This course will cover the theory and evidence concerning major corporate financial policy decisions. FIN 423 discusses alternative methods of issuing and retiring securities, mergers and acquisitions, and the market for corporate control.

The required text for this course is


Some of the required and supplemental articles are contained in the book edited by Donald Chew,


If you do not already own this book (which has been required for FIN 413 in recent years), you should try to purchase a copy. Articles in the Chew book are indicated by “(DC)” in the list below. Required readings are indicated by an asterisk “*”. You will be provided with copies of those required readings that are not included in DC. In addition, the relevant sections from the book,


are listed as supplemental readings. This book has been used in most recent offerings of FIN 402, Capital Budgeting and Corporate Objectives, which is a prerequisite for FIN 423. Finally, and perhaps most important, I would like all of the students in the class to read the Wall Street Journal or some similar publication on a regular basis since the topics covered in this course are discussed regularly in this newspaper. The discussion of “current events” will be a major part of some lectures.
Relation to Other Finance Courses

In addition to FIN 402, FIN 411 (Investments) is a prerequisite for this course. FIN 411 teaches students how to evaluate the response of security prices to information (“event studies”). Since much of the evidence in FIN 423 depends on understanding event study methods, it is important that you have satisfied the FIN 411 prerequisite. FIN 413 (Corporate Finance) is a co-requisite for FIN 423. FIN 413 covers topics such as bankruptcy costs and agency costs that relate to capital structure and dividend policy. If you have not already taken FIN 402, 411, and 413 (or you are not simultaneously taking 413), you are responsible for making up these deficiencies in your background.

Many of you may have already taken FIN 433 (Issues in Corporate Control) with Gregg Jarrell, or plan to take it in the future. FIN 433 spends quite a bit of time talking about mergers and acquisitions (M&A). In the past I have found that about a third of the students who have taken FIN 433 felt that there was too much overlap between FIN 423 and FIN 433. On the other hand, about a third felt that the somewhat different perspective offered in FIN 423 was very valuable to them (the remaining third did not express strong feelings either way). Unfortunately, I have been unable to find any measurable variable that would help me advise students about whether to bypass FIN 423. If you are concerned about this question, I encourage you to look carefully at the course outline and consider taking a different course. For those of you who choose to take FIN 423 after previously taking FIN 433, I have constructed a grading option that will let you take advantage of your background (see below).

Expectations of Student Performance

My expectations are that students will come to class prepared by having read the necessary material. The lectures will not rehash the readings. Rather, we will discuss different perspectives on the arguments presented in the readings. Active, high quality class participation will enhance the grades of students who are near margins in the final grade distribution.

I will hand out notes to accompany many of the lectures. Occasionally, I will also hand out stories reproduced from the popular business press (e.g., the Wall Street Journal). Class attendance is very important to successful completion of this course. If you know that you will be unable to attend more than a few of the classes, you should probably not register for this course (see the description of grading policies below). If you know that you have to be late for class, or leave early, please show courtesy to the rest of the class (and to me) by entering and leaving the room as discretely as possible. If you miss a class, or are late in arriving, it is your responsibility to obtain copies of any handouts that were
distributed in class [do not rummage around on the teaching desk looking for handouts if you arrive late!] I suggest that you form study teams and help each other out -- get extra copies of handouts for missing team-mates. I will not provide a long-term inventory of class handouts for people who miss class, but most of the handouts will be available on the class web page (see below).

**Grading**

The grading for this course will be based on a flexible system. There are several options:

**Option A**

There will be a Midterm Exam on February 12 (worth 20% of the course grade) and a Final Exam between March 12-16 (worth 30% of the course grade). There will also be one or two individual (not group) take-home assignments due within a week or less (in aggregate worth 10% of the course grade). Usually, exam questions will be related to the lectures, and/or the required reading, and/or current events that relate to the material that is being discussed in class.

There will be two case problems that will be done in groups of between 3 and 5 people. The case problems will involve an analysis of: (1) a security offering (e.g., an IPO), and (2) a merger/acquisition (M&A) problem. Either case could involve negotiation with an opposing team. The total group score for the cases equals the average case score times the number of students in the group. On the last day of class (March 11), each group will turn in their grade-allocation sheet containing:

(a) the percentage (summing to 100%) of the total group score that each member by name is to receive towards his/her final grade, and

(b) the signature of each group member.

