

## Corporate Finance, Module 14, "The Capital Markets"

### *Corporate finance module 14: Readings for Eleventh Edition*

(The attached PDF file has better formatting.)

The page numbers here are for the *eleventh* edition of Brealey and Myers. You may also use the seventh, eighth, ninth, or tenth 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 eleventh 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 371 and section 15.1 (Venture capital) on pages 371-375; 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 372-373. Some insurers invest in venture capital, though few insurers are financed by venture capital.

Read section 15.2 (the initial public offering) on pages 375-380 only. Skip "Costs of a New Issue" until the end of this section, including the sidebar on page 381: "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 384-385. Read section 15.4, "Security sales by public companies," on pages 385-391. 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 391.

Review problems 6 and 7 page 393, and problems 14 and 15 on page 394.

*Skip* the appendix on pages 396-399.

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.