Making Business Work

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1 Chapter One

Standard of living - people's income and quality of life
Hyundai, Procter and Gamble, Google, Target

1.1 Nature and Purpose of Business

1. Business
   (a) An organization recognized under the law which attempts to create value by exchanging products with customers for money or money substitutes
   (b) Attempt to create and maximize value; stakeholders should also receive value
2. For Profit
   (a) business that attempts to attain a profit from an exchange
3. Not-For-Profit
   (a) attempts to balance revenue and costs where profit is not the objective
   (b) Tries to meet special needs of societies; charities, religious organizations, governments

1.2 Foundations of value and how businesses strive to create value - "It's just not worth it"

1. Quantity or amount of benefits we expect to receive
   (a) The greater the benefits we expect, higher value we perceive
2. Timing expected of benefits we expect to receive
   (a) "time is money"

(b) Resource velocity - time in which a company can turn over revenue back into production

3. Opportunity cost and risk involved
   (a) Opportunity cost - required rate of return
   (b) Risk - uncertainty of receiving benefits that are lower in amount and/or later in time than we expect
   (c) Businesses that seek higher profits assume more risks
4. Summarizing Value
   (a) What benefits do I expect to receive if I own this
   (b) When do I expect to get these benefits
   (c) What is the chance I would get lower benefits/ would need to wait longer than I expect
   (d) Value is a function of what the owner expects to receive now and in the future, not the past
5. How do Businesses Create Value?
   (a) Want to create an exchange where the business receives value greater than it gives up
   (b) Create an exchange where revenue exceeds costs, earning profit
   (c) Owners' value is also a function of when profit is earned and risk associated with profit
   (d) A business's value is a function of profit it expects to earn and the timing and risk associated with profit
   (e) Amount timing and risk of profit are not independent
6. For Whom do Businesses Create Value
   (a) Objective of a business is to create value for its owners (stockholders) and for stakeholders:
      i. Employees - give business time/labor for pay
      ii. Suppliers - sell products ideally at a profit
      iii. Customers - buy a product they feel has value
      iv. Lenders - expect value in form of money + interest
      v. Society - expects higher standard of living; usually protected by government
   (b) Free market economy - all stakeholders are important to business success
7. How is Value created?
   (a) Competition is key - customers, assets , employees and money

1.3 Creating value by acquiring and investing money

1. Terms
   (a) Debt/Liabilities - Borrowed money
   (b) Equity - owner's money
   (c) Asset - Economic resources (building, equipment, cash) - real capital
   (d) Operating profit - money left after deducting expense of operation from revenue
   (e) Financial Capital - acquired money, from equity (owners) or loans (debt)
   (f) Human Capital - human/employees
2. Equations
   (a) Operating Profit = Revenue - Operating Expenses
   (b) Net Income = Operating Profit - Interest Expense

1.4 Managers manage a business to create value

1. Terms
   (a) Manager - someone responsible for interests of business' owners and other stakeholders
   (b) Managing/Management - making decisions that affect value of business
   (c) Senior Manager - Direct and coordinate overall organization (CEO's)
   (d) Functional/Operational Managers - managers that specialize in a functional area (plant manager at Hyundai)
   (e) Research and Development (R&D) - responsible for acquiring and applying new knowledge in creating new products, redefining existing products, whether or not existing provide value
   (f) Marketing Department - understanding market (potential customers and competitors), product satisfies customer needs, sets prices
   (g) Production/Operations Department - Makes product
   (h) Treasury - acquiring and managing financial resources
   (i) Accounting Department - recognizing/measuring/reporting value of assets, borrowed money, money provided by owners, revenue, costs
   (j) Information Technology (IT) Department - managing technology used throughout business
   (k) Human Resource (HR) Department - company's employees; training/evaluating/motivating/compensating

2. How Managers Create Value: Ethics and Social Responsibility
    (a) Manager inputs convert into outputs that make all stakeholders better (creating value)
    (b) Short term profit does not maximize long-term value of business (works in short run, fails in long)

1.5 Importance of business

1. Terms
    (a) Intermediary - person/organization that facilitates an exchange
    (b) Gross Domestic Product (GDP) - value of goods and services produced and sold in an economy
2. Business Connecting the World: Intermediaries
    (a) Intermediaries provide efficiency and ideally lower cost of goods and services
    (b) Brings about competition, brings best products at best price
    (c) Income per Capita - income per person
3. The State of Business
    (a) 95% of jobs are non-government business
    (b) Movement from manufacturing into non-manufacturing

1.6 Shared Value

1. Terms
    (a) Corporate Social Responsibility - businesses must solve the issues of society (considered separate from the rest of the business process)
    (b) Creating Shared Value - corporate policies and practices that enhance the competitiveness of the firm while simultaneously enhancing the economic and social conditions in the communities in which the company operates

2 Chapter Two

2.1 The Nature and Purpose of Business

1. Terms
    (a) Market - a place physical or not, where people and organizations exchange products or other things of value

(b) Free Market economy - Buyers and sellers free to determine what is sold and at what price

(c) Sale - when buyers and seller agree on price of product

2. Creating Value: Investing, Financing, Operating a Business

   (a) Liquidate - sell all assets

   (b) Creating value is making sure the net results of investment and financing make sense

   (c) Businesses want operating profit they receive from investing in assets and hiring employees to exceed the cost of the money they use to finance the operations

3. Creating Value: Managing a Business

   (a) Portfolio - a mix or pool of different resources

   (b) A business has a portfolio of financial resources which is then used to hire employees and invest in a portfolio of operating resources (assets)

2.2 Operating a Business for a Value

1. Intro

   (a) Hyundai created Kia for reliable low-cost automobile

   (b) Google created Android for a more capable phone

   (c) Target creates grocery items to its line of household products

   (d) Proctor and Gamble (P&G) opens in cosmetics - Crest toothpaste, Zest soap, Pringles, Cover girl cosmetics

2. Terms

   (a) Cash - asset that allows business to pay its ill

   (b) Accounts receivable - a customer's promise to pay in the future

   (c) Inventory - a supply of goods to sell

   (d) Fixed asset - place or equipment to operate business

3. Recognizing and Understanding Opportunity Cost or Required Return

   (a) Equations

      i. $R1 = (P1 - P0)/P0$

      ii. $R2 = Rf + \text{Risk Premium}$

      iii. Where R1 is return, R2 is required rate of return, P1 is amount of money received during or at end of period, P0 at beginning of period, Rf risk-free rate of return in economy

(b) Returns and Required Returns Terms

  i. Return - a percentage, relating what lender received from business and what is put into business
  ii. Required Rate of Return - the price of money and creates value sought by lenders and owners
  iii. Risk-Free Return - cost of money over time assuming no risk
  iv. Risk Premium - the higher the risk, the higher the return required by providers of money

4. Winning in a Competitive World

   (a) Business Model - focuses on a business's customers and what a business does to meet its customers' needs; Model that describes its input and outputs that create value
   (b) Business Strategy - How a business tries to compete against businesses with similar business models and win competition to create value
   (c) Competitive Advantage - allows a business to outperform its competitors; goal is to create a long-term competitive advantage over its rivals who have similar business models

5. The Mission Statement - Describes business model, strategy, and operating values

2.3 Looking at Business as a System

1. Business Systems - processes that a business uses to operate
2. Value Chain - Mapping of how a business converts inputs into outputs; a company executes its model and strategy through a value chain

2.4 The State of Business - Past, Present, and Future

1. Globalization - no longer barriers such as geography, language, cultural misunderstandings
2. Information Revolution - World has become much more transparent, where businesses could rely on a lack of knowledge by customers
3. Technology - More efficiency and more dependency on technology means businesses need to adapt to changes

2.5 Business Model and Strategy

1. Concept - To develop a successful business model and strategy, a business must first focus on creating value for its customer (customer value proposition – CVP). In a competitive market, a business must compete for its customers. Without a customer, no business can survive and proposer through time.The business' product must deliver benefits that create value.

2. Four Elements of the Business Model

   (a) CVP

   (b) OVP-Profit Formula

      i. revenue model

      ii. cost structure - How costs are allocated, including costs of key assets, direct costs, indirect costs and economies of scale

      iii. margin model - how much each transaction should net to produce desired profits

      iv. Resource velocity - how quickly resources need to be used to support target volume, utilization of inventory

   (c) Key Resources - the key resources are resources that help the business differentiate its product, thus producing CVP and OVP. A business has many resources such as people, assets, and money. However a business must focus on the key elements that create value for the customer and the business, and the way those elements interact. (Every business also has generic resources that do not create competitive differentiation.)

   (d) Key Processes - Successful companies have operational and managerial processes that allow them to deliver value in a way they can successfully repeat and increase in scale. These may include such recurrent tasks as training, development, manufacturing, budgeting, planning, sales, and service. Key processes also include a company's rules, metrics, and norms.

3 Chapter Three

3.1 Nature and Role of Management

1. When a business gets large, owners have to elect representatives to make decisions on their behalf

2. Levels of Management

   (a) President, Board of Directors, Senior Managers, Functional Managers, Non-Management Employees

(b) Senior Managers
   i. Chief Executive Officer (CEO) - Usually President
   ii. Chief Financial Officer (CFO) - Treasurer or VP of Finance
   iii. Chief Operating Officer (COO) - VP of Operations
   iv. Chief Information Officer (CIO) - VP Technology
   v. Chief Marketing Officer (CMO) - VP of Marketing
   vi. Chief Accountant - Controller

(c) Functional/Divisional Managers - Focus on specific areas of a business; Marketing,finance vs. Geography, Product

(d) Span of Influence - the scope of a manager's responsibility

3. Planning - Part one of The Management Process

(a) Visioning, Finding Opportunities, and Setting Goals
   i. Visioning - process of looking at the past and present, embracing the forces of change, and forecasting the future
   ii. Functional Managers should also have vision = often see the needs and opportunities for a business to change
   iii. "What will my customers want in the future?"
   iv. "Is there a better way to produce or sell my product in the future?"
   v. Larry Page and Sergey Brin envision Google

(b) Determining and Analyzing Alternatives
   i. Managers need to focus on actions they can take, and that doing nothing is an action and an alternative they must evaluate
   ii. List alternatives and realize cost/benefit of each
   iii. Many decisions will be made with imperfect information
   iv. Good managers are open, objective, and focused on creating value

(c) Selecting Which Alternative Creates the Most Value and Executing the Best Alternative
   i. "What Alternative will create the greatest value in the future?"
   ii. Kraft makes instant pudding
   iii. Strategic plan - Senior Manager communicates business's broad goals and long-term objectives
   iv. Tactical plan - Functional Managers break down strategic goal into more precise goals
   v. Operational plan - Middle/Junior Managers break down Tactical Plans for how actions are to be performed and goals reached
   vi. Contingency plans - plans that detail what course of action the company should take in case unexpected occurs

