Welcome to Finance 221

Corporate Finance

The First Day Agenda

- Course Administrative Overview
- Top 10 List
- What is finance and corporate finance.
  - Five Basic Corporate Finance Functions
- The goal of the firm
  - Agency Problems with achieving this goal
- Careers in Finance
- Different forms of Business Organizations. (Discussion section this week.)

Required Class Materials

- Textbook: Custom book with (9) selected chapters from Introduction to Corporate Finance, Megginson & Smart and 4 chapters from Fundamentals of Financial Management (10th ed.) by Brigham & Houston (BH)
- Texas Instruments BAII Plus financial calculator
- Optional: Fin 221 Course Syllabus book
The Nitty Gritty

- Grade Breakdown (500 total points)
- 400 points from four 90-minute exams: 100 points each
  (with optional final to replace your worst score or make up a missed exam). 25 multiple choice questions worth 4 points each roughly half conceptual questions and half problems.
  - Exam 1: Monday, Feb. 13 (Chapters 1-3)
  - Exam 2: Monday, Mar. 6 (Chapters BH 4, 4, & 5)
  - Exam 3: Wednesday, Apr. 5 (Chapters 6, 7, BH9, BH10)
  - Exam 4: Monday, May 1 (Chapters BH11, 15, & 16)
- 60 points from 6 Megginson & Smart Personal Trainer chapter assignments.
- 15 points Investment Project (due Mar. 17)
- 25 points from Capital Budgeting Project (due Apr. 21)

Important Internet Addresses

- Course Website: http://www.business.uiuc.edu/~mdyer/fin221.htm
- Syllabus, Notes, Assignments and Announcements
- Powerpoint Lecture Note pdf files on Announcements and Lecture Notes Page.
- The two course projects will be posted on the Assignments and Projects Page. Also, the schedule for the Personal Trainer problem sets can be found on this Assignments and Projects page.
- Solutions to suggested textbook problems: Important Links & Problem Solutions
- Required Textbook Problem website: http://personaltrainer.swlearning.com
- Follow registration instructions from your access card (packaged with your book), please use your UIUC NetworkID as your user name.
- Enter the Course Key: M_D_7722

How to Register

- Go to http://personaltrainer.swlearning.com
- There is an animated step by step guide to new student registration.
- Click on <New Student Registration> on right, enter your access code found in your new text, enter username of your UIUC NetworkID, click <Submit>.
- Enter a password and checkpoint question/answer of your choice.
- Complete the registration information as prompted, Click <Submit>.
- Next time you need to access Personal Trainer, click on <Login>, and simply enter your username and password and course key.
- After your initial login, you will asked to join a course and will be asked for the course key for our Fin 221 course for the Introduction to Corporate Finance textbook. Enter the COURSE KEY M_D_7722
- You’ll be at the home page of your Personal Trainer.
Project Policies

- All work and solutions must be typed.
- Can be done in groups of four if all group members have the same TA.
- No collaboration with other groups is allowed. Any violations discovered will result in not only a zero on the project but loss of the option of taking the final exam.
- Late assignments are accepted with 50% penalty until the end of the day prior (usually the Wednesday after the assignment is due) to the first day the assignment is returned.

Contacting Prof. Dyer

- Office: 328J DKH
- Telephone: 244-7807
- Office Hours:
  - 10:15-12 Monday & Wednesday
  - 10-12 Thursday
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Miscellaneous Items

- Only required textbook problems assigned in syllabus will be graded on Personal Trainer, but you are responsible for knowing how to do the suggested problems as well.
- Solutions to these suggested problems will be given through Personal Trainer or the course website.
- Helpful textbook items: online answers to self-test questions and end of chapter concept questions and additional practice through Smart Quizzing for the Megginson & Smart chapters (see your SmartFinance access card that came with your book).
What is Finance?

- Finance is primarily about making investment decisions.
- To make these decisions, one must determine value.
- What is the value of a stock, a bond, a company, or a real asset?

What is Corporate Finance
What determines Value?

- Expected future cash flows, and
- The perceived risk of these expected cash flows which determines an investor’s interest rate or required rate of return.
- Value equals the present (today’s) value of these cash flows discounted at the required return.
- A good investment is one whose value exceeds its market price.

What Should Managers Maximize?

- Profit maximization as goal:
  - Does not account for timing of returns
  - Profits - not necessarily cash flows
  - Ignores risk

Maximize shareholder wealth

- Maximize stock price, not profits
- Accounts for risk
- As “residual claimants,” shareholders have better incentives to force management to maximize firm value than do other stakeholders.
Agency Costs In Corporate Finance

Due to separation of ownership and control

- Divergence between interests of managers and shareholders—called agency costs

Ways to deal with agency costs

- Possibility of takeover
- Monitoring (Board of Directors, auditors, & financial analysts) and bonding
- Compensation contracts
- Controversial method: executive compensation
  - Average pay in 2003 for CEOs of large U.S. companies: $6.1 million

Finance Career Opportunities

- **Corporate Finance**
  - Budgeting, financial forecasting, cash management, credit administration, investment analysis, fund procurement
- **Commercial Banking**
  - Consumer banking
  - Corporate banking
- **Investment Banking**
  - High income potential
  - Very competitive industry
- **Money Management**
  - Opportunities in investment advisory firms, mutual fund companies, pension funds, investment arms of financial departments
- **Consulting**
  - Advise on business practices and strategies of corporate clients