

Corporate Finance, Module 14, "The Capital Markets"

*Required reading, Eighth Edition:*

(The attached PDF file has better formatting.)

Updated: November 21, 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.}

Read section 15.1 (Venture capital) on pages 383-387; the Marvin Enterprises illustration is used in several chapters of the text. Read section 15.2 (the initial public offering) on pages 387-394. Understanding IPO's is important for an actuary working with a small, newly financed insurer; Brealey and Myers give a clear overview. Focus on pages 392-394. 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 (Other new-issue procedures) on pages 394-396. Read section 15.4 (Security sales by public companies) on pages 396-397 and 398-402, skipping the subsection on international security issues on pages 397-398. Skip section 15.5 on pages 403, but read the summary on pages 403-404. Skip the appendices on pages 405-407.

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.