



Corporate Finance Syllabus and Outline Spring 2000

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General Information

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 - For information specific to this class, click on **classes** and then **corporate finance**.
- Office Hours
 - Monday 11.30 -1, 2.30-3.30
 - Wednesday 11.30 -1, 2.30-3.30
 - The “fair game” principle applies.
- All classes will be video taped. The video tapes will be available in the media center at Bobst library for anyone who is interested.

What is corporate finance?

- 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

- 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 story.

- To show you that corporate finance is fun.

Motto for class: It takes more work, but it is more fun

The Traditional Accounting Balance Sheet

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 obligation
Assets which are not physical, like patents & trademarks	Intangible Assets	Equity	Equity investment in firm

The Financial View of the Firm

Assets		Liabilities	
Existing Investments Generate cashflows today Includes long lived (fixed) and short-lived (working capital) assets	Assets in Place	Debt	Fixed Claim on cash flows Little or No role in management <i>Fixed Maturity</i> <i>Tax Deductible</i>
Expected Value that will be created by future investments	Growth Assets	Equity	Residual Claim on cash flows Significant Role in management <i>Perpetual Lives</i>

First Principles

- Invest in projects that yield a return greater than the minimum acceptable hurdle rate.
 - The hurdle rate should be higher for riskier projects and reflect the financing mix used - owners' funds (equity) or borrowed money (debt)
 - Returns on projects should be measured based on cash flows generated and the timing of these cash flows; they should also consider both positive and negative side effects of these projects.
- Choose a financing mix that minimizes the hurdle rate and matches the assets being financed.
- If there are not enough investments that earn the hurdle rate, return the cash to stockholders.
 - The form of returns - dividends and stock buybacks - will depend upon the stockholders' characteristics.

Objective: Maximize the Value of the Firm

Outline for Class

- Understand the objective function: Session 1-3
- The Investment Principle
 - Risk and Hurdle Rates Sessions 4-8
 - Measuring Returns Sessions 9-13
- The Financing Principle
 - The Optimal Financing Mix Session 14-17
 - The Right Kind of Debt Session 18-19
- The Dividend Principle
 - How much to return to owners Session 20-22
 - How to return Session 23
- Linking financial decisions to value Sessions 24-26
- Review Session 27

Required Material

- I. Text: Lecture Notes; They are sold in the book store in two parts.
- II. Supplementary Text:
Applied Corporate Finance: A User's Manual by Aswath Damodaran
(Buy the cheaper hardback version)
- III. Practice Problems/Exams:
 - Every midterm and final exam that I have ever given will be provided in class, with solutions next week. It is also available on my web site.
 - There are also problems in the supplementary book, and solutions.
- IV. Computer Spreadsheet Programs: accessible on my home page:
www.stern.nyu.edu/~adamodar
- V. Real World Readings
 - Wall Street Journal, New York Times, Financial Times
 - Fortune, Forbes, BusinessWeek and Barrons

Corporate Finance Readings

Understand the objective function:	Session 1-3	Chapters 1,2
The Investment Principle		
Risk and Hurdle Rates	Sessions 4-8	Chapter 3, 4
Measuring Returns	Sessions 9-13	Chapter 5,6
The Financing Principle		
The Optimal Financing Mix	Session 14-17	Chapter 7,8
The Right Kind of Debt	Session 18-19	Chapter 9
The Dividend Principle		
How much to return to owners	Session 20-22	Chapter 10
How to return	Session 23	Chapter 11
Linking financial decisions to value	Sessions 24-26	Chapter 12
Review	Session 27	

Other Readings

- The New Corporate Finance Reader, edited by Donald H. Chew.
 - This book has a number of readings on topics in corporate finance, which are both readable and informative.
- Capital Ideas by Peter Bernstein
 - This book looks back at the development of many of the most important ideas in corporate finance.
- A Random Walk down Wall Street by Burt Malkiel
 - This is not a corporate finance book, but it provides a 'skeptic's' view of Wall Street and its ways.
- Sense and Nonsense in Corporate Finance by Louis Lowenstein
 - This book contests much that is taken as accepted wisdom in corporate finance. I agree with very little in this book, but it is worth reading for a contrary viewpoint.

Grading Distribution

- All corporate finance sections are governed by the same distribution.
 - A: 20-25%
 - B: 50-55%
 - C,D & F: 15-25%

Grading Basis

- **Group Work:** Students should work in groups of five to seven. Each group will be required to work on one case (you will get it in class in the third week) and one comprehensive project (See attached description).

Case: Due Session 14 (March 8) 10%

Group Project: Due Session 27 (May 1) 30%

- **Individual Work:**
 - Quizzes: This will be three open-book and open-notes quizzes worth 10% each.
 - Quiz 1: Session 9 - Covers sessions 1-8 (February 16)
 - Quiz 2: Session 18 - Covers sessions 9-17 (March 29)
 - Quiz 3: Session 24 - Covers session 18-23 (April 19)
 - Final Exam: This will also be an open-book and open-notes cumulative exam worth 30%.

Rules of Engagement

- 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 on individual work
 - All exams and quizzes are strictly individual work.
 - There will be no make-up quizzes. If you miss a quiz due to ill health, the grade will be redistributed over the remaining part of the course.
 - I will be the grader, and I do make mistakes. If I screw up, bring it to my attention and I will fix it.
- Rules on Participation
 - All participation is welcome.