Course Overview

The Foundations of Finance section will introduce the participants to the process of financial decision-making. We will begin with an examination of the workings of, and recent changes in, the financial markets and their influence on corporate financial decisions. The next progression will provide participants with an intuitive understanding of financial statements. From there, we will examine how financial and real assets are valued, looking at both the valuation of stocks and bonds, and the valuation of new projects. To do this, we will turn the discussion to that of stocks and bonds, looking not only at how they are valued, but also how they are traded both as individual securities and in the form of mutual funds.

Required Readings (provided at Orientation)

Foundations of Finance Program Topics and Layout

I. The Scope and Environment of Financial Management
   A. An Introduction to the Foundations of Financial Management—The Ties That Bind
      The Goal of the Firm
      The Legal Forms of Business Organization
      Federal Income Taxation
      Ten Principles that Form the Foundations of Financial Management
         Principle 1: The Risk–Return Trade-Off—We Won’t Take On Additional Risk Unless We Expect to Be Compensated with Additional Return
         Principle 2: The Time Value of Money—A Dollar Received Today Is Worth More Than a Dollar Received in the Future
         Principle 3: Cash—Not Profits—Is King
         Principle 4: Incremental Cash Flows—it’s Only What Changes That Counts
         Principle 5: The Curse of Competitive Markets—Why It’s Hard to Find Exceptionally Profitable Projects
         Principle 6: Efficient Capital Markets—The Markets Are Quick and the Prices Are Right
         Principle 7: The Agency Problem—Managers Won’t Work for the Firm’s Owners Unless It’s in Their Best Interest
         Principle 8: Taxes Bias Business Decisions
Principle 10: Ethical Behavior Means Doing the Right Thing, but Ethical Dilemmas Are Everywhere in Finance

II. The Financial Markets and Interest Rates
   A. Components of the U.S. Financial Market System
      Recent turmoil in the Financial Markets – what happened and how it impacts you
      The Investment Banker
      Rates of Return in the Financial Markets
      Interest Rate Determinants in a Nutshell
      Interest-Bearing Assets
      Equities
      Derivatives
      Option Contracts
   B. Mutual Funds
      Why Invest in Mutual Funds?
      The Costs of Mutual Funds
      Types and Objectives of Mutual Funds
      Buying a Mutual Fund

III. Understanding Financial Statements and Cash Flows
   A. Financial Statements
      The Income Statement
      The Balance Sheet
   B. Evaluating a Firm’s Financial Performance
      How the firm makes money – the view through the financial statements
      Measuring Key Financial Relationships
      The Limitations Of Financial Ratio Analysis

IV. The Valuation of Financial Assets
   A. The Time Value of Money
      Compound Interest and Future Value
      Present Value
      Annuities
      Amortized Loans
      Making Interest Rates Comparable
      The Present Value of an Uneven Stream
      Perpetuities
   V. The Meaning and Measurement of Risk and Return
      Expected Return Defined and Measured
      Risk Defined and Measured
      Rates of Return: The Investor’s Experience
      Risk And Diversification
   VI. The Valuation and Characteristics of Bonds
      Types of Bonds
      Terminology and Characteristics of Bonds
      Valuation: The Basic Process
      Valuing Bonds
      Bond Yields
Bond Valuation: Three Important Relationships

VII. The Valuation and Characteristics of Stock
   Valuation of Preferred Stock
   Valuation of Common Stock

VIII. Investment in Long-Term Assets
   A. Capital-Budgeting Techniques and Practice
      Finding Profitable Projects
      Capital-Budgeting Decision Criteria

IX. Cash Flows and Other Topics in Capital Budgeting
   Guidelines for Capital Budgeting
   An Overview of the Calculations of a Project’s Free Cash Flows
   Options in Capital Budgeting
   Risk and the Investment Decision

X. Capital Structure
   A. Determining the Financing Mix
      Business and Financial Risk
      Breakeven Analysis
      Operating Leverage
      Financial Leverage
      Combining Operating and Financial Leverage
      A Quick Look at Capital Structure Theory