Lecture 1 - Fundamental Concepts

<u>Three Main Types of Decisions for a Financial Manager</u>
- Investment - What to spend money on? “Capital Budgeting”
- Financing - How to pay for it - Debt/Equity “Capital Structure”
- Working Capital - Optimising cash, receivables, payables and inventory “Treasury Management”

<u>Business Structures</u>
- **Sole Trader**
  - Flexibility
  - Personal assets at risk
  - Hard to sell out (partially or fully)
  - Hard to raise capital
- **Partnership**
  - Personal assets at risk if something goes wrong with either partner
  - Hard to sell out
  - Hard to raise capital
- **Company**
  - Limited liability
  - Can be listed: Privately or Publicly (on ASX)
  - Can sell shares relatively easily and you can sell a fraction of your holding
  - Can raise capital in equity and debt markets

<u>Goals of Financial Managers</u>
- The goal of a financial manger is to maximise shareholder wealth.
- However, if an **owner (principal)** appoints a **manager (agent)** then there can be a conflict of interest as a manager may want to maximise other things. Eg. Profit, market share, number of projects etc.
- Interests must be aligned by…
  - Monitoring key performance indicator related to company value
  - Paying managers in part with shares or options in the company
  - Competition for control - mangers who perform well get to control larger geographic areas or divisions within the company

<u>Financial Markets</u>
- **Primary Market**
  - Investors give funds to companies in exchange for shares and bonds
  - This can be done through…
    - **Initial Public Offerings (IPO)** - when a company floats for the first time on the stock exchange
    - **Seasoned Equity Offerings (SEO) -** an existing company issues more shares
- **Secondary Market**
  - Investor 1 gives funds to investor 2 in exchange for shares or bonds
  - This can be done through…
    - Stock exchange
    - Privately or over the counter
    - Institution to institution
- **Direct Funding**
  - Investors (the market) gives funds to a company directly
- **Intermediated Funding**
  - Investors give funds to an intermediary (ie. a bank, mutual fund, super fund) and then the intermediary passes these funds onto companies

Lecture 2 - Time Value of Money

<u>Fisher Seperation Theorem</u>
- Investing decision can be made independently from financing decision, provided there is a perfect capital markets

<u>Time Value of Money</u>
- $FV = PV(1 + R)^N$ (Accumulation)
- $PV = FV / (1 + R)^N$ (Discounting)

<u>Nominal and Effective Interest Rates</u>
- An interest rate is effective over a period if it says what is actually paid over that period. (the truth)