

## MAF101 – Finance Exam Revision:

### Topic 1 – Introduction to Finance:

#### What is Finance?

The discipline that deals with decisions concerning how money is raised and used by Governments, Businesses and individuals.

#### Major Areas of Finance:

- **Managerial Finance:** Deals with decisions concerning cash flows, both inflows and outflows. E.g. How much inventory should a firm keep on hand
- **Financial Services:** Deals with the management of client's money. Help individuals and companies determine how to invest money to achieve goals, e.g. retirement, home purchases, etc.
- **Financial Markets & Institutions:** Markets include – stock, bond, foreign exchange, futures. Institutions include – banks, insurance companies, savings & loans
- **Investments:** Determining the values, risk and returns associated with such financial assets as shares and bonds. Determining the optimal mix of securities that should be held in a portfolio investment

#### Main objective of corporation:

The main objective of corporation is to maximise the wealth of its owners/shareholders. This is equivalent to maximisation of the present value of future cash flows to shareholders/owners.

#### Three key decisions faced by financial managers:

- **Capital budgeting:** The investment decision relates to the manner in which funds raised in capital markets are employed in productive activities. The objective is to generate future cash flows, thus providing a “return” to investors.
- **Capital structure:** The financing decisions relates to the mix of funding obtained from capital markets, in terms of proportional holdings of debt and equity.
- **Dividend decision:** Relates to the form in which returns generated by the firm are passed on to equity holders

#### Shareholder vs Manager Interests (Agency Problems):

Managers will work in the interests of shareholders if there are sufficient incentives to work well. Some incentives include;

- Remuneration package – bonus
- Performance share – direct ownership of shares by directors
- Executive share option – allows managers to purchase future shares at a set price

**Sustainability:**

A long-run process that focuses on improving the quality of life of all stakeholders for generations both current and future.

**Lean Manufacturing:**

A system that integrates that entire production process so that the least amount of resources are used.

**Corporate Governance:**

A set of rules that a firm follows when conducting business. It should provide stakeholders with an understanding of;

- How executives run the business
- Who is accountable for important decisions