4. Executing - Part Two of The Management Process
   (a) Involves using/creating systems to operate business, according to plans, to create value and achieve goals
   (b) Good managers know that executing a plan means they must monitor the business and make changes when needed
5. Reviewing - Part Three of The Management Process
   (a) Using systems to compare the desired outcomes from planning to the actual results of execution
   (b) Control - using systems to monitor execution and attempt to ensure that execution meets goals of planning; starts with managers setting clear and reasonable standards
   (c) Accountability - Holding managers responsible for meeting standards

3.2 Assessing a Business's Environment

1. Porter's Five Forces
   (a) Supplier power - over price relationship
   (b) Barriers to Entry - Difficulty new businesses may have when trying to enter industry
   (c) Customer power - Consumer demand, power of choice
   (d) Threat of Substitute Products - customer can find alternative
   (e) Rivalry - Within an industry, how fiercely competitors respond to each others' initiatives
2. SWOT Analysis
   (a) Strengths - internal (able to control) factor, example: right to be exclusive producer of product
   (b) Weakness - internal factor, example: failure to properly train employees
   (c) Opportunities - external factor, example: entering new market, new technology
   (d) Threats - external factor, example: New competitor in market, changing tastes of customers

3.3 Organizational Behavior and Structure

1. Vocab
   (a) Networks - communication processes that bring people/organizations together for common purpose

(b) Formal Network - business organization run by senior management
(c) Informal Network/Social Network - Employees spreading word

2. Centralized Organization - authority to make decision lies within few senior managers, example: bank
3. Decentralized Organization - authority to make decision lies with many managers, example: hospital
4. Divisional Organization - business divided into divisions (Geography, Product)
5. Functional Organization - business divided into functions
   (a) Line functions - Directly involved in value chain, inputs to outputs (marketing, production)
   (b) Staff Functions - Indirectly involved in value chain, support line functions (accounting, finance, IT)
6. Matrix Organization - combination of Divisional and Functional; parts of business will report to two bosses

3.4 Traits of Successful Managers

1. Change Management - Know when to be flexible and when not
2. Everything else is common sense

3.5 Teamwork and Leadership

1. Formal Leaders - Formal Authority based on position, empowered by team members
2. Informal Leaders - Empowered by team members
3. Transactional Leaders - Help team reach a clearly defined, desired objective
4. Transformational Leaders - Help their team envision possibilities and the need to change
5. Autocratic Leader - Make decisions without seeking input of others
6. Participative/Democratic Leaders - Attempt to involve as many people as possible
7. Laissez-Faire Leader - Sets overall direction/guidelines but permits others to make decisions, example: Judge overseeing jury trial

3.6 SWOT Analysis of McDonalds

1. Strengths - Brand Name, Marketing, Number of Stores, Coffee
2. Weaknesses - Sales are down, Stock price, unhealthy menu
3. Opportunities - The coffee market, breakfast, high end burgers
4. Threats - Competition, healthier food alternatives, Coffee Outlets

3.7 Pharmaceutical Business using Porter's Five Forces

1. Competition Among Current Rivals - high between the big firms
2. Threats of new Entrants - low due to high barriers of entry such as the price of R&D and governmental regulations
3. Substitutes - medium as generic drug companies do not have the costs associated with r&d of new drugs which allows them to sell at lower price points
4. Bargaining Power of Consumers - Hospitals and healthcare providers can exert pressure on companies to keep prices in check customers have the option of using generic drugs
5. Bargaining Power of Sellers - Low

3.8 Warren Buffet Talk on Leadership

1. Characteristics
   (a) Integrity - Most important
   (b) Intelligence
   (c) Energy

3.9 Chapter Three Current Events

1. McDonald's
   (a) Not doing well
      i. People do not want cheap food
      ii. If McDonald's were to expand its menu they would be increasing their costs by a lot (this means their cost per unit is higher and makes them less efficient)
      iii. You have to change your business model/strategy to fit the times/must innovate and look towards the future (business model is always under pressure and you must change to survive)

4 Understanding Economics

4.1 Understanding how people work together

1. Vocab
   (a) Economics - Study of financial welfare of an economy
   (b) Microeconomics - Study of how individual people/organizations spend money
   (c) Macroeconomics - Study of how overall society behaves financially
2. What Matters in an Economy
   (a) Income
      i. Macro Income - Measure of total products produced and sold
      ii. Micro Income - Measure of income that an individual/organization receives in exchange for labor/service
   (b) Employment
      i. Cyclical Unemployment - Based on downturns in economy
      ii. Seasonal Unemployment - Time of Year
      iii. Structural Unemployment - Prevents employees and employers from coming together, example: Geography;workers lack the necessary skills
      iv. Transitional Unemployment - Person in between jobs
      v. Underemployment - When a person works at a job he/she is overqualified for
   (c) Capacity
      i. Resources an economy processes
      ii. Productivity - use of acquired resources
      iii. Factors of production - resources needed
         A. Labor
         B. Natural Resources
         C. Money
         D. Knowledge
   (d) Prices
      i. Demand-Pull Inflation - Demand exceeds supply
      ii. Cost-push Inflation - Cost of an item increases without increase in demand
      iii. Nominal Income - Flat income in current year dollars
      iv. Real Income - Adjusted for inflation/deflation
      v. Consumer Price Index (CPI) or Retail Prices- How average price of good has changed, examples: Food, Housing, Medical Services

vi. Producer Price Index (PPI) or Wholesale Prices - How prices of products sold between business have changed, example: Minerals, Labor, Energy

vii. GDP deflator - How prices of all items have changed

4.2 Macroeconomic Theories and Systems

1. Free Markets
   (a) Adam Smith writes "...Cause of the Wealth of Nations"
   (b) Multiplier Effect/Invisible Hand - When you spend money, you create money for someone else
   (c) Capitalistic Economy/Free Market System - Individuals and businesses free to compete and receive benefits
2. Supply and Demand
   (a) Equilibrium Point - Where buyers and sellers agree to exchange
   (b) Price-elastic - When supply/demand react to price changes
   (c) Price-inelastic
3. Economic Power
   (a) Perfect competition - numerous buyers and sellers
   (b) Monopoly - One business controls entire supply of one product, typically utilities
   (c) Oligopoly
   (d) Collusion - When competing businesses get together and set prices
4. Alternatives to Free Markets
   (a) Socialism - Select businesses owned by government; business is "nationalized"
   (b) Communism - No private ownership of business, government decides everything
   (c) Controlled/Regulated Economy - Businesses are privately owned but heavily regulated; government tells what company can and cannot do, example: utility
   (d) Mixed Economy - Modified free markets with regulation and socialism. example: Amtrak and Bank of America

4.3 Economic Cycles

1. Gross Domestic Product - A country's income
   (a) GDP = Q * P where Q is Quantity and P is Prices of g/s
   (b) Nominal GDP = Current price of g/s
   (c) Real GDP = Nominal GDP adjusted by GDP Deflator
2. Sources of GDP
   (a) Consumption
      i. Durable Goods
      ii. Non-durable Goods
      iii. Services
   (b) Investment - Spend Money on Capital Items
   (c) Government Spending
   (d) Exports
   (e) GDP = C+I+G+E
3. Uses of Income (GDP)
   (a) Consumption
   (b) Savings
   (c) Taxes
   (d) Imports
   (e) GDP = C + S + T + Imp
4. Putting GDP into Perspective
   (a) Disposable Income = Gross Earnings - Taxes
   (b) Marginal Propensity to Consume - Spend disposable income
   (c) Marginal Propensity to Save
   (d) A country's GDP measured by source or use is the same
   (e) Net GDP = C + I + G + NE, Net exports
5. GDP and Economic Cycles
   (a) Recession - Two consecutive quarters of negative growth in real GDP
   (b) Depression - Severe Recession

4.4 Role of Government in Economic Cycles

(a) Fiscal Policy - Government spending and taxation

(b) Monetary Policy - Government's management of supply of money to help an economy grow faster or slower

(c) GDP = Money Supply * Velocity, Velocity = how fast money is spent

(d) Federal Reserve influences Money Supply

   i. Circulate more or less money

   ii. Regulate how much a bank can lend/ how much a bank must hold in reserve

   iii. Influence interest Rates

(e) Realities of Government Policy

   i. Fiscal Policy - Deficit - Government Spending ¿ Tax Revenue

   ii. Monetary Policy

      A. M1 Money Supply - Cash + Funds in checking account

      B. M2 Money Supply - M1 + funds in savings

   iii. How much money to put into economy

   iv. How much is actually being spent (velocity)

4.5 Impact of Economic Cycles on Managing Business

(a) Leading Economic Indicators

   i. Consumer Sentiment - Measure that tells managers how customers feel

   ii. Claims for Unemployment Benefits

   iii. Housing Starts - Number of permits issued to construction companies to build new houses

   iv. Inventories - Store of products business has on hand to sell

   v. Interest Rates - Price of borrowed money

   vi. Prices

4.6 Chapter Four Current Events

(a) The Fed and Inflation

   i. Typically we like to see a little inflation (around 2 percent). Where is it???

   ii. We also want price stability

(b) Jobs and Unemployment

   i. Look at both the numerator and denominator. Unemployment rate has come down because people have left the workforce. Also people are taking jobs they are overqualified for.

4.7 Chapter 4 Discussion

(a) Milton Friedman

   i. The world runs on individuals pursuing their separate interests. The world's great innovations have not come from government. There is no way so far discovered that betters the population more than capitalism

(b) Amartya Sen

   i. More worried with the justness of the economy as well

5 Creating Value in a Global Economy

5.1 Nature of Doing Business around the World

1. Evolving World of Business
   (a) Domestic Business - Business value chain is domestic
   (b) International Business - Value chains include selected international inputs, processes, outputs
   (c) Global Business - Business where inputs, processes, outputs go to markets throughout the world
2. Rise of Free Markets
   (a) Free trade - Buying and selling of that are free from government intervention
   (b) Comparative Advantage - Businesses in different countries have an advantage in producing certain products over others, example: Saudi Arabia and oil
3. Outsourcing and Off-Shoring Business
   (a) Outsourcing - Business uses another business(es) to build or service all or part of its product, example: contract manufacturing
   (b) Off-shoring - Business uses foreign factors of production instead/in addition to domestic factors
4. Increasing Value through Globalization
   (a) Creating new markets and customers for products
   (b) Lowering Costs
   (c) Lowering risk by diversifying markets and products

5.2 Methods of Global Business

1. Forms of Global Business
   (a) Licensing - Licensor grants licensee permission to use intellectual property (lower risk, lower profit)
   (b) Joint Ventures - Two or more parties/businesses enter into a business relationship for a single enterprise (lower profit, lower risk)
   (c) Franchising - Franchisor sells the right to use name/processes/products to another business
   (d) Strategic Alliance - Businesses in different countries agree to help produce/sell multiple products over time
   (e) Direct Foreign Investment (DFI) - Business directly invests money in assets to conduct business in another country, example: P&G creating distribution center in Europe (Riskiest, most profitable)
2. Factors in Choosing the Right Way to Operate around the World
   (a) Culture
   (b) Government Regulation
      i. Trade Barriers
      ii. Protectionism - use of trade barriers
      iii. Embargo
      iv. Quota

