

**M.I.T.
Sloan School of Management**

14.434
Advanced Corporate Finance
Spring Term, 2001

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Course Outline

A. COURSE OBJECTIVES

Over the last forty years, many of the greatest advances in management have occurred in Finance. In the 1960s and 70s, these advances were primarily in the area of capital markets as we learned how risk is priced and developed models of asset and option pricing and portfolio optimization. Over the last fifteen years the greatest advances in Finance understanding have occurred in corporate finance. Our views on mergers, leverage, dividends, and risk management are all dramatically different than what was taught and practiced in 1980. This course will explore these changes and attempt to anticipate other near-term breakthroughs. We will concentrate on: (1) corporate financial policies, particularly leverage, (2) valuation techniques including real options, (3) new corporate forms such as LBOs and Leveraged Recaps, (4) restructuring, and (5) liability and risk management.

Class sessions will use lectures, academic articles, and the case method to study the practical aspects of these corporate finance decisions. That is, we will apply the concepts and techniques learned in 14.401 and 14.402 to actual situations. In addition to analyzing specific policies and techniques, we will consider how they relate to the strategic objectives of the firm. It will also be important to examine the "big picture" assumptions that are used in the numerical calculations.

Finally, the course gives students an opportunity to work on presentation and discussion skills. It will be important in this course to explain your positions or arguments and to try to argue for the implementation of your recommendations.

B. REQUIRED

The course packet.

Dictionary of Finance and Investment Terms, 5th Edition, Downes/Goodman, Barron's Education Series, Inc.. Available at MIT COOP.

C. RECOMMENDED TEXTS

No assigned textbook. A few chapters in Grinblatt and Titman, Financial Markets and Corporate Strategy will be recommended.

D. COURSE PROCEDURES

For each class meeting, we will assign study questions on either a case study or on academic articles. For classes involving a case study, we will consider the study questions and the material in the case. **This includes the next meeting.**

You are allowed and encouraged, but not required to meet in groups outside of class to discuss and analyze the cases.

Each student will submit a two page memorandum of analysis and recommendations at the beginning of each class. If you are working in a group, we will accept one memorandum from the group and count it for all students in the group. If you choose to do this, the group cannot be larger than four students. Each memorandum should be typed and double spaced. Write these as if you were writing a recommendation to a CEO or other major decision maker in a corporation. Memoranda will not be accepted after the class has met. The memoranda will be given credit if it is handed in and no credit if it is not. Initially, the memoranda will be given either a plus, satisfactory, or minus grade. In particular, the memoranda will be used to determine final grades for those students who are on the border of an A, B, C or D.

Therefore, you should prepare a memorandum for Marriot Corporation, the next class.

The articles which we will assign are not overly technical in nature and they should be read with the intent of understanding the findings of academic research on corporate finance. These articles are not meant to be closely analyzed. You should argue your points in class as if you were in a corporate boardroom rather than in a doctoral seminar; i.e., using the logic of modern finance but not necessarily quoting from the footnotes of academic papers. Finally, the process of arriving at an answer is as important as getting the answer. In most situations there are many definite wrong answers but also more than one correct answer.

Because of the nature of this course (and the grading criteria), it is extremely important that you attend every class, arrive on time and be prepared to participate. You should bring your name cards to each class, to facilitate the discussion and receive appropriate credit for your remarks.

E. GRADING

Grading will be based on class participation, the short memoranda and a final examination.

1. Class participation

Class participation will count for 40% of the final grade. Your performance will be judged based both on the quality and the number of your comments. Because so much of the learning in this course occurs in the classroom, it is very important that you attend class. Low participation can lead to a failing grade.

2. Memoranda

The memoranda will count for 10% of the final grade. As we mentioned earlier, the memoranda will have greater importance for those students on the A/B/C/D borders.

3. Final

The final examination will count for 50% of the final grade. The final examination will primarily be a case analysis which will be given as a in-class exam. The best way to prepare for a case exam is to prepare for the course every day, attend class, and actively participate.

F. COMPUTER USAGE

Computer spreadsheets can be used to analyze many of the case situations but they are not necessary. Spreadsheets are most valuable with repetitive capital budgeting decisions or when numerous "sensitivity" runs are desired for one decision. In class we will discuss finance techniques and highlight the key assumptions, but we will not generate numbers for every possible situation.

G. OFFICE HOURS

By appointment with Bill Keevan (E52-325, 253-6130, wkeevan@mit.edu).