct 01	Pitfalls, inconsistencies, and problems in the application of DCF models	Include financing cashflows in the NPV calculation? Why? How to account for financial project subsidies and off market rate financing? Should the discount rate be varied to reflect changing time-dependant, risk resolution patterns over time? How and why perform a sensitivity analysis? When and how to use equivalent annual costs (EAC a.k.a. CAE) ?	BMA chs. 12, 13. Deadline for submission of Assignment 1
Mtg. 4 Oct 15	Compare NPV and IRR. Which to use when?	Is the RADR-based NPV calculation always applicable? Are the NPV and IRR methods comparable? Do they yield the same results? Always? If not, why not? When not? How to treat inflation?	BMA chs. 8, 9 up to p. 222

		What happens under capital rationing?	
Mtg. 5 Oct 22	Cost of capital, hurdle rates. Performance assessments.	How to calculate the corporate WACC? When can the corporate WACC be used? Are divisional and project WACC preferable? How to use the DDM and the CAPM as estimation tools? The effects of under performing investments.	BMA chs. 10 Deadline for submission of Assignment 2
Mtg. 6 Oct 29	Discount rate and expected returns of investors. Leveraged buy-outs. Capital structure	What is the cost of debt? The cost of equity? What are the costs of internally generated funds? How to account for the issuance costs of external funds? Using yield spreads? Should S/T debt be included in the leverage calculation? How to treat deferred taxes? Identifying sources of value in LBOs.	BMA (review ch 4 if necessary), ch.14
Mtg. 7 Nov 5	Economic Value added. Value at risk. Tools for performance assessment.	Cost of variable rate debt? Costs of hybrid and compound securities? What risk components are relevant for the WACC calculation? Is there risk additivity or complementarity? What is the impact of financial leverage? What are the implication of the M&M theorems? Is there an optimal debt level? What are the role and implications of efficient financial markets? What is the impact of operating leverage?	BMA: Chs 18, 19
Mtg. 8 Nov 12	Options; Financial and real. How to identify them, value them, and when are they useful?	What are the parametric structures of options? How to value a financial option? Using the binomial model? Using the B/S model? Estimating the necessary parameters? Are real options similar? Project abandonment; project postponement. What are the reasons, explanations, and justifications of mergers and acquisitions? Why spin-offs and	BMA chs. 20, followed by 22, 23 (parts as assigned) Deadline for submission of Assignment 3

		restructurings? Is wealth being created? For Whom? Creation or redistribution of wealth? What is the evidence? Can comparables be used for evaluations?	
Mtg. 9 Nov 19	Mergers, acquisitions and restructuring s. Agency relations	Midterm Exam	No separate assignment
Mtg 10 Dec 03		The parameters of the business plan. Its merits and its validity. The structure and loci of value creation. EVA and its parameters. What is VAR? How do VC provide capital? When? Under what terms?	BMA: Assigned parts from Chs 29 to 32
Mtg 11 Dec 10		What are Agency problems? Effects of asymmetric information? Are there conflicts of interest within the corporate structure and among stakeholders? Hybrid securities as answer to agency conflicts? Summary, paper presentations, reconcile open issues	BMA: Assigned parts from Chs 29 to 32
Dec 17		FINAL EXAM	

About the Assignments:

- The assignments are group projects.
- Each group needs submit only one report per assignment. All members must be listed on the cover page in alphabetical order of the last name, and the last name must be in bold letters.
- If a student has a foreign first name as well as a name by which said student prefers to be addressed, both names must be shown next to each other.
- The cover page must show the date, the course name and number as well as the current term. It also must show the assignment name.
- All write-ups must be submitted in paper form.
- The write-up needs no special paper, or binding. Stapling in one corner is sufficient.
- The report must be paginated.
- If you are presenting, a copy of the presentation for me is necessary, and handouts for the class will be greatly appreciated.
- All write-ups are due on the date on which the assignment is due (and presented?) in class.
- The write-up should have the form of a business report: Executive summary; definition of the issue; Evidence for the problem; Suggested solutions; weighing possible alternative solutions; recommendations and justification.
- Make extensive use of appendices and attachments. It makes it easier to work as a group, easier to read, and it allows for easy corrections if called for.
- There is no max or min number of pages. Don't rehash the case, but don't stint on explanations and analyses.
- I stand ready to talk to all groups about all assignments in advance of the report and as preparations progress. It is your responsibility to contact me. You may reach me at any time.
- It is unlikely that you will be able to respond to all the case questions without my help. I am here, please avail yourselves of the resource, and schedule yourselves well in advance of the needed deadline.

To: The Students in Corp. Finance
From: Roger Mesznik
Re: Prep for the Fall Course
Date: Sept 12, 2008

As preparation for the course, and to make our learning experience more efficient and rewarding, please do the assignments listed below.

In the book by Brealey and Myers, please review chapters 1 to 5.
Most of the material is presumably familiar to you from previous courses.
If yes, great! If not, please try to do as much as you can, and we will fill in the gaps as we proceed.

Try to do some of the end-of-chapter problems. I do NOT expect all of you to be able to do them all with ease. However, the more of them you try, and the more you work with the material, the easier it will be in class for all of us.

Students not very familiar with the institutional settings of the market, or with the mechanics, may want to devote some time to also review and skim chapters 15 and 16.

Again, I do not expect full understanding. I would be happy with just an honest attempt to give us a head-start by doing some easy parts on your own.

Thank you, and see you very soon.

Please feel free to contact me at
mesznik@att.net
if you have any questions.