5.3 Nature and Impact of Foreign Exchange Rates

1. Intro
   (a) Foreign Exchange Rate - rate used to convert currency
   (b) Floating Exchange Rate System - Foreign exchange rate is free to rise/fall based on market sources
   (c) Depreciation
   (d) Appreciation
2. Balance of Payments - summary of economic transactions
   (a) Current Account
      i. Factor Payments - interest and dividends
      ii. Transfer Payments - aid/gifts from one country to another
      iii. Trade Account/Balance of Trade - Exports less imports
   (b) Capital Account
      i. Financial assets (debt and stock) transferred because of owner movement

   ii. Transfer of ownership from one country to another of intangible assets (patents, trademarks, copyrights)

(c) Financial Account

   i. DFI
   ii. Buying/selling long-term financial assets (debt and stock)
   iii. Buying/selling short-term financial assets (debt)

5.4 Importance of Balance of Payments to Foreign Exchange

1. Negative Trade balance/ Trade Deficit - imports greater than exports
2. Positive Trade balance/ Trade Surplus - exports greater than imports
3. Balance of Payments reflects a country's economic flow with other countries

5.5 Determinants of Foreign Exchange

1. Income Level - As a country's income increases, demand for imported products/securities increases
2. Price Level - Purchasing Power Parity - inflation hurts currency value
3. Interest Rates - If a country offers high interest rates, lenders,individuals,companies,governments will prefer to lend money to that country
4. Government Actions
   (a) Restrict flow of currency
   (b) Buy/sell their currency and currency of other countries
   (c) Impact level of income, interest rates
   (d) Limit amount of imports/exports via embargoes, quotas
5. Fixed Exchanged Rate System - Government fixes its the exchange rate of its currency to another country

5.6 Appreciating vs Depreciating

1. Appreciating
   (a) Price of country's product increases for foreign consumers
   (b) Lowers demand for exports
   (c) Can buy more imported products
   (d) Low prices of imports keeps domestic products and deflation low

2. Depreciating
    (a) Price of exported goods becomes less for foreign consumers
    (b) Increase demands for exports
    (c) Creates growth/employment
    (d) Imported products become more expensive, may increase domestic inflation

5.7 Agreements and Organizations that Foster Global Business

1. U.S. Organizations
    (a) Export Import Bank (Ex-Im Bank) - Facilitates U.S. exports. Loans money directly to foreign companies that imports U.S. products
    (b) Private Export Funding Corporation (PEFCO) - Owned by group of U.S. Banks, lends money directly to foreign companies that import U.S. products, basically Ex-Im
    (c) Overseas Private Investment Corporation (OPIC) - U.S. companies that invest in foreign countries are protected against:
        i. Currency Devaluation
        ii. Foreign Government takes control of business investment
2. Organizations that Foster Global Business
    (a) GATT turns into World Trade Organization (WTO)
        i. Most favored nation (MFN), can't discriminate among members
        ii. Trade policies must reflect reciprocity; countries receives/gives same consideration between members
        iii. Trade policies binding
        iv. Trade policies must be transparent/easily understood
        v. Developing/struggling economies may need temporary relief from binding agreements
    (b) World Bank - Makes loans to countries to help develop economies; U.S. largest stakeholder
    (c) International Monetary Fund (IMF) - promote international trade and help countries create/maintain stable economy
    (d) Bank of International Settlements (BIS) - Facilitate banking between member countries
    (e) United Nations (UN) - foster world peace and cooperation
3. Trade Alliances and Agreements

(a) European Union (EU) - Eliminated tariffs between countries and all but UK changed to Euro
(b) North American Free Trade Agreement (NAFTA) - U.S., Canada and Mexico eliminate tariffs, quotas
(c) Oil and Petroleum Exporting Countries (OPEC) - economic agreement regarding crude oil production
(d) Central American Free Trade Agreement (CAFTA) - U.S. and Central America
(e) Association of Southeast Asian Nations (ASEAN)
(f) Commonwealth of Independent States (CIS) - formerly Soviet Union countries
(g) Common Market of the Southern Cone (MERCOSUR) - South America
(h) Organization for Economic Cooperation and Development (OECD) - North America to East Asia

4. Need and Challenges of Economic Cooperation
   (a) Dumping - To foster exports, countries sell products below cost incurred to produce those products; do this by keeping interest rates low
   (b) Countries may try to create artificial barriers to imports with fees/tariffs/quotas

5.8 Chapter Five Additional Readings

(a) Globalization
   i. Economics
   ii. Politics
   iii. Culture

5.9 Chapter Five Current Events

(a) S&P 500
   i. You better appreciate that more and more of the revenue of these huge corporations comes from around the world
(b) China and Currency
   i. Currency impact imports and exports and trading partners (do not want currency war) (No one wins)
   ii. purchasing power parity- weak home currency - increases exports and lowers imports - strong home currency - vice versa
(c) Macy's
   i. Macy's is hurting because it is so dependent on international sales (international sales are going down) (We are not going back to isolation)

6 The Forms and Taxation of Business

6.1 The Legal Forms of Business

1. Terms
   (a) Liability - Obligation of an individual/organization
   (b) Taxes - pay for civil services and motivate behavior
   (c) Taxable Income - Net income before taxes
   (d) Private Markets and Public Markets
2. What form of business to run
   (a) Ease and cost of creating/ending a business
   (b) Ability to control/manage business
   (c) Ability to sell business
3. Sole Proprietorship - one person owns and controls business
   (a) Unlimited liability - no difference between individual/business
   (b) Single Taxation
   (c) Most common form of U.S. business
4. Partnerships
   (a) Partnership Agreement - rights/responsibilities listed
   (b) Joint and Several Liability - unlimited between both
   (c) Limited Liability Partnership (LLP) - One partner is liable to limited amount agreed (limited partner)
   (d) Master Limited Partnership (MLP) - Limited Partnership that can be traded publicly
5. Corporation - group of owners create a new entity
   (a) Corporate Charter - Recognized by state government and incurs Articles of Incorporation
   (b) Stockholder/Shareholder - owner of stock
   (c) Board of Directors - elected by shareholders
   (d) Agent - acts on behalf of a principal
   (e) Stockholders = principals, Board of Directors = agents
   (f) Limited Liability
   (g) Double Taxation - Business pays taxes on income and pays for income to be distributed as income

(h) Conventional (C) Corporations - permits small business to have limited liability but taxed as a partnership

(i) Sub Chapter (S) Corporations

   i. No more than 100 stockholders
   ii. All stockholders are individuals or estates
   iii. All stockholders are permanent residents of U.S.
   iv. Only one type/class of stockholder
   v. 75% income must be active (selling goods/services)

(j) Limited Liability Corporation (LLC)

   i. Limited Liability
   ii. Elect to be taxed as partnership or corporation
   iii. Ownership cannot be sold
   iv. Limited liability must have a limited life

6.2 Taxes and Business

1. Intro

   (a) Government uses taxes for goods and services
   (b) Motivate Behavior, such as lowering taxes
   (c) Tax Laws are different based on location (needs/values different)
   (d) Taxes impact business value by affecting amount and timing of after-tax net income owners receive

2. Taxable Events and Tax Rates

   (a) Taxable Event * Tax Rate = Tax Due

3. Income Tax - taxes on taxable income :/

   (a) Flat tax - Tax rate does not vary
   (b) Graduated Tax - Tax varies depending on level income
   (c) Progressive Tax - Tax increases as income increases
   (d) Average Tax Rate - Total Tax Dividend / Total Taxable Income
   (e) Marginal Tax Rate - Tax rate a business will pay on next dollar of taxable income

4. Excise Tax - tax on manufacture/sale/consumption of a product

   (a) Sales Tax
   (b) Value-Added Tax - embedded tax during value chain, ultimately paid by the consumer

5. Property Tax - on value of property

6. Tax Planning and Strategy
   (a) Must understand law and comply
   (b) Taxes impact value of business
   (c) Tax planning and strategy
      i. Ensures business complies with law
      ii. Minimize or defer payment of taxes

6.3 Tax Forms

1. Types of Businesses and Their According Tax Form
   (a) Sole Proprietorship - Form 1040 (Individual Tax Return)
   (b) Partnership - Form 1065 - Look at how the partners recognize their part of the partnership's net income (or loss) on their personal income tax return, IRS Form 1040 – Schedule E, then Line 17. The partner then computes and pays the tax due using the current tax rates on personal, taxable net income.
   (c) Corporation - Form 1120
   (d) Sub S Corporation - Look how the tax return of a Sub S corporation looks like a corporate tax return noted above, but allocates the net income (or loss) to its owners like a partnership.

6.4 Special Opportunities in Business Formation

1. Mergers and Acquisitions
   (a) Acquisition - Company buys assets of another company
   (b) Merger - A company buys another company
   (c) Leveraged Buyout (LBO) - A company buys another using high levels of debt
   (d) Stock-Swap - A company will exchange its stock to stockholders for stock of another company
   (e) Parent-Company - When a company acquires another company but maintains itself as a separate entity, Parent Company owns Subsidiary Company
   (f) Wholly Owned - Company buys all of other company
   (g) Majority Stockholder holds Majority Interest
   (h) Consolidated - Purchasing company is majority stockholder
   (i) Why buy another business
      i. Horizontal Integration - A business buying a competitor or similar company

ii. Vertical Integration - A business buying a business that is a part of its value chain
iii. Conglomerate - Combination of unrelated businesses, creating diversification, lowers risk that if one portion of business is doing badly, others are doing well enough to support

2. Joint Ventures - Two or more businesses enter into a legal relationship similar to a partnership; dissolve after enterprise is completed
3. Licensing - The right to use intellectual property
   (a) Intellectual - Intangible asset that has value
   (b) Patent
   (c) Trademark
   (d) Copyright
4. Franchising - selling rights, processes, name to another business
5. Cooperative - A business formed for the benefits of its customers

7 The Legal and Ethical Nature of Business

7.1 The Law and Business

1. The US Legal System and The Creation of laws
   (a) Statutory Law - Laws enacted by the votes of people or by representatives of the people
   (b) Administrative Rules and Decisions - Laws developed by individuals or agencies, empowered by government
   (c) Common Law - Law created through court system by interpreting laws or other disputes
   (d) Tort - Wrongful act that injures someone, example: battery/slander
   (e) Fraud - Intentionally misleading facts
   (f) Negligence - Unintentional torts
2. The Types of Law: Criminal vs Civil
   (a) Criminal Law - Breaches of duty to society
   (b) Prosecutors charge defendants
   (c) Civil Law - Breaches between two parties
   (d) Plaintiff vs Defendant
   (e) Compensatory Damages - Value lost by plaintiff
   (f) Punitive/Exemplary Damages

