

CORPORATE FINANCE AND INDUSTRIAL ORGANIZATION

July 2009 Syllabus

Instructor: Evgeny Lyandres
Department of Finance
Boston University School of Management
Web: <http://people.bu.edu/lyandres/>
Email: lyandres@bu.edu

OBJECTIVE

The objective of this course is to introduce you to the various interactions between firms' financial policies ("Corporate finance") and product market decisions ("Industrial organization"). There are numerous ways in which financial decisions, such as capital structure, the decision to go public, executive compensation structure, and mergers and acquisitions, among others, influence firms' strategies in product markets, such as the price/quantity decisions and the choice of products' quality. On the other hand, the structure of an industry in which a firm operates impacts its optimal financial decisions.

This is mostly a theory course. While we'll discuss some relevant empirical evidence, the main goal is to introduce you to the way of integrated thinking about financial and operating policies of a firm. The course will be example-driven. This means that we will always illustrate a certain point using a simple numerical example, and then we will discuss it and generalize it. Sometimes, we will have "games" in which you will be divided into competing teams that will be representing firms, shareholders, debt holders, investment banks etc., and will be making financial and product-market decision in a highly stylistic environment that illustrates certain linkages between corporate financial choices and product market decisions in the simplest possible way. Most of the topics discussed in class will be generalized in mini-cases that some of you will present during the last class meeting.

PREREQUISITES

I'll assume that you have taken Corporate Finance I and II courses and also Managerial Economics. We will go over the basic product market competition and agency models required in the discussions, but being familiar with the material of the above courses would facilitate learning. The case that will be assigned will involve substantial amount of Excel modeling and I'll assume that you are familiar with basic spreadsheet manipulations.

COURSE MATERIALS

There is no required textbook. A minority of topics we shall discuss are briefly covered in FINANCIAL MARKETS AND CORPORATE STRATEGY by Mark Grinblatt and Sheridan Titman (McGraw-Hill, ISBN: 2001042581; the most relevant chapters are 17, 18, and 20)

The course will be based on lecture notes that I'll distribute in advance. These lecture notes will contain examples without solutions. (We will solve the examples together in class.) You are expected to print out the lecture notes prior to class and familiarize yourself with their contents. I reserve the right to pose questions to individual students during lectures ("cold calls") in order to stimulate class participation.

PERFORMANCE EVALUATION

Performance evaluation will be based on a final exam, case assignment, and games described above. The weights put on each of these components when computing the final grade are as follows:

Component	Weight
Final exam	40%
Mini-cases	30% (3*10%)
Games	20%
Class participation	10%

Mini-cases: The mini-cases will integrate many of the topics covered in class. They should be prepared in teams. Case write-ups must include an executive summary of main results/conclusions that should be up to half a page in length. The case write-up must not exceed 2 pages in total (excluding supplementary materials, such as tables, figures, and/or appendices). In addition, you should prepare a short Powerpoint presentation of your results that you will use to present your solution.

Final: The final exam will cover the theory and examples discussed in class and in the mini-case assignments. It will be held after July 9.

Games: These are stylistic simulations of financial and product market decisions in the presence of competitors, financial intermediaries, and various claim holders. We'll discuss the specifics of grading for each game in class.

Class participation: I will expect active participation by students. "Active participation" does not mean that you need to try to answer every single question posed in class. Thoughtful questions, answers, and remarks will be rewarded. "Thoughtful" does not have to coincide with "correct". The goal of participation is to arrive together at the right answer. Consistent "disruptive" participation may be penalized.

SCHEDULE

Class schedule: We will meet 4 times: on July 2, 4, 6, and 9.

TENTATIVE TOPIC OUTLINE

The following table describes the material that we will cover during each class. It is likely that there are going to be deviations from this tentative schedule. We may need to spend more or less time than expected on certain subjects.

Date	Topics
July 2	Introduction Basic models of competition in product markets Product markets and capital structure
July 4	Presentation and discussion of mini-case 1 Product markets and capital structure – continued Product markets and executive compensation
July 6	Presentation and discussion of mini-case 2 Product markets and the decision to go public Product markets and mergers and acquisitions
July 9	Presentation and discussion of mini-case 3 Real options in the presence of product market competition