

Capital R

Members :

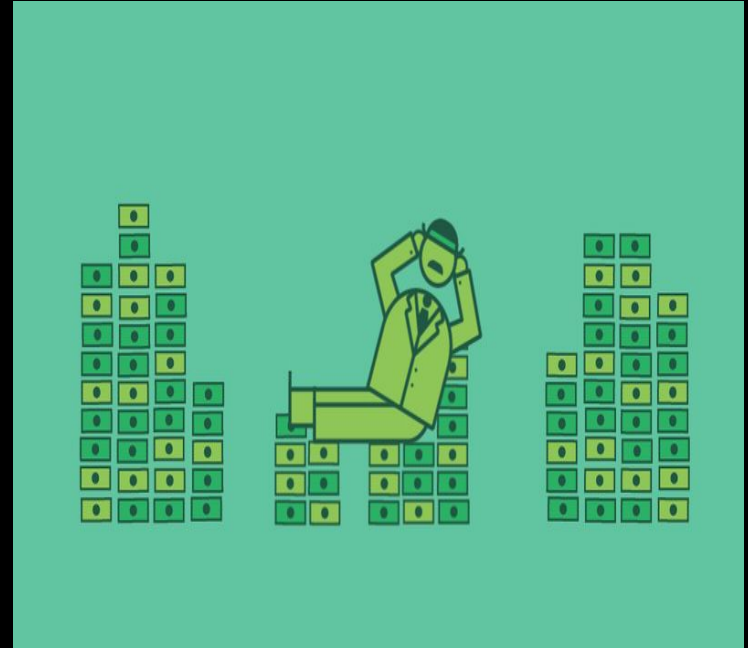
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Outcomes of understanding :

- What is **CAPITAL**
- What is capital for companies?
- **Finance** v/s **Economics**
- Productivity and Profitability
- Is Capital always **monetary**?
- Growth and influence of Capital over the decade
- Capital for **Engineers**.
- **TYPES** of capital.



CAPITAL

“Capital consists of all those goods, existing at present time which can be used in anyway, so as to satisfy wants during the subsequent years”.

-J. R. HICKS

- Produced means of production
- Both **producer** and **consumer** goods are included in the capital.
- It is a **passive** factor of production because it is ineffective without co-opertaion of labour.
- It is **man-made**.
- It is temporary and exhaustible, should be replenished and produced time to time.

Some prominent definitions

“Capital is the produced means of production”

-BOHM BAWERK

“Capital goods are the products (tools) of the past labour (efforts) used for further production.”

-VON SICKLE and ROGER

“Capital goods are produced goods that can be used as factor input for further production.”

-PROF. SAMUELSON

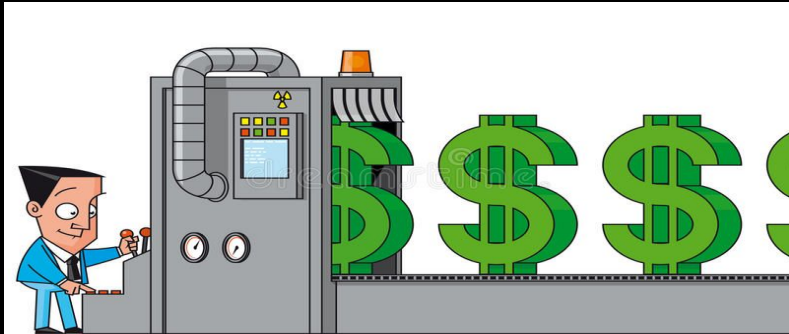
Financial Capital v/s Economic Capital

- Capital has different meaning in economics and finance.
- **Economic capital** is the estimated amount of money needed to cover possible losses from **unexpected risk**.
- **Financial capital** is a much broader term than economic capital.
 - In a sense, anything can be a form of financial capital as long as it has
 - a monetary value, and
 - is used in the pursuit of future revenue.



Financial Capital

- Machinery,
- Equipment,
- tools, and
- buildings directly used to manufacture goods and services.



Economic Capital

- Economic capital on the other hand answers the following question:

"How much financial capital does the business need to cover potential future loss based on current risk exposure?"

Capital requirement for an Industry

- The **capital requirement** is the **sum of funds that your company needs to achieve its goals.**

= Founding expenses - Equity capital

- It is depended majorly on financial capital but also involves economic capital.



PRODUCTIVITY = PROFITABILITY

- Productivity for NR, HR, TR
- Profitability in Finance
- **Productivity**
 - Relationship between output and input needed to create a product.
- **Profitability**
 - Money left over after a product is produced and all expenses have been paid.
- Go together




IS CAPITAL = MONEY ALWAYS?