3. Resolving Disputes in the U.S. Legal System - The courts
    (a) Statute of Limitations - Wrongful acts must be proven in certain period of time
    (b) Mediator to settle voluntary mediation/settlement
    (c) Arbitration - Random person (arbitrator) reviews facts and makes decisions
    (d) Jurisdiction - authority to resolve a dispute
    (e) Federal Courts
        i. Disputes regarding federal laws
        ii. Interstate Issues - Problems across states
        iii. First tried in District or Special/Administrative Courts
        iv. Court of Appeals if a party doesn't agree
        v. US Supreme court is highest of 3 levels
    (f) State Courts
        i. Inferior Courts - first levels uses judge, ex: Municipal, Small claims, Justice of the Peace
        ii. Trial courts - second levels uses judge and jury, ex: Circuit, District, County
        iii. Appeal/Appellate Courts - Judges
        iv. State Supreme Court

7.2 Laws that Affect Business

1. Contract Law
    (a) Contract - two or more people enter into an agreement
    (b) Uniform Commercial Code (UCC)
        i. Agreement reached through process of extending and accepting offer
        ii. Have legal capacity to enter into contract
        iii. Enter contract voluntarily
        iv. Agreement deals with legal activities
        v. Evidenced by consideration - payment or agreement to pay in future
    (c) Expressed Contract - Details of contract are clearly stated and agreed by all parties
    (d) Implied Contract - When circumstances and fact imply existence
    (e) Oral and Written Contracts
    (f) Statutes of Fraud - Defines in each statute by state what contract must be written, ex: agreement exceeding $500

2. Law Regarding Property Rights
   (a) Types of Property
      i. Real Property - Items permanently attached to land
      ii. Personal Property - Anything not classified as Real
      iii. Tangible and Intangible Property
      iv. Public and Private Property
   (b) Rights and Responsibilities of Owning Property
      i. Owning property - owner can use, offer as collateral, and rent/lease
      ii. Lease - agreement where owner (lessor) gives right for other (lessee) to use property
      iii. Eminent Domain - Government can make you surrender property for reasonable compensation
3. Sales to Product Laws
   (a) Sale represent transfer of property
   (b) Sellers of property must make sure product fulfills buyers (reasonable) expectations - otherwise may be negligent
   (c) Expressed Warranty - explicitly stated
   (d) Implied Warranty
   (e) Strict Liability - Seller is liable for damages
4. Laws that Regulate Business
   (a) Antitrust Laws
      i. Price Fixing - Prices should be set by markets, not companies, ex: collusion
      ii. Monopoly/Oligopoly
      iii. Price Discrimination - Can't charge similar customers different prices
   (b) Consumer Protection Laws
      i. Federal Trade Commission (FTC) - protects consumers
      ii. Truth-in-Lending Laws - Requires lenders to inform borrower all amounts of debt and interest
      iii. Equal Opportunity Act - No discrimination
      iv. Fair Debt Collection Practices - No abuse tactics, ex: harassment
      v. Gramm-Leach-Bliley Act - Consumer privacy
      vi. Fair Credit Reporting Act - Ensures credit information accurate
      vii. Consumer Protection Safety Commission (CPSC) - Protects consumers from unsafe products
   (c) Environmental Laws

i. Environmental Protection Agency (EPA)

(d) Governmental Agencies

  i. Interstate Commerce Commission (ICC)
  ii. Federal Food and Drug Administration (FDA)
  iii. Federal Deposit Insurance Corporation (FDIC)
  iv. Federal Aviation Administration (FAA)

5. Agency and Employment Law

  (a) Agent empowered by principal to represent said principal
  (b) Indemnify - Business agrees to defend employee from accused wrongdoing
  (c) Fiduciary - Person entrusted with responsibilities and to act in best interest of company
  (d) Business needs to define authority of employee
  (e) If employee conducts criminal act on behalf of business, business and employee can be charged
  (f) Fair Labor Standards Act - Must pay minimum wage
  (g) Workers' Compensation - Company must pay employees injured while on job
  (h) Occupational Safety and Health Act (OSHA) - Provide safe workplace
  (i) Family and Medical Leave Act - Job security for ill employees
  (j) Civil Rights Act and Equal Pay Act

6. Laws that Deal with Financial Capital

  (a) Owner's Equity - Owner's money
  (b) Financial Instruments - Documents that represent debt and equity (notes, bonds, loans)
  (c) Stock Certificate - Owners document
  (d) Financial Intermediary - Middleman between ultimate provider of money (depositor) and user of money (loan consumer)
  (e) Capital Market - Provider of money lends directly to borrower
  (f) Rules Regarding Debt

    i. Commercial Paper - Financial substitute for money
    ii. Non-/Negotiable (Commercial Paper or debt) - Owner can or cannot sell without consent of borrower
    iii. Un/Secured debt - Collateral is put up
    iv. Lien - Legal document for lender to seize collateral if debt not repaid

v. General Creditor - lender takes an unsecured debt

vi. Surety - Someone who cosigns loan, responsible for loan repayment

vii. Guarantor - Someone who will pay loan if you can't

(g) Financial Instruments and Markets

i. Public Capital Market - Place where financial instruments can be bought/sold

ii. Securities and Exchange Commission (SEC) - Regulates public markets, tries to prevent fraud

iii. Insider Trading - Someone buys/sells financial instrument based on information not publicly available

iv. Primary Market - Corporation sells stock to consumer

v. Secondary Market - Consumer sells stock to other consumer

7. Bankruptcy Laws

(a) Bankruptcy - Regress for honest debtors

(b) Bankruptcy Act - Bankruptcy is tried in Bankruptcy Court, not state

(c) Straight Bankruptcy - Judge/court appoints trustee to see if business can be saved, if not it is liquidated - Chapter 7

(d) Reorganization - Court may direct business to take certain actions and may discharge debt (no longer pay); also can change terms of debt, ex: time - Chapter 11

(e) Voluntary Bankruptcy - Business petitions bankruptcy court

(f) Involuntary Bankruptcy - Business's creditors petition court

(g) Priority of Claims - Secured Creditors then Unsecured/general

(h) Seniority - Order in which loans are made; following loans are subordinated

7.3 Business Ethics and Social Responsibility

1. Ethical Standards

(a) Principle-Based Ethics - Based on ethics, ex: "Do unto others.."

(b) Rule-Based Ethics

2. Business Ethics - Realities

(a) Behavior unacceptable to society, yet legal, yields short term benefits, long term bad

(b) Senior Management must direct and support desired behavior; standards need to be clearly stated

(c) Consistent application of ethical standards

3. Social Responsibility - How a business relates to society
4. Laws, Ethics and Social Responsibility - Free market provides efficiency and value, participants need to act responsibly

7.4 Chapter 7 Current Events

1. Illegal Business Action
   (a) GM - Admits its criminal; going to fix it; very forthcoming; GM starts making families whole and cars safer
   (b) VW - CEO fired; new CEO says we recognize this is fraud not negligence; going to fight and say no one was harmed; say they will pay restitution and make the cars right; they are arguing this isn't criminal; lawyers will go after them (people hurt economically because if they knew they wouldn't have spent that money)
   (c) Takeaway - When you do something illegal confess it; lying only makes it wors
2. Others
   (a) Google - EU says Google breaks trust laws; need to allow free trade
   (b) Uber - employee or independent contractors? Big difference

8 Financial Reporting and Accounting

8.1 The Nature and Role of Accounting

1. Accounting Systems - processes used to account for transactions, and rules that specify when/how business reports transactions
2. Accounting Processes
   (a) Internal Control - Ability to capture all transactions and detect fraud
   (b) Correct/Consistent Application of Rules
   (c) Effective Communication of rules
      i. What assets does a business have at a time?
      ii. Money for assets?
      iii. How has business used assets to create net income/loss?
   (d) Balance Sheet - Answers questions 1,2 - What assets a business owns and sources of funds for assets
   (e) Income Statement - Answers 3
3. Accounting Rules
   (a) Groups of users determine useful information

(b) Managers within Business
(c) Lenders and Owners
(d) Customers
(e) Regulators
(f) Taxing Authorities

4. Foundations of Accounting
   (a) Recognizing Business Transactions
   (b) Measuring Business Transactions
   (c) Recording Business Transactions
      i. Account - Summary of transactions of a particular type
      ii. Record complete transaction - What you got and where you got the money to get it - what you gave and what you received
   (d) Reporting Business Transactions
5. Rules of Accounting - Accountants can reflect value at original or market value
   (a) Managers within Business
      i. Managerial Accounting - Meet information needs of managers by looking at details of business transaction
   (b) Lenders and Owners Outside Business
      i. Financial Accounting - Rules used to report to owners and lenders
      ii. Public Company Accounting Oversight Board (PCAOB) - oversees and approves rules of FASB
      iii. Financial Accounting Standards Board (FASB) - Set standards (GAAP) of providing information to lenders/stockholders
      iv. Generally Accepted Accounting Principles (GAAP)
      v. Conservatism - Accountants shouldn't overstate value of asset or understate value of liability/debt
      vi. International Accounting Standards Board (IASB) has International Financial Reporting Standards (IFRS), wants to converge with GAAP
      vii. IFRS isn't as conservative - believe in fair (or current) value in reporting
   (c) Customers - Government regulators often represent customers
   (d) Regulators
   (e) Taxing Authorities - Has its own standards; determines value and how it recognizes income and expense

8.2 Financial Statement

1. Basis of Accounting - Cash versus Accrual
   (a) Cash Basis - When a business transaction is only recognized when it affects the business's cash - doesn't recognize credit cards
   (b) Accrual Basis - Recognizes business transactions when they occur
2. Balance Sheet
   (a) Assets = Liabilities + Owner's Equity
   (b) Assets
      i. Current - Cash/assets expected to be converted within next year
      ii. Long Term - Greater than a year
   (c) Current Assets
      i. Accounts Receivable - Amounts owed to business; accountants don't want to report that business will receive money if it may not
      ii. Cash, Investments, Inventories
      iii. Purchased Inventory - Items bought for resale
      iv. Produced Inventory
      v. Raw Materials Inventory
      vi. Work-in-Progress Inventory
      vii. Finished Goods Inventory
      viii. What did inventory cost to produce it?
      ix. Is inventory worth at least cost to buy/produce it?
   (d) Long Term Assets
      i. Property, plant, and Equipment (PP&E) - Tangible, fixed assets
      ii. Amortization - Depreciation for intangible
      iii. Goodwill - Intangible asset that reflects special value
      iv. Impairment - When goodwill loses its value
   (e) Liabilities
      i. Accounts Payable - Amount a business owes to suppliers, typically represented by formal documents
      ii. Accrued Liabilities - No formal liabilities; rent, interest, utilities
      iii. Short-term Borrowings - Include loans from banks that a business must pay within year
      iv. Long-term Borrowings - Greater than a year
   (f) Owner's Equity
      i. Owner's Capital/Stock - Money contributed directly to business
      ii. Retained Earnings - Business's accumulated net income that owners have left in business