If one group member’s signature is missing, the grade allocation sheet is valid and binding on all members. If two or more signatures are missing, the allocation sheet is invalid and the group’s score will be allocated equally among the members. I will not arbitrate disputes among group members. No grade allocation sheets will be accepted after March 11. Each case will be worth 20% of the course grade.
Option B

In addition, M.B.A. students have the option of writing a paper that can count for up to 40% of their grade (you must specify the fraction when you hand in the paper). The weight given to the exams, quizzes and the case problems will be reduced proportionately. The paper should be between 5 and 15 typed pages and it is due on Tuesday, March 11, in class. The topic of the paper can be anything related to the course. I will approve paper topics that are unconventional, but you do not need to ask permission to write a paper on a topic similar to those listed below. In general, these papers should simulate a business research report to your boss. For example, if you are analyzing a potential merger, you might pretend that you are a junior staff member of an investment banking firm (or one of the companies involved in the transaction), and I (your boss) have asked you to report your analysis and recommendations concerning the merger (for example, Is the price a ‘good’ one? Why? What are the purported gains from this merger? Does the stock market think it is a wise transaction for our company or the other company? Are there likely to be regulatory problems or litigation? etc.) You may ask for general guidance as you might ask your boss, but don’t come and ask me what you should write because I (your boss) expect you to be able to do this analysis yourself. Examples would be:

1. an event study on price performance of new issues in 2004, or 2005, or 2006, or 2007;
2. an analysis of the use of “real options” methods in valuing IPOs (with an example);
3. a case study (similar to Ruback’s paper on Conoco) on a major acquisition, spin-off, or proxy fight. Students in past years have studied Chase-Lincoln, Norstar-Security, Xerox-Crum & Forster, Computer Consoles-N.B.I., and Kodak-Sterling Drug;
4. a case study of the performance of a successful merger or tender offer from 1 to 5 years after it was completed;
5. or any other topic that I approve.

Option C

If you took FIN 433 (and therefore did a lot of case work), you have the option of substituting your paper for the casework in this course, but you must receive prior approval from me for this option (and approval of your paper topic).
Option Ph.D.

Ph.D. students must write a paper and will not participate in the case problems.

Course Information on the World Wide Web (WWW)

Most of the materials for this course will be posted on the home page for this course [http://schwert.simon.rochester.edu/f423/f423.htm]. For example, I plan to post copies of the slides used in the classroom presentations as Adobe Acrobat files (so they can be viewed and printed from the WWW). In addition, I have collected lists of sites that students can use to collect information on security prices (if you want to do an event study), on financial news, on securities filings with the S.E.C. (if you want to study a particular IPO prospectus, for example), and so forth. I want to encourage all students to use this resource throughout the course. One possible “paper” that students might do is to create web pages that would allow future students to analyze particular types of deals that are discussed in this course (e.g., information and data sources, examples of similar transactions, etc.) If you are interested in pursuing that option, please see me early in the quarter.

Topics and Readings

Additional journal articles, which are not required, are included for students who want more information on particular topics. These are not on reserve in the library, although copies of the Journal of Financial Economics and the Journal of Finance are available in the Management Library (and available online through these links if you are logged into the UR network).

I. Introduction to the Course

Brealey, Myers & Allen, Ch. 14 and 15.
II. Venture Capital and Initial Public Offerings of Common Stock


II. Venture Capital and Initial Public Offerings of Common Stock


II. Venture Capital and Initial Public Offerings of Common Stock


II. Venture Capital and Initial Public Offerings of Common Stock


II. Venture Capital and Initial Public Offerings of Common Stock


III. Primary Distributions of Seasoned Stock, Underwriting, Rights and Private Placements


III. Primary Distributions of Seasoned Stock, Underwriting, Rights and Private Placements


III. Primary Distributions of Seasoned Stock, Underwriting, Rights and Private Placements


IV. Corporate Bond Financing

*Brealey, Myers & Allen*, Ch. 25.

IV. Corporate Bond Financing


V. Intra-Firm Exchange Offers and Recapitalizations

*WMM*, Ch. 13.
V. Intra-Firm Exchange Offers and Recapitalizations


VI. Convertible Debt

*Brealey, Myers & Allen, Ch. 25.


VI. Convertible Debt


VII. Repurchase Tender Offers

*WMM*, Ch. 18.


VII. Repurchase Tender Offers


VIII. Interfirm Tender Offers, Mergers and Corporate Control

*WMM*, Ch. 1, 4, 6, and 8.

*Brealey, Myers & Allen*, Ch. 32 and 34.


VIII. Interfirm Tender Offers, Mergers and Corporate Control


VIII. Interfirm Tender Offers, Mergers and Corporate Control


VIII. Interfirm Tender Offers, Mergers and Corporate Control


VIII. Interfirm Tender Offers, Mergers and Corporate Control


IX. Going Private/Leveraged Buyouts

*WMM*, Ch. 16.


IX. Going Private/Leveraged Buyouts


X. Defensive Tactics

*WMM, Ch. 19.


X. Defensive Tactics


XI. Antitrust Law and Regulation of the Market for Corporate Control

*WMM*, Ch. 2.


XI. Antitrust Law and Regulation of the Market for Corporate Control


XII. Proxy Fights


XII. Proxy Fights


XIII. The Value of Corporate Control


XIII. The Value of Corporate Control


XIV. Divestitures and Spin-offs

*WMM*, Ch. 11.

*Brealey, Myers & Allen*, Ch. 33.


XIV. Divestitures and Spinoffs


