

FINC-UB 7 - Corporate Finance

Prof. Cecilia Parlato

Fall 2016

Office	KMC 44 West 4 th street, suite 9-87
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Phone	(212) 998-0171
Classes	Section 001: Mon/Wed 9:30am-10:45am Section 002: Mon/Wed 2pm-3:15pm Section 003: Mon/Wed 3:30pm-4:45pm No classes: Oct. 9, Nov. 22 Classes meet on Tues. Dec. 12 (Legislative day)
Location	Section 001: Room T-UC25 Sections 002-003: Room T-200
Exams	Midterm 1: October 23 in class (tentative) Midterm 2: December 6 in class (tentative)
Teaching fellows	Pedro Tenreiro pedrotenreiro@stern.nyu.edu Stephanie Freeman saf533@nyu.edu
Office hours	Prof. Parlato: by appointment Pedro: Wed 12:30-1:30pm/Tue 2:00-3:00pm EY learning center Stephanie: Mon 12:30 – 2:00pm EY learning center
Course Website	NYU Classes

Course Description

This is an introductory course in corporate finance. The course has three main objectives:

1. Develop an understanding of the tools that are used to value investment projects and companies (valuation).
2. Understand the basic issues involved in how firms should raise funds for their real investments (financing).
3. Evaluate how investment and financing decisions are related. Emphasis will be placed on appreciating the limitations and challenges that are faced when applying the theoretical framework of corporate finance to real world problems.

Prerequisites

A passing grade in Foundations of Financial Markets is a prerequisite for Corporate Finance. Students are expected to be comfortable with the following topics: time value of money, discounted cash flow analysis, risk-return trade-off, diversification, valuation of bonds and stocks, Capital Asset Pricing Model (CAPM).

Course materials

Lecture Notes (required)

We will use lecture notes. The booklet with the lecture notes will be distributed in the first week of classes. There are some blanks in the lecture notes that we will fill out together during class.

Textbook (recommended, but not required)

The lecture notes are self-contained. Thus, no textbook is required. For those of you who wish to use a textbook in addition to the class notes, I recommend that you use

Corporate Finance: The Core, Berk, Jonathan and Peter DeMarzo, 3rd edition 2014, Pearson.

and/or

Principles of Corporate Finance, by R. Brealey, S. Myers, and F. Allen, 11th edition, McGraw Hill, 2013. (BMA)

The lecture notes are mostly based on Brealey, Myers, and Allen. The relevant chapters are indicated in the course schedule. This textbook can be used as background reading for those of you who wish to read ahead of the lecture or dig deeper into the material. However, all the relevant material for this class is contained in the lecture notes.

Both textbooks are available for purchase at the NYU bookstore or online. The textbooks are also available on Reserve at the NYU Library. Older versions of the books can also be used. If you use an older version, please note that chapter numbers may be different from the ones in the course schedule.

Questions and Class Communication

The class website is the central location where all teaching material is posted. Class announcements will be posted here as well as problem sets and their solutions - which will not be distributed in class.

If you have any questions you may come to either my office hours, or the TFs' office hours. Questions pertaining to problem sets and practice problems should be posted directly to the related online discussion forum. The TFs and I will monitor these forums frequently. This forums help ensure that all students have access to the same information, and it reduces the duplication of answers on our part. Please avoid using e-mail to ask problem set and practice exam related questions.

If you have a quick question, please feel free to approach me after class. You can also send me an e-mail if you have a quick administrative question that cannot wait until the following class. However, if your question requires an elaborate answer, or it is a sensitive question that you don't want shared with others, please come to the office hours.

Deadline for exam-related questions (midterm exams): To ensure fairness, there is a deadline for exam-related questions: We will answer questions that you send or post online by 6:00pm EST two days before an exam. Questions sent or posted afterwards will not be answered until after the exam. For example, if the exam is on Monday, questions sent after Saturday at 6pm will be answered after the exam.

Calculator

Please, bring a calculator to class. Any calculator in which you can compute powers like x^y will be sufficient. I will not address questions related to using a calculator. If you have such questions, please contact your TF.

Problem Sets

There will be eight (8) problem sets throughout the semester. The problem sets are intended to help you understand the course material and prepare you for the exams.

Problem sets will be announced in class and on the course's website. Problem sets will be due in class one week after their posting date. A **tentative** (subject to modification) schedule will be posted online. The solutions for the problem sets will be posted on the course's website after the problem set is due.

For the first seven problem sets, you can work alone or with other students on the problem sets. However, each student must write up his own individual solution and turn it in for credit. If you work with other students, please, note their names on your problem set. **The last problem set must be completed individually.**

Problem sets will be graded on a pass/fail basis. **No late problem sets will be accepted.** Exceptions will be made for students who experience a documented serious illness or a family emergency. Exceptions will also be made for religious observances or civic obligations only when the problem set cannot reasonably be completed prior to the due date and you make arrangements for late submission with me at least one week prior to the due date.