3. Income Statement
   (a) Sales - Expenses = Net Income
   (b) Sale - Amounts exchanged must be earned, reasonable expectation that you will receive value for sale
   (c) Expense - Cost surrendered to create sale and operate business
      i. Matching Concept - Accounts try to match sales and expenses incurred to generate sales
      ii. Cost of goods sold - Expense of products sold
      iii. Earnings Before Interest and Taxes (EBIT) - Operating profit
      iv. Owners expect net income to drive value of business
      v. "Closing the books" - End of one period
4. Other Financial Information
   (a) Statement of Retained Earnings - Retained earnings + Net income - net losses - dividends
   (b) Cash Flow Statements - How cash account changed during period - financing, investing, operating
   (c) Operating Activities - Cash provided/used in generating net income - accrual number
   (d) Investing Activities - Cash provided/used in generating long-term assets
   (e) Financing Activities

8.3 Special Insights for Using Accounting Information

1. Managerial Accounting
   (a) Planning
      i. Budget - Financial plan that shows projected sales and costs resulting from management decisions
      ii. Standards - Benchmarks to see if budgeted transactions are reached
   (b) Execution
      i. Variance Analysis - Difference between actual and budgeted standard amounts
   (c) Review
   (d) Pricing and Costing
      i. Variable Costs - Vary with amount sold
      ii. Fixed Costs - Do not vary with amount sold, ex: operating expense
2. Accountants and the Accounting Profession

(a) Controller/Comptroller - Chief Accountant

(b) Audits and Certified Public Accountants (CPA)

i. Audit - Auditors review business's internal control and how transactions are measured/recorded/reported

ii. Audit Opinions

A. Unqualified/Clean Opinion - Financial statements fairly present

B. Qualified/Subjected-to - Fairly present except for subject terms

C. Adverse Opinion - Do not fairly present

D. Disclaimer - Auditors are not issuing a statement

(c) Sarbanes-Oaxley (SOX) - Law requiring management to disclose significant risks faced by business

3. Financial Analysis

(a) Did the company do a good or bad job?

(b) Return on Equity (ROE) - What return did business generate for owners = Net Income / Total Owner's Equity

(c) Return on Assets (ROA) - How did business use assets to generate income = Net Income / Total Assets

(d) Financial Leverage - How did business finance assets = Total Assets / Total Owner's Equity

(e) ROE = ROA * Financial Leverage

8.4 Chapter 8 Current Events

1. Accounting

(a) External Auditor

i. 4 Big Firms - Ernst and Young (E&Y), KPMG, Deloitte and Touch, Price Waterhouse Coopers (PWC)

ii. External Auditors help to reduce market risk and can be trusted

(b) Other

i. Revenue Recognition - Revenue is usually recognized when a firms product or service is delivered

ii. Materiality - relates to the significance of transactions, balances and errors contained in the financial statements. Materiality defines the threshold or cutoff point after which financial information becomes relevant to the decision making needs of the users - See more

8.5 Chapter 8 Additional Readings

1. Intro to Accounting
   (a) Accounting - is a system for collecting, recording, analyzing, and communicating a company's financial information. Accounting is divided into two main categories: financial accounting and managerial accounting

9 Valuation and the Time Value of Money

9.1 The Impact of Time on Value

1. Time and Business Value
   (a) Required Rate of Return = Risk and Risk premium
   (b) Treasury Securities - Short term rate charged on Govt loans
   (c) Treasury Bills - Treasury Securities
   (d) Risk Premium - Amount of Return providers of money require to compensate for risk
   (e) Risk-free rate of return - the return required to use the money for a period of time, assuming that the return is certain; can fluctuate

9.2 Mechanics of Time and Value of Money

1. Single Amounts

$$FutureValue = PresentValue * (1 + r)^t \tag{1}$$

   (a) t is number of time periods

2. Multiple Amounts

$$FutureValue = Sum(PV * (1 + r)^t) \tag{2}$$

3. Special Topics
   (a) Annuities - Equal Payments made at equal intervals of time
      i. Annuities Due - Paid at beginning
      ii. Regular Annuities - Paid at end of period
      iii. Perpetuity - Pays a future amount forever
      iv. Present Value = Periodic payment / Rate of Return
   (b) Compounding Period
      i. Simple Interest - Compounding Period is one year

ii. Annual Percentage Rate (APR) or Effective Rate of Return - Actual rate earned

(c) Calculators, Computers, and Time Value of Money Computations

i. Time Value of Money (TVM) function - uses PV, FV, R, Time periods

9.3 Using the Time Value of Money in Business Decisions

1. Doesn't really say anything but shows examples of using TVM equation
2. Price-earnings Ratio (PE) - Current price of stock / current earnings per share - Compares business's future to present
3. The value of a business is the value of its debt plus the value of its owner's equity; The value of owners' equity is equal to the present value of the benefits owners expect to receive.
4. Basis-Points (BP) - One one-hundredth of a % point
5. Rule of 72 - time to double your money; 72/interest rate

9.4 Understanding the Time Value of Money

1. Time Value of Money - demonstrates that, all things being equal, it is better to have money now rather than later
2. Annuity - is an equal, annual series of cash flows. Annuities may be equal annual deposits, equal annual withdrawals, equal annual payments, or equal annual receipts. The key is equal, annual cash flows.
   (a) Annuity due - Beginning of Year
   (b) Ordinary Annuity - End of Year
3. Future Value Basics
   (a) Money received now can be invested

$$Equation : FV = PV * (1 + i)^n \tag{3}$$

10 Financing and Investing

10.1 Using Money to Create Value

Business needs to vision and plan value Obtains money based on this plan Business hires people and invests money in assets Business executes plan by its employees using assets Distribute operating profit in form of return

10.2 Obtaining Money

1. Borrowing Money from Lenders
   (a) Loan principal - Amount expected to be paid back
   (b) Default Risk - risk of not being paid back
   (c) After-Tax Cost of Debt = Interest Rate (1 - Business Tax Rate)
   (d) Interest Expense is tax deductible
2. Obtaining Money from Owners
   (a) Cost of Equity = Risk free rate + Risk Premium
3. Finding Right Mix of Debt and Equity
   (a) Weight Average Cost of Capital (WACC) - Business should be financed for greatest value or lowest average cost of money
   (b) WACC - Average Cost of Financial Captial
   (c) WACC = (% of Debt)(Cost of Debt)(1 - Tax Rate) + (% of Equity)(Equity Cost)
   (d) Debt is cheaper than owners' equity - lenders assume less risk than owners
   (e) Too much debt can force business into bankruptcy
   (f) Businesses should borrow as much as possible, and the rest should be owner equity
4. Financing the Business and Creating Value: Debt versus Owner's Equity
   (a) Junk debt - High default risk and high required rate of return
   (b) Minimization of WACC occurs where business begins to worry about being able to repay debt - where default risk becomes significant
   (c) Financial Leverage - Use of debt instead of owner's equity
   (d) Cost of equity increases with every increase and debt

10.3 Investing Money in People and Assets

1. An Example
   (a) Managers must forecast the amount and timing of the after-tax operating profit from investing in assets. Managers often use operating cash flow, versus accrual operating profit, as the measure of benefits.
   (b) Next managers must discount these benefits, over time, using the WACC as the discount factor. Sometimes managers will adjust the WACC to reflect special circumstances. But the WACC is the benchmark return the investment must earn to create value.

(c) Net Present Value - Value of investment - cost of investment

2. Other Tools of Investing

    (a) Internal Rate of Return (IRR) - Discount rate that equates the benefits projected over time with the cost of the investment
    (b) IRR also effective rate of return
    (c) If the IRR is greater than the WACC, the investment increases value and should be made
    (d) Accounting Rate of Return (ARR) - Net income / Net cost
    (e) Payback Period - Time it takes business to recover investment

10.4 Chapter 10 Current Events

1. Apple Valuation

    (a) Carl Ichan - says to buy back the stock and it can double the stock price; buy it with cash; get cash and equity down
    (b) After tax marginal benefit of investment needs to exceed the after tax benefit of financing***

11 Understanding Risk

11.1 Risk and Value

1. We're risk averse; higher risk means we need higher return

2. If investors perceive risky investment, WACC and required rate of return will increase

3. Value of business, r is WACC

$$V = \sum_{t}^{T} FV/(1+r)^t \tag{4}$$

4. Sources of Risk - External, Internal, and Interaction of Environments

5. Investing Risk

    (a) How a business uses its money to acquire asset
    (b) Does Investment reflect good/bad economy?
    (c) Does Investment plan reflect what competitors will do?
    (d) Does Investment plan reflect right number of assets?
    (e) Do you have contingency plan?

6. Financing Risk
   (a) Risks that relate to the acquisition of money from lenders and owners
   (b) Does business have correct amount of debt and owners' equity
   (c) All debt isn't same - Lenders and Borrowers need to agree upon loan structure
   (d) Borrowing Money - ex: Exchange risk
   (e) Inadequately informed lenders and owners
7. Operating Risk
   (a) Managing the suppliers of your business
   (b) Liability if customer or employee is injured
   (c) What if key supplier goes out of business
   (d) Right quantity and quality of people
   (e) Operations legal? Concerned about creating value for all stakeholders?
8. Addressing Risk
   (a) Good managers recognize, understand, measure, manage, price risk

11.2 Understanding and Measuring Risk with Statistics

1. Descriptive Statistics - communicates frequency and characteristics of event
   (a) Distributions - summarize frequency of events
2. Statistical Measure

$$Mean = \sum \frac{Elements}{Number} \tag{5}$$

$$Mean = \sum (Value * Px) \tag{6}$$

$$Variance = \sum (Value - Mean)^2 * (Px) \tag{7}$$

   (a) Median, Mode
   (b) Univariate Statistics - One variable or dimension
   (c) Multivariate Statistics - Multiple variables relating to one another
   (d) Covariance - Measures how to variable covary with each other; with multivariate

(e) Correlation - If covariance is standardized

3. Sampling - Takes a sample to gain insight on population
4. Inferential Statistics - Plan and estimate impact of decisions; variance and std dev are measures of dispersion/variability
5. Managing, Risks, and Making Decisions
   (a) What do I expect to happen if I take certain actions?
   (b) How good or bad can things get?
   (c) What will happen if expected/unexpected happen?
   (d) Questions answered by descriptive and inferential statistics
   (e) Inventory Management - Business wants to make sure sufficient but no excess inventory; Sales co-vary with income level of economy
   (f) Financing the Business - Management can use statistics to estimate the impact of a bad economy on the business's sales and inventory. It can then arrange financing, debt, or owners' equity, in case the unexpected downturn occurs.
   (g) Forecasting Need for Employees - Hiring too many employees hurts operating profit

