# **FIN 300**

Introduction to Corporate Finance

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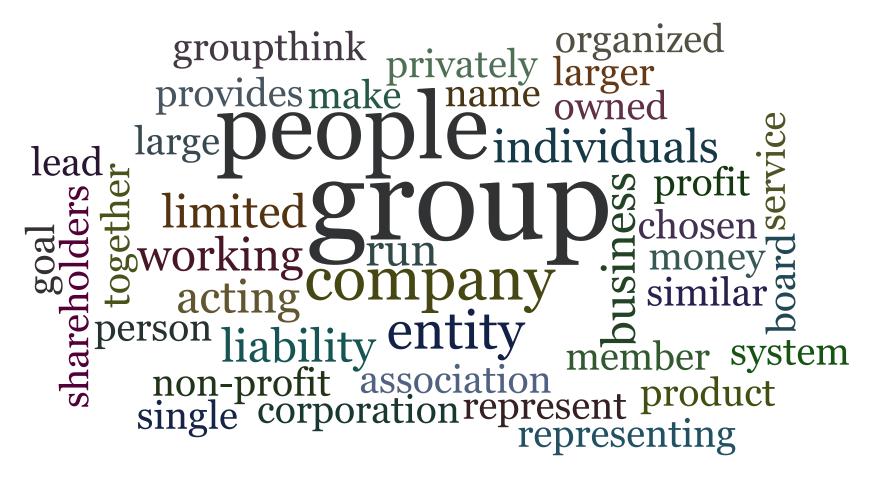
## **FIN 300**

Agenda for Today June 8 2017

- Welcome
- Syllabus
- Introduction
- Math Review

#### What is a corporation?

**Poll locked.** Responses not accepted.



### 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 allign

## 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 allignment
  - Executive pay

#### **SUMMARY**

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