

Corporate Finance, Module 14, "The Capital Markets"

*Corporate finance module 14: Readings for Tenth Edition*

(The attached PDF file has better formatting.)

Updated: January 30, 2011

The page numbers here are for the *tenth* edition of Brealey and Myers. You may also use the seventh, eighth, or ninth editions of this text. The page numbers for earlier editions are in separate postings. The substantive changes in the textbook are slight among these editions, but the final exam problems are based on the tenth edition.

{The Brealey and Myers textbook is excellent. We say to read certain sections and to skip others. This does not mean that certain sections are better; it means that the homework assignments and exam problems are based on the sections that you must read for this course. Some of the skipped sections are fascinating, but they are not tested.}

Read the introduction on page 362 and section 15.1 (Venture capital) on pages 362-366; the Marvin Enterprises illustration is used in several chapters of the text. Understand the first stage balance sheet and the second stage balance sheet on pages 363-364. Some insurers invest in venture capital (though almost no insurers are financed by venture capital).

Read section 15.2 (the initial public offering) on pages 366-371 only. Skip "Costs of a New Issue" until the end of this section, including the sidebar on page 372: "How Scandal Hit the Investment Banking Industry." Understanding IPO's is important for an actuary working for a new firm; Brealey and Myers give a clear overview. There are potential gains and losses for all parties in an IPO; setting the optimal issue price is an important but difficult decision in which actuaries are often involved.

Skip section 15.3 (alternative issue procedures) on pages 375-376. Read section 15.4, "Security sales by public companies," on pages 376-382. Know how to value a rights issue; see the practice problems on the discussion forum for sample final exam problems. Read the summary on page 382.

Review problems 9 and 10 page 385, and problems 19 and 21 on page 386.

*Skip* the appendices on pages 387-390.

The first 14 modules of this course discuss the relatively non-technical issues of corporate finance; the remaining modules deal with the more mathematical issues of dividend policy, capital structure, options, and real options.