

FUNDAMENTALS OF FINANCE
MAF101

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Topic 1- Introduction to Finance

What is Finance?

- Finance is the study of how individuals, businesses and institutions acquire, spend and manage financial resources.
- Acquire- how do we get it?
- Spend- once we have it, where do the financial resources go to get the highest benefit?
- Manage- watch overtime, to see appropriate.

Major areas of finance

- Investment analysis and management
 - Mainly concerned with where and how to invest
 - Invest money on behalf of clients (achieve highest profit for clients)
 - Therefore needs to know where to invest- different strategies
 - Investment decisions
- Corporate finance
 - Mainly concerned with the decisions of managers
 - CEO or CFO- sitting in company thinking about HOW to maximise value of company.
 - Create wealth for fund holders
- Capital markets and financial institutions
 - Explains the operations of financial intermediation and the efficiency in the financial services sector
 - How do banks work (commercial vs investment)
 - How financial services sector operates
- International finance
 - Examines the operations of foreign exchange markets, international investment decisions and international funding mechanisms
 - Invest internationally and get funding internationally
 - Very relevant in todays market- we are very global and integrated
- General finance
 - Personal finance, real estate finance and public finance
 - Financial Planning

The importance of Finance in Non-Finance areas

- Finance is the SCIENCE of managing money
- Money is the survival of any organisation out there
- Therefore, understanding finance (how to manage money) is vital
 - Management (HR will have to look at a potential new employee and see how they will bring more money to the company/ what it will cost them)
 - Marketing
 - Accounting- vital to Finance
 - Information system- also an essential part of Finance

- Economics- also an essential part of Finance

Careers in Finance

- Career opportunities in several capacities
 - Financial management- corporate finance divisions (in any firm- every corporation has to deal with money)
 - Financial intermediaries- banks, hedge funds, insurance, superannuation
 - Securities markets- front runners of the financial market. Help investors buy and sell shares
 - Government entities- finance division of any government corp.
 - Non-for-profit organisations- i.e. Universities
 - Personal financial planning- helping individuals achieve their financial goals (Katrina Paulbrook)
- High demand for qualified finance specialists
- Finance specialists need a working knowledge of other disciplines as well
 - Economics, mathematics, statistics, accounting, marketing

The Finance Function

The main goal of managers is to maximise the market value of the firm

- Value of the firm= present value of future expected cash flows
- This maximises the wealth of shareholders (owners of company)
- Shareholder wealth= present value of their future expected cash flows
- When we can measure the value of the company accurately, we can measure whether managers are doing their job correctly.
- Do managers maximise firm value? How do we define the value of the firm?

How do managers maximise the firm's value?

Managers maximise the firm's value by making a number of key corporate policies:

- **WHAT** to invest in, **HOW** to fund it, once you have the money how to **DISTRIBUTE** it/ what to do with the money.
- **RISKS** that may be involved
- **Investment or Capital budgeting**- decision about which project does the company invest? Vital decision as it signifies the **IDENTITY** of the company. E.g. QANTAS is airline company because it invests a certain way (opposed to Telstra as a communications company). It is not about which asset to invest in but which **MARKET** to target with these investments/ assets.
- **Financing or Capital structure**- Once you have decided which projects to invest, you have to work out **HOW** to get the money. How do I acquire capital? Borrow? Ask shareholders for money?