11.3 Managing and Pricing Risk

1. Process of Risk Management
   (a) Since risk comes from everything a business does, RM must be involved in every aspect
   (b) Enterprise Risk Management (ERM)
      i. Establishment of Risk Management
      ii. Programs to assess risk
      iii. Programs to monitor risk
      iv. Programs to continuously evaluate risk
   (c) Risk Tolerance - How much a risk can and should accept
   (d) Risk Assessment - Recognizing, analyzing, understanding, and measuring the significant risks associated with business
   (e) Sensitivity Analysis - Estimating impact of unexpected events
   (f) Monitoring Risk - Creating controls to manage risk accepted by business
   (g) Contingency Planning - Plans to handle unexpected events
   (h) Risk Evaluation - Continuous examination of RM process and determining effectiveness

2. Alternatives to Help Manage Risk
   (a) Risk Management Programs
      i. Quality Control - Operating/Manufacturing systems meet specifications
   (b) Insurance
      i. Insurance Policy - Has insurance premium, cost of insurance
      ii. Property Damage, Work injuries, Death of employee, Liability by faulty products
      iii. Self-Insured - Business accepts risk and pays for losses
   (c) Diversification - Don't put eggs all in one basket
   (d) Hedging Risk
      i. Hedge - Insurance or diversification or
      ii. Derivatives
         A. Swap - Two parties agree to swap something of value at a future date
         B. Futures - Similar to swap, standardized contract on public exchange
         C. Forwards - Similar to futures, have customized contract, usually by intermediary
         D. Option - Instrument giving buyer right to do something
         E. Option Premium - Cost buyer must pay
         F. Call Option - Gives the option owner the right to buy from the option seller an item at a specified price at or during a specified time in the future
         G. Put Option - Gives the option owner the right to sell the item to the option seller at a specified price at or during a specified time in the future
   (e) Total Firm Perspective
      i. Operating income is relatively certain and stable. Because of this low operating risk, the firm can use more debt and less equity

12 Marketing

12.1 The Nature of Marketing

1. Objective of Marketing is to make a sale;

2. Marketing Concept - Guide business regarding needs and capabilities of the market for its product

3. Business must believe price for product compensates for cost and risk of acquiring, distributing, promoting, and financing the product

4. The Marketing Function
   (a) Marketing Process
      i. Understanding a Market- collection of current and potential customers, and competitors seeking to satisfy the needs of customers
      ii. Positioning Products - estimate if business can convince the customer to choose its product and not the product of its competitors
      iii. Distributing Product
      iv. Pricing Product - function of business' cost and risk; If the price a business can charge is equal to or exceeds the price it must charge, then the business has the opportunity to create value
      v. Promotion - Convince customer that product is what customer wants
   (b) Marketing Mix - Four "P's" - Product, Place, Price, Promotion, output of Marketing Process
   (c) Marketing Research
      i. Define research question
      ii. Design research to answer question
      iii. Collect needed data
      iv. Analyze
      v. Make decisions based on analysis
      vi. Primary Marketing Data - Created for purpose of question, ex: survey
      vii. Secondary Marketing Data - Already exists, ex: Census, Internet

12.2 Behavior of Markets - Customers and Competitors

1. Customers
   (a) Customer's Buying Decision
      i. Recognizing need/want
      ii. Seek information
      iii. Evaluate and compare
      iv. Decide to (not) buy
      v. Evaluate and take action based on satisfaction
      vi. B2C Market - Business to customer
      vii. B2B Market - Business to Business
      viii. C2C Market - Customer to customer (Ebay, Craig's List)
   (b) Consumer Behavior
      i. Cultural Factors - Factors consumers learn
      ii. Social Factors - How consumers are affected by group behavior

iii. Economic Factors - Consumer's level of income and wealth
iv. Psychological Factors - Consumer's motivation, perception, beliefs, knowledge;
v. Maslow's Hierarchy of Needs
    A. Physiological
    B. Safety
    C. Social
    D. Esteem
    E. Self-Actualization
vi. Self-Actualization is highest level of need but last to be fulfilled
vii. Individual Factors - Age, Health, Occupation, Lifestyle, Personality

(c) Business Behavior
   i. Business behavior is derived from consumer behavior
   ii. The seller must consider the buyer, the people influencing buyer, and ultimate consumer of product
   iii. Internal Environment - People, systems, and values used in purchasing decision
   iv. Request for Proposal (RFP) - Suppliers submit formal bid and hope it is most competitive
   v. External Environment - Economic conditions, Government regulation, customer needs, competitor actions

2. Competitors
   (a) Competitor Analysis - Research on who competitors are, how they operate, and how customers perceive them
   (b) Competitors compete by differentiating the four P's of of marketing

12.3 Strategic Marketing

Strategic marketing is about creating and implementing a strategy that creates value for the total business

1. Segmenting the Market and Targeting the Consumer
   (a) Market Segmentation - Literally says segment market in book :/
   (b) Segment based on geography, age, gender, education, lifestyle
2. Creating a Competitive Advantage
   (a) Product Differentiation - Creating a product with unique qualities that make it the most desirable
   (b) Product Positioning - Getting customer to perceive product is different and more valuable

(c) Competitive Advantage
    i. Product Development - Develop and introduce a new product
    ii. Market Development - Attempts to get new customers to buy existing products, ex: Buick in China
    iii. Market Penetration - Increase an existing product's share of existing markets, ex: discounting

3. Product Life Cycles
    (a) Introduction/Opportunity Stage
        i. Business assumes a lot of risk by expenses in creating and promoting product
        ii. Typically, product is offered at lower price to be competitive, resulting in low sales and high expenses
    (b) Growth/Star Stage
        i. Demand grows and sales increase
        ii. More net income and less risk because customers embrace product
        iii. Competitors now enter market and begin to offer lower prices
    (c) Maturity/Cash Cow Stage
        i. Low differentiation, competitors begin to lower prices
        ii. Sales no longer grow and competitors try to maintain market share
    (d) Decline/Dog Stage
        i. Sales decrease as customers find new/more valuable products
        ii. Prices continue to decrease and risk begins to increase
        iii. Eventual insufficient demand and all competitors withdraw from market
    (e) Eight-Twenty Rule
        i. 80% of profits go to first 20% to enter market
        ii. 80% of losses go to first 20% to enter market

12.4 Legal and Ethical Issues of Marketing

Marketing is full of opportunities to defraud or act unethically

1. Impact of Competition
    (a) Competition must be conducted fairly, therefore there is need for laws governing competition and marketing

2. Marketing and the Law

(a) Laws are designed to:
    i. Define the minimum level of acceptable behavior within a society
    ii. Protect customer from buying unsafe products
    iii. Inform buyer what person is/n't buying, including rights and responsibilities of both buyer and seller
    iv. Protect customers from sellers who unfairly manipulate market by making false claims, withholding info, or engaging in discriminatory practice
(b) Federal Trade Commission (FTC)
(c) Consumer Protection Safety Commision (CPSC)

3. Marketing and Ethics
    (a) (Un)ethical Marketing Practices
        i. Prices that overcompensate for costs and risk
        ii. Not enough information disclosure for buyer to make informed decision
        iii. Pressure tactics when selling products
        iv. Creation of products that appear safe and valuable when not
        v. Discriminate on price and service when dealing with low-income or minority
        vi. Design products to become obsolete, therefore necessitating another product purchase
    (b) Ethical Standards
        i. Provide value, fairly priced to all customers
        ii. Provide sufficient information of origin and content of products, and what products can/not do
        iii. Be socially responsible and recognize legitimate needs of all current and future stakeholders
    (c) Sustainable Marketing - Need for products to meet current and future needs of customer

4. Creating a Sustainable Competitive Advantage with Marketing
    (a) "Bait and Switch" Promotions - bad - Attract with good product at low prices, low supply in fine print and provide alternate product at high prices
    (b) Relationship Marketing - Marketers recognize that buyers and sellers create relationships over time

13 Marketing Mix: Product, Place, Promotion, and Price

13.1 Products

Product mix - portfolio of product lines - group of similar products

1. Positioning Product and Product lines by Type of Customer
    (a) Consumer Products - products sold to consumers
        i. Product is good or service
        ii. Convenience Products - Consumers buy frequently, instinctually, with minimum thought. Usually low prices high quantity
        iii. Shopping Products - Consumers buy carefully and less frequently, ex: furniture clothes; Apple's iPhone
        iv. Specialty Products - Consumers buy infrequently with deliberate thought process, ex: automobiles, computers, jewelry
        v. Unsought Products - Consumers do not initially think they need, only buy after a need/want exists, ex: Insurance, Medical procedures
    (b) Business Products - products sold to businesses
        i. Materials and Parts - Products business resell or use to create other products, ex: clothing by dept store, steel for cars, wheat for bread
        ii. Capital Items - Products business buys that have a life longer than one year and are used in acquiring, manufacturing, and selling of goods and services, ex: building, equipment, assets
        iii. Supplies and Services - Products business buy to operate the business that are not classified as materials and parts or capital items with short lives, ex: office supplies, repair and maintenance items, air travel
2. Creating Customer Value with Product Attributes
    (a) Product Features - Physical and mental attributes that provide customer satisfaction when using product
    (b) Product Quality - Product's lack of defects
    (c) Branding - Differentiating product by using identity of business
    (d) Brand Equity - Ability of brand to create value
    (e) Packaging - Designing and producing container product is sold in
    (f) Labeling - Business attaching words or graphics to product to educate consumer, ex: food packaging
    (g) Warranties - Promise regarding quantity and quality

   (h) Guarantee - Promise from business to consumer that consumer will be satisfied by product
   (i) Support Services - At-sale or post-sale services that seller promises buyer

3. Uniform Product Code (UPC) - Bar code on label

13.2 Distribution (Place)

1. Distribution is how and when a business delivers product to consumer

2. Marketing Channel

   (a) Marketing Channel
      i. Organizations that help the business make its product available for ultimate consumption
      ii. Marketing Intermediaries - Members of marketing channel
      iii. Direct Marketing Channel - Business does not use a marketing intermediary, ex: google
      iv. Indirect Marketing Channel - Use a wholesaler or retailer thing

   (b) Retailers and Wholesaler
      i. Retailers
         A. Specialty Store - Limited product line
         B. Department Store - Several product line
         C. Supermarkets
         D. Convenience Store - Limited number of products used in everyday life
         E. Discount Store - Sell numerous product lines of household products to price-conscious customers, ex: Target Walmart K-mart
         F. Deep Discount Store - Costco, Sam's club
         G. Non-store Retailers - Limited or no physical presence; vending machines, kiosk, internet
      ii. Wholesaler
         A. Merchant Wholesaler - Buys and resells product. Takes ownerships of product and creates value by providing warehousing, inventory, transportation
         B. Broker - Brings buyer and seller together
         C. Agent - Represents either buyer or seller
         D. Brokers and Agents facilitate buying and selling without taking ownership

