

Corporate Finance, Module 14, "The Capital Markets"

*Readings for the Fourteenth Edition (2022) of the Brealey, Myers, Allen, and Edmans text*

(The attached PDF file has better formatting.)

The sections in this posting are for the *fourteenth* edition of the Brealey, Myers, Allen, and Edmans text. You may also use the seventh through thirteenth editions; final exam problems can be answered from any edition.

{The Brealey, Myers, Allen, and Edmans 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 399 and section 14.1, "Venture capital"; the Marvin Enterprises illustration is used in several chapters of the text. Understand the first stage balance sheet and the second stage balance.

Skim section 14.2, "the initial public offering." Understanding IPO's is important for an actuary working for a new firm; the textbook gives 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. The final exam does not test the details or stories (e.g. banking scandals) in this section.

Read section 14.3, "Security sales by public companies." Know how to value a rights issue; see example 14.4 on page 419 and the practice problems on the discussion forum for sample final exam problems.

The first 14 modules of this course discuss 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.

Review end of chapter problems 22, 23, 24, 25.

Illustrative test questions, problems, and homework assignments are shown separately on the discussion forum.

final exam problems