COURSE SYLLABUS

COURSE DESCRIPTION

This course covers financial markets, instruments, and institutions, with the primary focus being on the capital raising and financing activities of firms at different stages in their life cycle. One of the critical activities a company must do well, to succeed is the raising of capital. The when, where, and how of raising capital is the focus of the course. The perspective will typically be that of a firm wishing to raise capital, though we will, quite often, also examine financing transactions from the viewpoint of the participating financial intermediary. We analyze financing choices for younger firms, for which there exists little or no security price information, and then examine capital raising issues relevant to larger, listed firms.

Topics to be covered in this course include the role of financial intermediaries - such as commercial banks and investment banks - in the capital raising process, the decision to go public, mechanism and pricing of initial public offerings, role of investment banks in IPOs, high-tech firm financing, privatization, bank debt, private placements, public debt markets, commercial paper and junk bond markets.

GROUP FORMATION

Class participants are expected to organize themselves into groups of 4 students per group. Please form groups prior to the first class and email me a list by the first day of class.

CLASS FORMAT

The course will be taught mostly through case discussions. The format of the discussions will vary. Sometimes, groups will be asked to take stands on the certain issues and defend their positions. At other times, individual group members will be asked to do the same. Sometimes the main issue will be identified and you will be asked to develop specific answers to well-posed questions. Many times, however, you will have to identify the problems as well and live with the ambiguity that comes from the absence of
clear-cut solutions. Our objective is not to solve every problem without dispute but to learn how to frame and think about the underlying issues. This course involves a high degree of preparation. While each student is expected to be prepared for all classes, cases should typically be discussed in-groups prior to the relevant class sessions. Group work is absolutely critical to your learning and you will typically learn as much from your small group discussions as from the class sessions.

OFFICE HOURS

I will be in my office most times and will be available to discuss course-related issues. Please feel free to contact me to schedule an appointment to discuss the course, your progress, projects, etc.

EVALUATIONS

The break-up of the class grade is as follows:

25% - Class Participation
Class participation and preparation are fundamental to the learning of this class. The give-and-take in class discussion forms an important component of learning. Accordingly, about a 1/4th of the course evaluation is based on class participation.

20% -- Peer Evaluations
Towards the end of the quarter, each student will evaluate every other group member individually on participation and attendance in group meetings, contribution to group preparation, write-ups and the term project, and the overall rating as a team player.

30% - Write-ups
Each group is required to turn in three case write-ups. Write-ups will typically be 2-3 pages long plus any supporting exhibits. You may choose what cases you wish to write up but it is probably a good idea to distribute the write-ups evenly in the course. Turn in the write-ups (hard-copy) at the beginning of the class after a case is discussed. The write-ups should be no longer than 2-3 pages (no tiny fonts, please!) plus a few appendices or tables. In the write-ups, do not re-invent the wheel. No detailed background is needed in the write-up – a few lines should suffice. On the other hand, do not assume I am intimately familiar with every number in the case. Exercise judgment on what is necessary to make the write-up coherent. In any event,
- Take a clear stand on the central case problem
- Provide a recommended solution.

25% - Outside Class Case Write-up
Each group is also required to turn in a write-up of a case that I will distribute to you as an assignment. This case will be given to you towards the end of the quarter. The tentative dates are: The case will be handed out after class on February 15 and will be due back at the beginning of class on February 22.
Reading materials

The readings for this course will consist of cases and ancillary reading materials not readily available in text-book form. Besides the material in the reading packet, you may find it useful to refer to the following books that will be kept on reserve:

*Financial Theory and Corporate Policy*
Thomas Copeland and J. Fred Weston, Addison-Wesley Publishing Co, 3rd Edition

*Inside Investment Banking*

*The Handbook of Fixed income securities*

*The New Corporate Finance: Where Theory Meets Practice*
Donald Chew (Editor); McGraw-Hill, 3rd edition.

I will periodically discuss and refer to academic journal articles in class which will have an analytical /conceptual bearing on the topic being discussed. I will often provide a brief summary of academic articles along with some relevant insights in class, which we will discuss in the context of the cases and background readings.
COURSE OUTLINE

Module 1. Equity offerings

1/18 The IPO process
Inside the deal that made Bill Gates $350,000,000 (Fortune, July 21, 1986)
Eagle Finance Corporation (A), (B)
Read: Ibbotson, Sindelar and Ritter (Journal of Applied Corporate Finance, 1988)

1/22 Valuation of the IPO
Immudlogic Pharaceutical Corporation (A), (B1), (B2), (B3), (B4).

1/25 Alternatives to going public: Private equity
SecuriCor Wireless

1/29 Underwriter selection and after-market
Tiffany and Company

Module 2: Short-term financing

2/1 Bank debt
US Bank of Washington
Read: Brealey and Myers, Chapter 29, in particular 29.1-29.3.

2/5 Commercial Paper
Freemont Financial Corporation

2/8 Institutional Lenders and Private Placements
Tom Paine Life Insurance Company

Module 3: Secondary debt markets

2/12 Credit Ratings and Junk Bonds
Metromedia Broadcasting
Read: “The credit rating industry,” Cantor and Packer

2/15 Synthetic Finance in Bond Markets
The State of Connecticut Municipal Swap

2/15 Outside case group write-up to be handed out

2/19 & 2/22 Public Debt Markets (2 classes)
Phillip Morris Companies Inc (A), (B), (C)

2/22 Outside case group write-up due
2/26 Fraud in Financial Markets
Enron