- **NO**, Capital is a term for financial assets
- **MONEY**
 - Form of wealth
 - Used to **PURCHASE** goods & services for consumption
- **CAPITAL**
 - Produced means of production
 - Physical assets like machines, vehicle, copyrights etc...
 - Human Resource
 - Time(Speed)
 - Social Network



Why R

- NR, HR, TR are the enablers for generating capital R
- **Enablers:** Activators that encourage conversion of ideas of a company into 
 - **NR-** Long term assets or raw materials like gas, oil which get depleted with use, For eg:
 - Gas for fleet of vehicles
 - Raw gems like diamonds and emeralds for jewelry
 - **HR-** Employees that operate the machinery, some answer calls, some manage finances.
 - Company buys their expertise and services according to the business's demand
 - Examples of HR in a business are: CFO, CEO, Directors.
 - **TR-** Intangible and tangible resources like information, tools and devices that are required to manufacture a product
 - For eg: Intangible: Software licenses , patent, intellectual properties.
 - Tangible TR- Scanner, digital cameras and interactive white boards

Power of Financial Capital

- Capital $R > NR, HR, TR$ as latter ones can be bought with
- Therefore Financial capital is the **enabler of enablers** 
- With **FR**, a **country** can invest in capital goods, for instance
 - **USA**- Low in HR but gets a lot of immigrants that work as skilled labors
 - **Japan**- It has no NR but successful economic reform by government led to growth
 - **China**- Low in TR and is America's biggest banker
- FR also helps **organisations** boost their economic growth
 - Establish warehouses to meet the company's and customer requirement
 - Companies spend a lot in cyber security considering increasing threats which requires huge capital.

Value Creation?

- **Deltability**

- Ability to produce Delta - returns on capital and growth
- Start with Capital
- End with Delta Capital
- Primary Goal
- Profit
- Stock price - innovation, people, ideas, and brand

- **Capital For Growth**

- More investment in Capital Goods
- Increases labour productivity and efficiency
- More goods and services produced
- More profit
- Company's growth increases



Finance from POV of CEO

In practice:

Evaluating projects

A company shouldn't pass up potentially high-return projects just because they have moderate downside risk.

Core valuation principle:

Value creation is driven by growth and returns on capital.

Conservation-of-value principle:

You can't create value by rearranging claims on cash flows.

Value creation

Expectations treadmill principle:

The more investors expect of your share price, the better you must perform to keep up.

Best-owner principle:

A business's value depends upon its owner's capabilities.

In practice:

Mergers and acquisitions

Be wary of mergers that are justified (or vetoed) on the basis of their impact on earnings per share. Earnings per share (EPS) has nothing to say about how merging two entities will change the cash flows they generate.

In practice:

Executive compensation

Emphasize long-term growth and returns on capital improvements, measure performance against market expectations, and index compensation to the market performance of peer companies.

