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Introduction to Managerial Finance

Finance: The Definition
The studies of managing money for earn/raise money & spend/invest money

Major Areas of Finance
Financial Service

Concerned with design & delivery of advice & financial products to individuals or organizations.

Managerial Finance

Concerned with managing financial affairs of any type of organizations.

Organizational Structure of A Corporate Organization (Focus on Finance Division)
Stockholders are the owner of the company and Board Directors are elected by them. They Hires CEO. There are Vice-presidents like VP (Finance) etc. under him there are Treasurer & Controller. And there are other subordinates.

Career Opportunities in Managerial Finance
Financial Analyst, Capital Expenditure Manager, Project Finance Manager, Cash Manager, Credit Manager, Pension Fund Manager & Foreign Exchange Manager.

Two Different Perspective of Finance
Micro Perspective: A particular company, person or industry.

Macro Perspective: Whole economy of a country or Global Economy.

Important Financial Decision
Investment Decisions

Financing Decisions

Dividend Decisions

Principles of Finance
Principle of wealth creation

Principle of risk & return

Principle of time value of money

Principle of cash flow

Principle of liquidity & profitability

Principle of diversification

Matching principle

Company's Goal
Maximize Profit

Maximize Shareholder Wealth

Maximize Corporate Wealth

The Managerial Financial Function
Organization of the Financial Function

Depends on company's size. Generally Treasures focuses on external issues and Controller focuses on internal issues.

Relationship to Economics

Nearly all financial decision comes to an assessment of marginal cost & benefit.

Relationship to Accounting

Managerial finance and accounting are not often easily distinguishable.

Earning Per Share (EPS)

Earnings after taxes divided by shares outstanding.

Importance of Ethics

Ethics is the standards of conduct/moral judgment. Company should be ethical to all of its stakeholders. So, ethical behavior is viewed as a necessary for firm's wealth & value maximization.

Modern Corporation

Modern corporation has a separation between owners (shareholders) & managers (agent).

Agency Problem

Being a manager for the company s/he should work for owner's wealth maximization but sometimes they look for personal interest.

Agency Cost

Monitoring expenditures
Bonding expenditures
Structuring expenditure (Performance Share, Cash Bonus or Stock Option)
Opportunity costs

Way to Solve Agency Problem

Managerial compensation plan
Direct intervention by shareholders,
Threat of firing
Threat of Take Over
Other Mechanism (Good Corporate Governance etc)

Corporate Social Responsibility (CSR)

The corporation must think for the society & people not only for wealth maximization but ultimately this goes to a positive side if company's value maximization.

Market

2 different parts
1. Real Market 2. Financial Market
Financial Market has 2 different parts
1. Money Market 2. Capital Market

Indicators of Company Size

Capital, Sales, Share & Total Asset

Bond Indenture

A contact between financer & company. There are positive & negative covenants.