COURSE MATERIALS

:Special Topics: Investment Banking

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McGraw Hill


(The book is in both book stores)

Recommended: Wall Street Journal and other financial newspapers

-Financial Sites on the Web: http://cnn.finance

http://www.cnbc.com

http://cbsmarketwatch.com

http://www.bloomberg.com

Requirements: The textbook is mandatory reading. You will be tested on material appearing in assigned chapters in this textbook, even though some of this material is not covered in the class. You will be also tested on material outside of the textbook that has been covered in class including assignment readings. There will be a midterm and a final exam. While the final exam is not cumulative, the material builds on itself as the course progresses. Seventy five percent of your course grade will be based on your exam grades (1/2 midterm, 1/2 final). Twenty percent of your course grade will be based on a group case and analysis of questions for each case. Your group must turn in an analysis of questions for each case. In addition, each group will present part of their analysis of this group assignment sometime in the semester. The main purpose of the case is for the student to learn how to apply theoretical financial concepts to real problems that corporations have faced. All case assignments must be typed and no more than five pages in length. I am a real believer in the group project format because it is how successful corporations operate. It is important that you work hard as a team. Each of you is responsible for efforts to motivate other group members to do their part. Each group member will rate each other members’ performance as to contribute to the group’s end result. This rating will count as ¼ percent of your case grade. I will consider class participation and homework assignments for five percent of your grade. Attendance to each lecture is mandatory. Students are expected to be prepared to ask questions on the readings and actively participate in the class room discussions. If students miss more than two classes, their grade maybe affected.
Investment Banking: The course covers the effective integration of financial theory and practice. It will explore the rapidly evolving theory of finance as it relates to a corporation’s investment in assets and finance. Financial analysis and reasoning will be applied to problems faced by management.

Department of Finance and Economics (29:390:493)

COURSE SCHEDULE

Week 1:
Review course objectives
Future/Present value
Rule of 72
Solving for Time/Periods/PV/FV/Payments/Interest
Use of a financial calculator/Web
Today's job market

Week 2:
Discounted cash flow valuation
Time line
Spreadsheet use
Annuity/Annuity Due/Perpetuities
Ear/APR
Loans
*Pure Discount
*Interest only
*Amortized

Week 3:
Case 1 Due
Bond Valuations
Coupon/Face Value/Maturity/coupon rate/YTM
OID/COCO/Cat/Government/floating-rate/income/Convertible/etc
Municipal Bonds and recent trends(Taxable vs Tax exempt)
Spreadsheet use
Debt vs Equity
Indenture/protective covenants (+& -)
Bearer/Registered forms
Collateral/Mortgage/Debenture-Note/Call& Put provisions (How to calculate premiums)
Bond ratings and their History (Recent Government actions)

Week 4:
Bond markets
*bought and sold
*price reporting
*U.S. Treasury Notes and Bonds
*Quotes
*The Fisher Effect
*The Term Structure of interest rates and their history
*Yield Curve and history of recessions
*Default risk premium and pricing over the years

Week 5:

Case 2 Due
Equity Markets and Valuations
Pricing models and how they are used in the real world
Growth/Income Stocks
Required returns
Features
*Straight/Cumulative Voting (Agency cost), Proxy voting
*Classes of stock
*NYSE rules on unequal Voting rights
*Dividends payments and how they relate to Tax law
*Preferred stock and their many different form
The many Stock Markets (How they have changed over the last few years)
*Organization
*SuperDOT/ECNs
*Dealers/Brokers
*Stock Market Reporting

Week 6:

Net Present Value
DCF
The payback rule
Average Accounting Return
Internal Rate of Return
The profitability Index
Using Spreadsheets
Real world exceptions
Capital Budgeting
*Incremental Cash Flows
*Opportunity cost
*Sunk cost
*Erosion
*etc.
Pro Forma Financial Statements(Based on Management experience)
*Depreciation tax shield/MACRS
*Net Working Capital
*Forecasting Risk
*Scenario and Sensitivity analysis
*Contingency plans
*Managerial options
*Soft and Hard rationing

Week 7:
Review for Mid-term
Case 3 Due
Financial History and what we have learned
Dollar/Percentage returns
Risk and returns
Planning for the future
Arithmetic vs Geometric Averages
Capital Market Efficiency (US & Worldwide)
International Markets (esp. M&A)

Week 8:
Mid-term exam.

Week 9:
Case 4 Due
Required Return vs Cost of Capital
Cost of Equity
Cost of Debt
Cost of Preferred Stock
Weighted Average Cost of Capital
Divisional and Project Cost of Capital (Use of Capital not source)
Pure Play and Subjective Approaches
Problems in the real world

Week 10:
Effect of Financial leverage
EPS vs EBIT
Homemade Leverage
M & M Proposition I: The Pie Model
M & M Proposition II: The cost of equity and financial leverage
Corporate taxes
Financial and Business Risk
Bankruptcy
*Direct and indirect cost
*Miss-use of bankruptcy by US Government
^Liquidation (Chapter 7)
*Reorganization (Chapter 11) & Prepack Style
*Muni bankruptcy (Chapter 9)
*APR
*Processes

Week 11:
Case #5 Due
The Art of negotiations
*Two styles (Win/Win and Win/Loss)
*The three elements of negotiations (Power-Time-Information)
Week 12:

Raising Capital
* Angel investors
* Venture Capital
* Public Securities and the SEC
* Rights offerings
* Firm Commitment or Best Efforts Underwritings
* Dutch Auction (Recent usage)
* IPO's and underpricing
* Shelf Registration
* Private placements
* Term Loans
* Cost of issuing Securities

Week 13:

Case # 6 due
International Finance
* Depositary Receipt (including ADR's)
* Terminology
* Foreign Exchange Markets
* Spot and forward trades
* Purchasing Power Parity (Absolute and Relative)
* Political and Exchange Risk (Short and Long term)
* Examples Throughout the World

Week 14:

Convertible Securities
Warrants
Pricing
Puts and Calls
Options Clearing Corporation
use of Options (Covered Calls, Protective Puts, Straddles, Spreads
Commodities and Financial Futures
Forwards
Swaps (Credit Default, interest, Currency, etc.)
Options on Futures and other products
Review for Final Exam

Week 15:

Final Exam