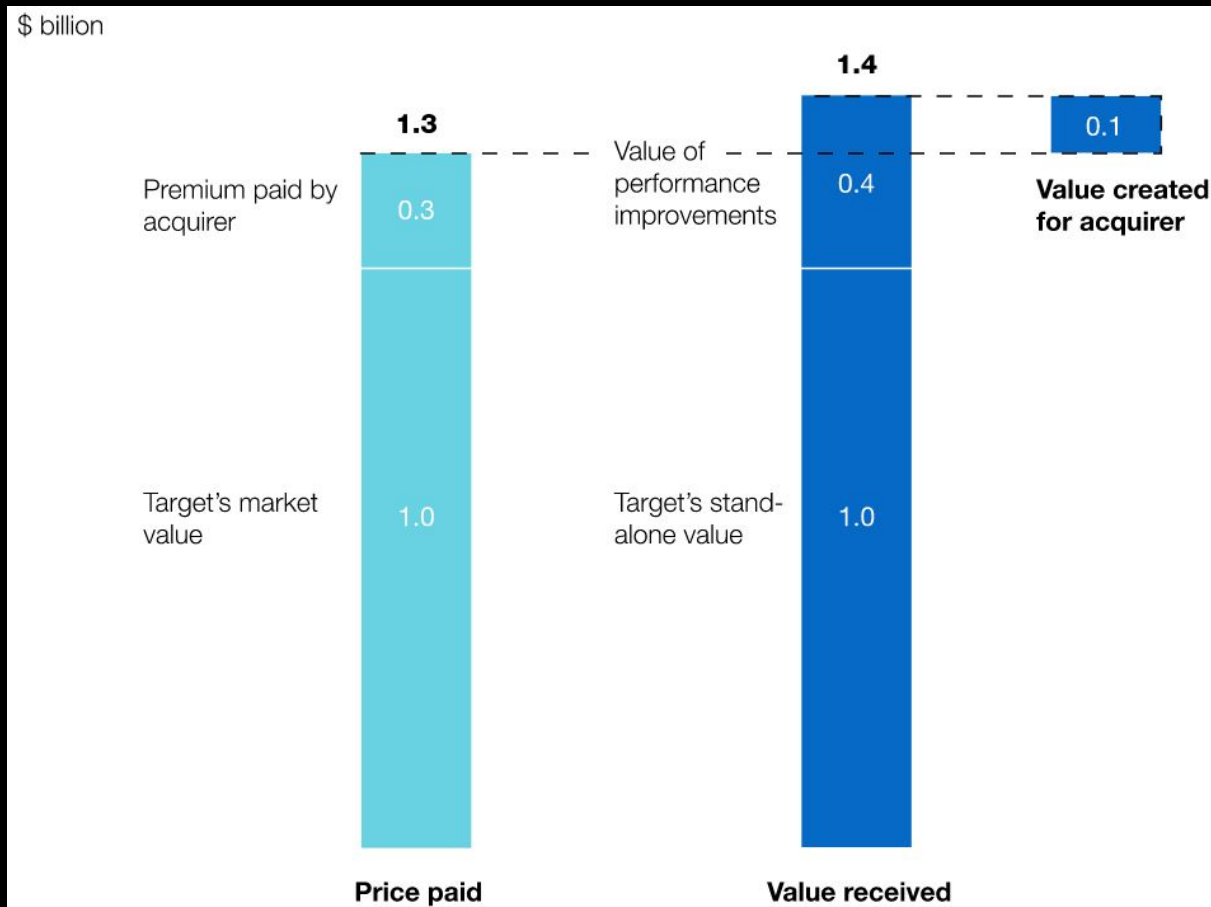
In practice:

Divestitures

A multibusiness company should regularly hold business-exit reviews and place a date stamp on divisions, with a milestone for assessing whether it is still the best owner.

Finance from POV of CEO

- To create value, an acquirer must achieve **performance improvements** that are greater than the premium paid



Types of Capital

Financial Capital : Used for functioning of market and business

- Debt and equity
 - Debt : refers to **borrowed funds** that must be **repaid** at a later date, usually with **interest**.
 - Equity : refers to funds **generated by the sale of stock**, either common or preferred shares.

Human capital :

- Manual labour
 - **Workers on daily wages, household help**
- Skills and capacities of employees
 - **IT professionals, engineers, officers**

Social Capital : refers to relations people have with each other

- Small social capital : **less economic activity** and **influence** and vice versa.



REFERENCES

❖ SITES TO VISIT:

- ✓ <https://www.investopedia.com/ask/answers/031715/what-difference-between-financial-capital-and-economic-capital.asp>
- ✓ <https://www.investopedia.com/ask/answers/032615/how-does-total-capital-investment-influence-economic-growth.asp>
- ✓ <https://www.investopedia.com/terms/c/capital.asp>

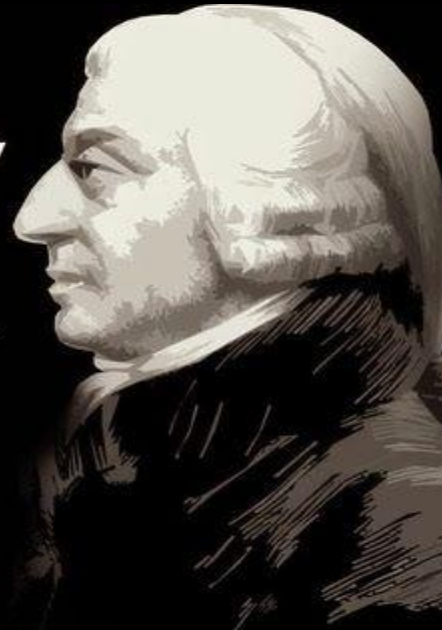
❖ SITES TO AVOID:

- x www.wikipedia.com
- x www.quora.com

DEDICATION

"IT IS NOT FROM THE
BENEVOLENCE OF THE BUTCHER,
THE BREWER, OR THE BAKER
THAT WE EXPECT OUR DINNER,
BUT FROM THEIR REGARD
TO THEIR OWN INTEREST."

-ADAM SMITH-



Intellectual
TAKEOUT

Thank you!