FI3300
Corporation Finance

Spring Semester 2010
Dr. Isabel Tkatch
Assistant Professor of Finance

Agenda
- Course syllabus
- Course calendar
- Other administrative details
- Kale & Fendler: Chapter 1

Course Syllabus
- Expectations
  - Be here
  - Ask questions
  - Work practice problems
- Materials
  - Kale and Fendler, Lectures in Corporate Finance, 5th edition - read it and bring to class
  - Financial Calculator: Texas Instruments BA II Plus - bring to class every day
  - Lecture notes - on the web page

Course Syllabus
- Grading
  - 2 Midterm Exams @ 25% each
  - Comprehensive Final exam @ 30%
  - Quizzes and Assignments @ 20%

Course Syllabus
- Make-up Policy
  - No make-up quizzes or exams
  - Everyone must take the final exam
  - No extra credit work to improve your grade

Course Syllabus
- Office Hours
  - Robinsons College of Business, 35 Broad Street, Room: 1241
  - Wednesday 4:00 PM - 5:00 PM
  - Drop-in, phone, e-mail and by appointment
Chapter 1: Introduction and Overview

Learning objectives

- Understand why sound financial management is vital to the survival of a business
- Identify 3 main subject areas in finance
- Describe different forms of business organization
- Identify the goal of the financial manager
- Describe the basic difference between financial management and accounting
- Understand the importance of cash and the relation between cash-flows and value

Subject Areas in Finance

- Investments
- Corporate financial management
- Financial markets & institutions

The 3 areas are linked together by the identification, management & valuation of risky cash flows.

Subject Areas in Finance

- Firms (deficit units) have ideas, but need capital to implement them: they borrow / raise capital from deficit units to be able to buy the physical assets necessary for production. To do so, they issue financial assets against future cash flows their physical assets are expected to generate.

- Investors (surplus units) purchase the financial assets, thus lending money to / investing in firms. They expect a positive return on their investment: the return is a function of future cash flows that the firm’s physical assets are expected to generate.
Forms of Business Organization

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Ability to Raise Capital</th>
<th>Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Proprietorship</td>
<td>100% owned by a single individual</td>
<td>Difficult</td>
</tr>
<tr>
<td>Partnership</td>
<td>Two or more individuals</td>
<td>Less difficult than Sole Proprietorship</td>
</tr>
<tr>
<td>Corporation</td>
<td>Separation of ownership and control (managers)</td>
<td>The least difficult of all forms</td>
</tr>
</tbody>
</table>

The Goal of Corporate Financial Management

Maximize Shareholders' Wealth

The financial manager is the “agent” of the owners (shareholders) and they want to make money on their investment.

Maximizing shareholders’ wealth = Maximizing the stock price

Financial Management and the Corporation’s Survival

- Excellent financial management cannot save a firm with a bad product, BUT...
- Poor financial management can cause a firm to fail, EVEN IF it efficiently produces, markets and delivers a highly demanded product or service.

Finance & Accounting

Accounting
- Historically based/ backward looking reports
- Book value of the firm’s assets

Finance
- Forward looking
- Future cash flows

The use of Accounting statements for Financial Management
- Evaluate the status of the firm
- Use past data to predict future cash flows and estimate the value of the firm

The Relation between Cash and Value

The value of a financial asset (investment) is determined by the stream of future cash flows it generates for the investor

What’s Next?

- Firm’s Financial Statements
  - Accounting Review (2)
  - Statement of Cash Flow (3)
  - Financial Statement Analysis (4)
  - Strategic Financial Management (5)
- Valuation
  - Time Value of Money (6, 7)
  - Financial Securities & Markets (8)
  - Valuation of Bond & Stock (9)
  - Capital Budgeting Basics (10)
  - Capital Budgeting Advanced (11)