Exams

The dates for the two midterms are:

Midterm 1: October 23 in class (tentative)

Midterm 2: December 6 in class (tentative)

Both exams are closed book. You are allowed to bring a calculator. You can also bring one double-sided cheat sheet (8.5" x 11" max) on which only hand-written notes are allowed. No other materials are allowed. You cannot use a laptop, cell phone/communication device, or any device with an Internet connection during the exam.

The exam times are non-negotiable. If you have a conflict, you must inform me **by the end of the second week of the course** (i.e. Please check now to ensure the exam days do not conflict with a religious holiday, etc.). If you think you will miss an exam (1) contact me as soon as possible and (2) bring reliable proof of absence (hospital receipt, copy of obituary, etc.). Without clear and hard evidence, you will get no credit and will not be allowed to retake the exam.

Grading

Your course grade will reflect your performance on the problem sets, the case assignments, the midterm exam, and the final exam with the weights determined as follows:

Problem sets (1-7)	10%
Problem set 8	5%
Midterm 1	35%
Midterm 2	50%

At NYU Stern, we strive to create courses that challenge students intellectually and that meet the Stern standards of academic excellence. To ensure fairness and clarity of grading, the Stern faculty have agreed that for elective courses the individual instructor or department is responsible for determining reasonable grading guidelines.

The finance department has elected to use the following grading guidelines for this course: 25-35% A's, 50-70% B's, 5-15% C's and below.

To further ensure that all students are treated fairly and consistently, all exams will be graded according to a grading schedule, which awards points for correctly completing specific steps of a question and deducts points for common mistakes.

If you believe your exam has not been graded fairly, you have the right to make a formal appeal. In this case, you will need to submit a written explanation of the issue and a proposed resolution. **The written explanation must be submitted within one week of the exam.** An additional grader and I will look at your explanation, exam, and

proposed resolution and determine whether a grade adjustment is appropriate. In doing so, we also reserve the right to re-grade the entire exam.

Academic Integrity

Integrity is critical to the learning process and to all that we do here at NYU Stern. As members of our community, all students agree to abide by the NYU Stern Student Code of Conduct, which includes a commitment to:

- Exercise integrity in all aspects of one's academic work including, but not limited to, the preparation and completion of exams, papers and all other course requirements by not engaging in any method or means that provides an unfair advantage.
- Clearly acknowledge the work and efforts of others when submitting written work as one's own. Ideas, data, direct quotations (which should be designated with quotation marks), paraphrasing, creative expression, or any other incorporation of the work of others should be fully referenced.
- Refrain from behaving in ways that knowingly support, assist, or in any way attempt to enable another person to engage in any violation of the Code of Conduct. Our support also includes reporting any observed violations of this Code of Conduct or other School and University policies that are deemed to adversely affect the NYU Stern community.

The entire Stern Student Code of Conduct applies to all students enrolled in Stern courses and can be found here: www.stern.nyu.edu/uc/codeofconduct

To help ensure the integrity of our learning community, prose assignments you submit to NYU Classes will be submitted to Turnitin. Turnitin will compare your submission to a database of prior submissions to Turnitin, current and archived Web pages, periodicals, journals, and publications. Additionally, your document will become part of the Turnitin database.

General Conduct and Behavior

Students are also expected to maintain and abide by the highest standards of professional conduct and behavior. Please, familiarize yourself with Stern's Policy in Regard to In-Class Behavior & Expectations

(<http://www.stern.nyu.edu/portal-partners/current-students/undergraduate/resources-policies/academic-policies/index.htm>) and the NYU Disruptive Behavior Policy (<http://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/bullying--threatening--and-other-disruptive-behavior-guidelines.html>).

Students with disabilities

If you have a qualified disability and will require academic accommodation of any kind during this course, you must notify me at the beginning of the course and provide a letter from the Moses Center for Students with Disabilities (CSD, 998-4980, www.nyu.edu/csd) verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

Course Schedule

The course is divided into 8 lecture notes. We will need about 2-4 classes for each lecture note, depending on the length of the lecture note and the number of questions raised during class. This is a **preliminary** outline for the course.

Topic	Lecture Note	BMA Chapter (11 th Ed.)
Valuation		
Net Present Value	1	2.1 – 2.3, 6.3
Rules for Making Investment Decisions	2	5.1 – 5.4
Real Options	3	10.4, 22.2 – 22.4
Cash Flow Analysis	4	6.1, 6.2, 10.2 – 10.3
Cost of Capital	5	8.2 – 8.3, 9.1 – 9.3
Financing		
Capital Structure	6	17.1 – 17.4, 18.1 – 18.3
Payout Policy*	8	16.1 – 16.5
Interaction of Valuation and Financing		
Capital Structure and Investment Decisions	7	19.1 – 19.4

The course schedule is subject to change (please follow the announcements on the website). If time permits, we will also cover miscellaneous topics such as corporate governance. The website also has a tentative schedule for problem sets and exams. This schedule is also subject to change during the semester.