

## Corporate Finance, Module 13, "Corporate Financing"

*Required reading:*

(The attached PDF file has better formatting.)

Updated: June 22, 2005

{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.}

Skip section 14.1 on pages 377-382; these are historical facts that are good to know but will not be tested on the final exam and are not needed for the homework assignments.

Read section 14.2 (Common Stock) on pages 383-388, skipping the last two subsections on pages 388-389 ("Equity in disguise" and "Preferred stock") and the "Contest over voting rights" story on page 387. The first part of this section is facts; focus on "ownership of the corporation" (pages 384-385) and "voting procedures" (pages 385-388).

Read section 14.3 (Debt) on pages 389-392. The fundamental question for the firm is how much to borrow; this is the subject of the modules on capital structure. Know also the five associated (secondary) questions on pages 390-392.

Read section 14.4 (Financial Markets and Institutions) on pages 392-395 and the summary on pages 395-396. Insurers are financial intermediaries, and this section is particularly relevant to actuaries working in corporate positions with large insurers.

This module is non-mathematical, and the readings are interesting; the same is true for the next module. The following modules are more mathematical and become increasingly difficult as we move to capital structure and real options.