3. Choosing the Correct Market Channel: Creating Value - just be efficient

13.3 Price

1. The Wants and Needs of a Business
   (a) Price is the amount the customer pays the business for the sale. Price is the value exchanged by the customer to receive the value of the product. Price is also the value received by the business for delivering or exchanging the value of the product.
   (b) Variable costs - Change with amount of goods sold
   (c) Fixed Costs - Do not
   (d) Contribution Margin - Amount business earns from each sale after paying its variable costs
   (e) CM = Price - Variable Cost per Sale
2. Break-Even Analysis
3. BE = Fixed Costs / Contribution Margin
4. Cost-Volume-Profit Analysis - Analysis of different pricing alternatives on business's profitability
5. Cost-Plus Pricing - Designed for cost payment and operating profit
   (a) Pricing-on-the-margin - Business focuses solely on variable/marginal costs
   (b) Marginal Revenue - Price per sale
   (c) Businesses that price products on the margin require a higher contribution margin to cover the unallocated fixed costs
   (d) Average Cost

$$AC = TC/Sales \tag{8}$$

6. Wants and Needs of a Consumer
7. Price and Product Demand
   (a) Price Elastic - Customers buy product based on price
   (b) Price Inelastic
   (c) Three Forces shifting supply/demand - Cyclicality, Seasonality, Evolution
   (d) Cyclical Product - State of economy affects demand for product, ex: automobiles, housing
   (e) Non-Cyclical Product - does not affect
   (f) Counter Cyclical Product - Bad economy = good for some products and vice versa, ex: lobster vs chicken

(g) Seasonal Products - Products affected by seasons of year
(h) Non-Seasonal Products
(i) Evolution of Consumer Wants/Needs

8. Price and the Decision to Buy
    (a) Perceived Absolute Value of Product - Product's value based on benefits
    (b) Perceived Relative Value - Given Absolute Value, check against competing products
    (c) Realities of Managing Price
        i. Price Challenges - Determine operating costs and required profit, and determine demand for product and impact of price on decision to buy
        ii. Marketing needs to determine how when and what to charge price

13.4 Promotion

1. Marketing Communication
    (a) Communication Process - Sender -¿ Receiver, is noise that affects message that is sent
2. Promotion Process
    (a) Target a market segment and customer
    (b) Determine the communication objective
    (c) Design the message to be communicated - AIDA - attention, interest, desire, act
    (d) Choose a medium to communicate the message
    (e) Execute by delivering the designed message through the selected medium
    (f) Collect, review feedback and make adjustments as needed
3. Promotional Mix
    (a) Promotional or Marketing Communications Mix - Mix of advertising, sales promotion, personal selling, direct-market techniques, and public relations to communicate a message
    (b) Advertising - Any non-personal presentation of ideas about a product or product line
    (c) Sales Promotion - Techniques used to encourage customer to buy
    (d) Personal Selling - Personal interaction, intended to create a sale

i. Process of prospecting and qualifying potential customers
ii. Researching and understanding how to approach targeted customers
iii. Approaching targeted customers and beginning the seller–buyer relationship
iv. Presenting and demonstrating the product
v. Dealing with customer concerns
vi. Completing or closing the sale
vii. Following up the sale to ensure the customer perceives the sale created value

(e) Direct Marketing - Techniques used to get customers to buy products from their home, office, non-retail setting
(f) Public Relations - Communicating to the public that the business creates value for the public as a whole

4. Choosing the Best Promotional Mix
   (a) Promotional Pull Strategy - Producer uses a lot of advertising to create a demand in the consumer that pulls retailers and other marketing channel members into offering the product.
   (b) Promotional Push Strategy - Producer focuses on retailers; retailers promote product to consumer. Pushes product from producer to retailer

13.5 The Marketing Mix - Life Cycle Summary

1. Different types of products have different life cycles
2. Distribution of product changes throughout life cycle
3. Price changes throughout life cycle
4. Choosing right way to promote product

14 Entrepreneurship and Small Business

14.1 Innovation

1. The Nature of Innovation
   (a) Innovation - Successful application of new products or processes
   (b) Invention - Creation of new products or processes
   (c) Different because of successful application, which creates value
2. The Process of Innovation

(a) Opportunity Recognition
(b) Research feasibility of Product
(c) Creation and Testing
(d) Successful Application

3. The Role of Research and Development
   (a) Responsible for acquiring and applying new knowledge to create new products and processes, refine existing products and processes, and ultimately decide whether or not new or existing products and processes can create value.
   (b) Separate R&D creates lower cost and better efficiency

4. Constant Innovation: Creating and Developing Product and Processes
   (a) Economies of Scale - As the average cost of a product decreases, the business can lower the price it charges for the product without incurring a loss
   (b) Introduction Stage - Product with competitive advantage and targeted consumers
   (c) Growth Stage - Competitive advantage is attained; competitors either try to create better product or replicate; product is now produced in mass quantities, creating efficiencies and driving the average cost per unit down
   (d) Mature Stage - Businesses try to be low-cost provider
   (e) Decline Stage - Innovation can no longer save

14.2 Entrepreneurship

1. Types of Entrepreneurs
   (a) Entrepreneurial Teams - Composition of individuals with different talents/abilities
   (b) Micropreneurs/ Home-Based businesses - Have a vision limited in size, usually legal, accounting, and technology assistance
   (c) Intrapreneurs - Entrepreneurs who work for or in large businesses

2. E-Commerce - Electronic Commerce - Buying/selling products over Internet

3. Successful Entrepreneurs
   (a) Vision - Idea that turns into a dream
   (b) Knowledge - Includes research, being realists
   (c) Managerial and Personal Skill

(d) Drive - Take high levels of risk, Success of idea is personal, is shown through long work hours

4. Challenge of Entrepreneurs
   (a) Creating business errors; Lack of: commitment, patience, research, planning, communication to stakeholders, adequate financing
   (b) Managing business errors; Failure of: controlling execution, reviewing execution, acquiring/training employees, delegating authority, focusing on one aspect of business and neglecting other
5. Support for Entrepreneurs
   (a) Incubator - Facilities and professional services offered at low cost by government
   (b) Enterprise Zones - Special geographic ares meant to attract entrepreneurs

14.3 Small Business

1. Small Business - defined by size and nature
   (a) Size - Fewer than 500 employees
   (b) Nature - May or may not innovate
   (c) Account for 99.7% of all proprietorships, partnerships, and corporations
   (d) Account for about half of all employees of private business
   (e) Pay about 42% of all business private sector payrolls
   (f) Created 46% of non-farm GDP in private sector
   (g) Produced 16x amount of patents per employee vs large business
   (h) Home-business = 50% of small business
   (i) Small Business Administration (SBA) - Agency to help small business, focuses on financial plans, business model/strategy, and critical documents
2. Opportunities and Challenges of Small Business
   (a) Opportunities - Biggest benefit is self-satisfaction: making decisions, seeing results
   (b) Challenges
      i. Knowledge - Owners must manage all critical functions
      ii. Management
      iii. Risk - Lenders often require owners to pledge personal assets to secure loan
      iv. Responsibility

3. Managing a Small Business
    (a) Planning
        i. The Business - Detail model and strategy; show how business will work
        ii. The Financial Plan
            A. Should include past, present, projected financial statements
            B. Pro-forma financial statements - Projected financial statements
        iii. Critical Documents - Documents needed to support business and financial parts of business plan; Resumes of owners, loan applications and agreements, tax returns, contracts, and other legal documents supporting the formation of the business, licenses, and ownership of assets.
    (b) Execution
        i. Finding Competent and Trustworthy Advisors: Lawyers, accounting, real estate agent
        ii. Financing the Small Business
            A. Some lenders require collateral because of risk
            B. Venture Capitalist (VC) - Organization that pays cash for debt and stock of new businesses
            C. Angel - Wealthy individual that buys stock of selected new businesses
        iii. Managing Growth - Many owners grow business without having resources to do so
        iv. Exiting a Small Business
            A. Must terminate all employees, sell all assets etc.
            B. Business broker - Individual or organization that brings together those interested in buying a small business and sellers of small businesses
    (c) Review - Adapt to changing needs of market
4. Resources of Small Business
    (a) Financing Programs
        i. If business meets SBA criteria, SBA can loan
        ii. Small Business Investment Company (SBIC) - Private venture capital business that provides owner's equity funding to small businesses
    (b) Education and Counsel
        i. Small Business Development Center (SBDC) - Non-profit agencies created to educate/assist

ii. SCORE - Non-profit that uses retired business executives to advise
iii. Office of Women's Business Ownership (OWBO) oversees Women Business Centers (WBC)

(c) Assisting Government contracts and Business Opportunities
   i. Overcoming natural disaster
   ii. Surety Bond - Businesses guarantee they will complete contract for government

15 Producing Products and Value Chains

15.1 Value Chains and Producing Products wtf kemp

1. Value Chain - How a business converts inputs to outputs that create value
2. Working Capital - Short-term assets, ex: inventory, receivables, cash
3. Comparing Businesses and their Value Chains
   (a) Value chains can be different because of business model or strategy
4. Managing Production and Operations
   (a) Production management = Operation management - management of value chain

15.2 Production Inputs and Systems

Enterprise Resource Planning (ERP) - Process of planning Production inputs and Systems

1. Production Inputs
   (a) Assets
      i. Facilities - Long term assets such as land, building, equipment
         A. Location
         B. Size
         C. Layout
      ii. Working Capital - Short term assets a part of operating cycle
         A. Operating Cycle - Time that lasts from acquisition of inventory to receipt of cash from sale
         B. Includes inventory, cash and accounts receivable
   (b) People - Quality and quantity important
   (c) Data and Information
      i. Information - Knowledge derived from data

ii. Analytics - Process by which data turns into information

2. Production Systems

   (a) Types of Production Systems

      i. Analytical Process - Production process that breaks product into parts, called by-product
      ii. Synthetic Process - Combines inputs or products to create another product
      iii. Mass Production - Process of producing standardized products in large quantity
      iv. Assembly Line - Workers do limited tasks
      v. Customize Mass Production - Mass Production with limited customization
      vi. Customized Production - Production of unique product that meets unique needs of customer
      vii. Continuous Process - Production that goes on continuously
      viii. Intermittent Process - Frequently starts and stops due to limited customers or change in production process
      ix. Flexible Production - Production process that can easily change

   (b) Tools of Managing Operations

      i. Gantt Chart - Graph that depicts how product is produced over time
      ii. PERT Chart - Program Evaluation Review Technique - Depicts tasks needed to produce product, also shows timing and critical path
      iii. Critical Path - Sequence of events that takes longest time to complete

