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# Financial Engineering in Corporate Finance: An Overview

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## *A Special Issue on Financial Engineering*

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# Financial Engineering in Corporate Finance: An Overview

**John D. Finnerty**

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■ Financial innovation over the past two decades has rapidly brought about revolutionary changes in financial instruments and processes. Almost daily the financial press carries yet another tombstone advertisement featuring a new security. A variety of factors, among the more important of which are increased interest rate volatility and the frequency of tax and regulatory changes, have stimulated the process of financial innovation. The deregulation of the financial services industry and increased competition within investment banking have undoubtedly placed increased emphasis on being able to design new products, develop better processes, and implement more effective solutions to increasing-

ly complex financial problems. Financial engineering is the lifeblood of this activity.

Financial engineering involves the design, the development, and the implementation of innovative financial instruments and processes, and the formulation of creative solutions to problems in finance. The term "innovative" is used here to describe a solution that is non-trivial. Innovative financial solutions may involve a new consumer-type financial instrument, such as IRA and Keogh accounts; a new security, such as money market preferred stock; a new process, such as the shelf registration process; or a creative solution to a corporate finance problem, such as the design of customized security arrangements for a project financing or a leveraged buyout.

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## Abstract

This introduction to the special issue provides an overview of financial engineering in corporate finance. It characterizes the process of financial innovation, describes the factors that stimulate financial innovation, and evaluates a variety of financial innovations within this framework in order to assess the sources of the...

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