Overview

Corporate Finance is the first course in the Finance sequence. It is introductory only in the sense that we start with the assumption that some, if not most, students have never had any finance courses previously. Otherwise, it is quite ambitious. At the end of it, you will know how to value a company. On the way the topics we shall cover include those that are important to all managers whether or not they specialize in finance: (1) procedures for analysing companies’ financial data to determine how efficiently they have been run; (2) methods for projecting funding needs based on principles of good working capital management; (3) rules for choosing the maximal safe, or optimal, level of debt in the structure of capital used for funding company operations; (4) figuring the costs of the various types of funds that a company uses and its weighted average cost of capital; and (5) combining all the foregoing into a methodology, to wit, discounting free cash flows and adding salvage value, for establishing a company’s value or price.

This is a lecture course. Approximately one-half of the lectures cover conceptual material while the other half analyzes cases as examples. Group case preparation is highly recommended. Cases reflect faithfully several facts: that managers often have to make decisions with partial information; that the real world often provides messy data; and that common sense in defining what a company’s problems are, is a skill that can be learned. To get the most out of the course, you will find that careful and thorough preparation for case lectures is essential. If you do this in groups of equally active participants, you will find that the different points of view expressed will anticipate the class presentation and make it a pleasure. Putting together spreadsheets reflecting your assumptions is especially helpful. Free riders are losers.

Books: Textbooks are available from the Columbia University Bookstore and online.
1. Casebook: it includes all the cases and all case assignments.
2. Readings on substantive matters are available in Higgins, Analysis for Financial Management, 8th edition. The Higgins readings do not cover all the material we cover in class and also include some topics and background that we do not cover in class. They should therefore be regarded more as a supplement rather than a substitute for class discussions. You won’t be able to value a company our way if all you rely on is Higgins.
3. In addition, you may wish to consult Ross, Westerfield and Jaffe, Corporate Finance, 7th edition, or Brealey, Myers and Allen, Principles of Corporate Finance, 8th edition. These are references, not required readings.

Grading

Class participation (Quality, not quantity: good questions count) 10%
Mid-Term Exams (Three individual assignments; no mutual assistance allowed) 30%
Other homework: (Six group assignments: all receive the same grade) 10%
Final Exam 50%

* Mid-term exams are open book and notes but no other outside assistance of any kind is allowed.