Course Description: The ongoing attack on wealth and income inequality have left many to question the legitimacy of profits made by both large corporations and the executives who run them. FBE 433 analyzes the objectives of corporations, and the role of corporate governance and incentive arrangements that help or hinder achievement of these objectives. The key players in the emerging drama include: shareholders, primarily interested in increasing shareholder value (sometimes at the expense of other stakeholders); (2) executives, primarily interested in increasing their own utility; (3) directors, elected by but not perfect agents for shareholders; and (4) influential outside parties such as the government, labor unions, and the media with agendas far removed from shareholder-wealth maximization. The course traces how pay practices have evolved in response to economic, institutional, and political factors, and examines how the evolution has served to either increase or decrease the inherent conflicts of interest among the various players.

Particular attention is paid to analyzing problems with (and developing solutions for) top-executive compensation, including defective bonus plans and equity plans, the complacency of the board and compensation committee, misguided government policies (and the political process leading to them), and a general ignorance, confusion or indifference about how value is created and destroyed. Topics covered throughout the course include conglomerations and diversification, leveraged buyouts, downsizing, private equity, valuation, earnings management, tax rules, and accounting policies. In addition, we consider whether Wall Street pay practices led to excessive risk taking that triggered the recent financial crisis, and also focus on the cost, value and incentives from executive and employee stock options.

Who will benefit from this course: This course requires only introductory finance and is open (and accessible) to both finance and non-finance majors. FBE 433 is particularly relevant for students pursuing careers in accounting, consulting, corporate finance, human resources, investment banking, and general management, as well as for prospective owners and entrepreneurs.

Teaching Methods: My approach to teaching is to emphasize open classroom discussion and de-emphasize lectures. Cases (particularly “mini-cases” designed explicitly for this course) will comprise about a third of the required readings. Additional assignments include notes, articles from the academic and business press, and computer exercises. Also, I will be distributing additional material such as problems, notes, relevant articles and examples as appropriate.