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.

Two books are sometimes useful for this course:

J. Fred Weston, Kwang S. Chung, and Susan E. Hoag, Mergers, Restructuring, and Corporate Control Prentice-Hall, 1990 (henceforth WCH). contains discussion of many topics that will not be discussed at length in class (for example, principles of valuation in Chapter 6). Gregg Jarrell ordered this book for FIN 433 in the Winter Quarter, but my understanding from the bookstore is that this book is not available in large quantities because it may be going out-of-print. If you can obtain a copy, use it as a reference if you have a question related to the course that is not covered in the required readings. Some of the required and supplemental articles are contained in the readings book edited by Donald Chew,

If you do not already own this book, you should purchase a copy in the bookstore (this book has been required for FIN 413 in recent years). 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 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 (Portfolio Theory and Capital Markets) 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 (The Theory of Finance) is a corequisite 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 will have already taken FIN 430 (Financial Intermediation) with Cliff Smith last Fall and/or FIN 433 (Issues in Corporate Control) with Gregg Jarrell last quarter. Fin 430 spends some time talking about initial public offers (IPOs) and 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 had both FIN 430 and Fin 433 felt that there was too much overlap between FIN 423 and their earlier course work. 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 give advice to students about whether to avoid 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 430 and FIN 433, I have constructed a grading option that may let you take advantage of your extensive 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. I will also hand out sets of 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
one or two of the classes, you should probably not register for this course (see the description of the grading policies below). If you know that you have to be late for class, or leave early, please show courtesy to me and the rest of the class 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. 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 hand-outs for people who miss class.

**Grading**

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

**Option A**

There will be a short 10 point quiz at the start of every class (which should provide incentive to arrive at class on time). The first quiz will be on Monday April 1 and the eighth quiz will be on Monday May 20. They will include one to three questions that are related to the most recent lectures, and/or the reading that was required for that day, and/or current events that relate to the material that is being discussed in class. Some weeks I may substitute a take-home assignment that will be due the next week. Every student will be able to “throw away” their two worst quiz grades, so the maximum score available from quizzes is 60 points.

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 (May 28), 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 groups' score will be allocated equally among the members. I will not arbitrate disputes among group members. Each case will be worth 20 points, so the maximum average score available from cases is 40 points.
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 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, May 28 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:

2. a case study (similar to Ruback's papers on Conoco or Cities Service) 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;
3. a case study of the performance of a successful merger or tender offer from 1 to 5 years after it was completed;
4. 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 case work in the 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 Wide World Web (WWW)

Most of the materials for this course will be posted on the home page for this course [http://www.ssb.rochester.edu/fac/schwert/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 a microcomputer attached to 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. I would particularly welcome student projects that gather information off the WWW to construct a new “case” for the course. If you are interested in pursuing that option, please see me early during 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.

I. Introduction to the Course

*S Smith, Clifford W., "Raising Capital: Theory and Evidence" ( DC, 178-194).
Brealey and Myers Ch. 14 and 15.
WCH, Ch. 1 and 2.

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


IV. Corporate Bond Financing

*Brealey and Myers Ch. 23-24.

V. Intra-Firm Exchange Offers and Recapitalizations

WCH, Ch. 18.
V. Intra-Firm Exchange Offers and Recapitalizations

Economics 25 (December 1989) 349-370.


VI. Convertible Debt

*Brealey and Myers Ch. 22.


VII. Repurchase Tender Offers

VII. Repurchase Tender Offers


VIII. Interfirm Tender Offers, Mergers and Corporate Control

* Brealey and Myers Ch. 33.

WCH, Ch. 3, 4, 8, 10 and 13.


VIII. Interfirm Tender Offers, Mergers and Corporate Control


VIII. Interfirm Tender Offers, Mergers and Corporate Control

1991) 315-335.

IX. Going Private/Leveraged Buyouts

WCH, Ch. 16.
IX. Going Private/Leveraged Buyouts


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

WCH, Ch. 21 and 23.
X. Antitrust Law and Regulation of the Market for Corporate Control


XI. Defensive Tactics


WCH, Ch. 20, 481-524.


XI. Defensive Tactics


XII. Proxy Fights

WCH, Ch. 19, 472-477.
XII. Proxy Fights


XIII. The Value of Corporate Control


WCH, Ch. 19, 457-471.


XIII. The Value of Corporate Control


XIII. The Value of Corporate Control


XIV. Divestitures and Spinoffs


WCH, Ch. 9.