15.3 Producing Quality Products that Add Value

1. Planning Production

   (a) Routing - Planning the sequence of tasks
   (b) Scheduling - Assigning tasks to specific people
   (c) Budgeting - Putting numbers to the plan
   (d) Standards - Goals a business wants to meet, at given cost
   (e) (Non)-Controllable Cost - Employees and managers can('t) control, ex: non is electricity
   (f) Flexible Budget - Recognizes some parts of production may not be controllable

2. Executing Production

(a) Control Steps
    i. Production Goal Set
    ii. Standards for Quantity, Quality, Cost
    iii. Actual Execution
    iv. Quantity, Quality, Cost Measured
    v. Variances Measured
    vi. Actions Taken to Keep Favorable Variances, Remove Unfavorable
(b) Cost Accounting Systems - Report to managemnet about quantity, quality, and cost
(c) Job-Order Cost System - Allocates costs to individual or groups of people
(d) Process Cost System - Averages costs over large numbers of nearly identical products

3. Reviewing Production
    (a) Sunk Costs - Costs that cannot be recovered
    (b) Variance - Difference between actual and budgeted amounts, computed for:
        i. Quantity of products produced
        ii. Cost of products produced
4. Managing the Productivity and Costs of Assets ...
    (a) Lean Operations - Drive for lowering costs
    (b) Managing Assets and Related Costs
        i. Supply Chain Management - Managing the interface between a business and its suppliers
        ii. Just-In-Time Inventory - Business works with supply chain to minimize raw materials on hand without causing production problems
    (c) Managing People and Related Costs
        i. Business wants employees to meet needs of customers
        ii. Outsourcing - Business uses sources outside its organization to provide production or professional services
    (d) Managing Systems and Related Costs
        i. Goal of accounting is to provide managers with information they can use
        ii. If they can't use info, hurts value of business
5. Producing and Managing Quality of Products

(a) Quality - How well a product means a customer's expectations

(b) The Benefits and Costs of Quality

    i. Value needs to justify price paid for customer to be satisfied

    ii. Systems to ensure and control quality are costly

(c) Programs to Produce and Manage Quality

    i. Total Quality Management (TQM) - Philosophy that producing quality products is essential to all parts of business

    ii. Quality Assurance - Meeting customer satisfaction

    iii. Key to TQM is business's workers and managers

    iv. Quality Circle - Team of employees that works with each of the parts of a business to address times of quality

    v. Statistical Process Control (SPC) - Sample quality of products and customer satisfaction

    vi. Six Sigma - No more than 3.4 defects per million products

    vii. International Standards Organization (ISO)

        A. Non-government federation of standard-setting groups throughout the world

        B. 9000 - Current set of standards for understanding and meeting customers needs

        C. 14000 - Program to help business manage impact on environment

    viii. Baldridge Award - Awarded by President to businesses showing outstanding performance in obtaining quality

16 Opportunities and Challenges in Managing People

16.1 Human Resources: Heart of the Business

1. The Human Resource Function

    (a) Assessing Needs of Business

        i. Job/Staffing Analysis - Understand quantity, skills, and timing of when people are needed

        ii. Succession Planning - Future perspective on what employees will do

        iii. Job Description - Expectation of Employee

        iv. Job Specification - Lists qualities must possess to be considered for job

    (b) Finding and Recruiting the Right Employees

        i. HR must recruit applicant pool

ii. Employment Agency - Businesses or governmental agencies specializing in finding employees
iii. Executive Search Firms/ Head Hunter - Finding applicants for managerial positions

(c) Hiring the Right Employees
  i. Employment Application
  ii. Resume
  iii. Different Styles of Interviewing
  iv. Specific tests
  v. Background Check

(d) Employee Training
  i. Ensures employees understand what is expected
  ii. Provides employees skills to be successful
  iii. Provides basis of evaluating employee's performance
  iv. Mentor - Experienced employee who coaches new
  v. On-the-Job Training
  vi. Orientation - Where employee is instructed in business's policies and procedures
  vii. Employee Training - Technical/Skill-based Training
  viii. Management Development Training - Business's policies on planning, executing, and reviewing

(e) Evaluating Employees
  i. Establish performance criteria
  ii. Gather information to determine if employee meets criteria
  iii. Analyze information
  iv. Communicate findings
  v. Establish future plans

(f) 360-Degree Evaluation - Employee evaluated by everyone, including coworkers

16.2 Motivating Employees

1. Theories of Employee Behavior

   (a) Expectancy Theory - Employees are motivated by expectation of reward
   (b) Equity Theory - Employees are motivated to perform if they believe value they receive is fair compensation compared to others
   (c) Maslow's Hierarchy of Needs
   (d) Herzberg's Two-Factor Theory of Motivation

i. Hygiene/Maintenance Factors - Pay, job security and interpersonal relationships
ii. Motivational Factors - Work itself, sense of achievement, recognition etc

(e) McGregor's Theory X
   i. Employee's don't like work
   ii. To get employees to work, must be threatened, controlled
   iii. Prefer to be directed, to avoid responsibility
   iv. Primarily motivated by fear and money

(f) McGregor's Theory Y
   i. Employees like work
   ii. Work best when committed to goals of work
   iii. Commitment to work is function of rewards they perceive
   iv. Employees seek responsibility
   v. Are capable of being creative in solving problems and making decisions
   vi. Most businesses only realize a part of employee's potential
   vii. Different employees are motivated by different awards

16.3 Compensating Employees

1. Cash Compensation
   (a) Salary - Cash payment received from employer
      i. Gross Pay - Compensation employer agrees to pay employee for work
      ii. Net Pay - Gross pay less taxes and other deductions
      iii. Fixed Salary - Employee paid stated amount per period
      iv. Hourly - Employee paid fixed rate per hour worked
   (b) Commissions and Similar Arrangements
      i. Commission - Person is paid percentage of sale
      ii. Piece-goods work - Employees are paid per unit sold
   (c) Profit Sharing - Employee paid percentage of business's profits
2. Fringe Benefits - Employee Benefits
   (a) Health Care
      i. Patient Protection and Affordable Care Act - Everyone has access to basic, affordable health care
      ii. Different businesses provide different health care
      iii. Medicare - Health insurance program by government for retirees that have sufficient money to pay for part of health care

iv. Medicaid - Health insurance... for retirees that do not have sufficient money

(b) Retirement Programs

i. Social Security - Percentage of gross pay taken away, to be repaid when employee retires

ii. Employment Retirement Income Security Act 1974 - Employer sponsored plans

A. Defined Contribution Plan - Employees contribute money to special fund each period, ex: 401k

B. Defined Benefit Plan - Guarantees employee monthly income for rest of life

(c) Unemployment Compensation

i. Unemployment Benefits - Can apply and receive money for 26 weeks, up to 20 additional more

3. Work Life Arrangements

(a) Work Life Benefits

i. Job Sharing - Two employees or more do work of one full-time employee

ii. Flex Time - Employee can determine schedule

iii. Dependent Care - Provides care for dependents (children, elderly)

iv. Educational Benefits - Business provides employee training or outside education such as college

v. Telecommuting - Employee can use technology and work at home

vi. Vacation Pay

vii. Maternity-Paternity Leave

viii. Sick Pay - Paid on days when employee is sick and can't come in

ix. Sick Leave - Employee not required to work; may or may not be compensated

4. Non-Cash Compensation

(a) Employee Stock Options

(b) Golden Parachutes - Payments made as part of termination agreements

5. Designing a Compensation Package

(a) Compensation should cost business less than value provided by employee

(b) Employee should believe compensation is fair and meets needs or is better than any alternative

16.4 Employer-Employee Relations

1. Organized Labor
    (a) Union - Legal organization employees join and empower them in negotiation with employer
    (b) Biggest are National Education Association, Service Employees International, American Federation of Teachers; 6 above 1 million
        i. History of Unions
            A. Knights of Labor - Earliest labor union
            B. American Federation of Labor (AFL) - Sam Gompers and Knights form
            C. Congress of Industrial Organization (CIO) - Specific industries, ex: steel, mining
            D. AFL-CIO merger
        ii. The Power and Organization of Unions
            A. Union Shop - When majority of business's employees vote to join union
            B. National Labor Relations Board (NLRB)
            C. Closed Shop - All employees must join union
            D. Agency Shop - Employees can choose to join union; all members must pay union dues
            E. Maintenance Shop - All union members must remain members as long as employed by business
            F. Shop Stewards - Elected local representatives of union members
            G. Collective Bargaining - Negotiating contracts like compensation, job security, and working conditions
            H. Ratified Contract - If contract is approved by majority of union
            I. Grievance Procedure - Formal process agreed upon in union contract to fairly resolve differences
            J. Meditation Procedure - Neutral third party attempts to resolve differences through negotiation
            K. Binding Arbitration - Neutral third party decides how grievances will be resolved; solution is final
        iii. Union and Employer Tactics
            A. Authorized Strike - Strike officially endorsed by union
            B. Unauthorized/Wild Cat Strike - Not approved by union
            C. Picketing - Striking union members march around business with signs communicating position
            D. Boycotting - Union members and those sympathetic refuse to buy product

E. Lockout - Business refuses to permit employees to enter business
F. Strikebreaker - Non-union employee to replace striking employees
G. Temporary Injunction/Cooling Off Period - Federal court requires strikers to return to business if critical to US welfare

iv. Laws Dealing with Unions and Collective Bargaining
A. Norris-LaGuardia Act - Easier for employees to create, join, operate union
B. Wagner Act - Requires business to negotiate with union officials
C. Taft-Hartley Act - Prohibits unions from using unfair tactics
D. Landrum-Griffin Act - Regulates internal operations of unions

2. Employment Laws
   (a) Department of Labor (DOL) - And other angencies are empowered to enforce employment law
   (b) Minimum Wages
      i. Fair Labor Standards Act (FLSA) - Government sets minimum wage that all employers must pay
   (c) Discrimination - Employment act based on race, religion, creed, sex, or national origin
      i. Title 7 of Civil Rights Act - Prohibits discrimination in hiring, firing, training, compensating, and later age
      ii. Equal Employment Opportunity Commission (EEOC)
      iii. Equal Employment Opportunity Act
      iv. Affirmative Action - Business give preference to underrepresented minorities
      v. Reverse Discrimination - Employee/Applicant denied equal treatment because not member of underrepresented minority
      vi. Civil Rights Act 1991 - Victims of discrimination get jury trial
      vii. Americans with Disability Act 1990 - Can't discriminate employees with disabilities that don't affect job performance; Also required to provide reasonable accomodations to disable, ex: wheelchair
   (d) Employee Safety
      i. Occupational Safety and Health Act (OSH ACT) - Safe place to work
      ii. Occupation Safety and Health Administration (OSHA)
   (e) Sexual Harassment
   (f) Family and Medical Leave - Can be paid or unpaid

(g) Immigration - Can only hire those authorized to work in US
(h) Child and Youth Labor - Can't work under 14, special regulations under 18

3. