

# FIN 300

Introduction to Corporate Finance

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## Agenda for Today June 8 2017

- Welcome
- Syllabus
- Introduction
- Math Review

# What is a corporation?

🔒 Poll locked. Responses not accepted.



Total Results: 18

# What is a corporation?

- Form of economic organization
- Major impact on our society
- Half of U.S. employment
- Almost every good we consume involved a corporation at some point in its production

# What is corporate finance?

- Analysis of investments and financial management
  - Capital Budgeting
  - Capital Structure
  - Working Capital Management

# CAPITAL BUDGETING

- The investment decision making process
- Not all projects are possible
- Which projects will should we choose?
- What is the risk of these projects?
- How do we create value for the shareholders?

# CAPITAL STRUCTURE

- Long term financing questions
- How do we pay for the projects / investments?
- Debt vs Equity

# WORKING CAPITAL MANAGEMENT

- How do we keep the day-to-day operations running smoothly?
- How much cash do we need to hold?
- Liquidity in the short run



# BUSINESS ORGANIZATIONAL FORMS

- Sole Proprietorship
  - Easy to start
- Partnership
  - Multiple entities together
  - Limited and unlimited liability
- Corporation
  - Distinct legal entity
  - Limited liability

If corporations are persons, can they be pursued for crimes?

Yes.

See [Fine and Punishment](#) (The Economist, 2012)

If individuals in a corporation benefit from their actions that may hurt shareholders or other stakeholders, could this be a problem?

Yes, it could be.  
This is an agency problem.

# AGENCY

## Agency Relationships

- Occur everywhere in business
- Principal hires agent
- Agent is paid
- Costs and benefits may not align

# Examples of Principal / Agent

- Car owner / Mechanic
- Patient / Doctor
- Student / Teacher
- Stock owner / CEO

# The Agency Problem

- Conflict of interest
- Easier to do a poor job and get paid
- Solutions are not perfect
  - Incentive alignment
  - Executive pay

# SUMMARY

- Corporation - economic organization
- Maximize wealth
- Various organizational forms
- Agency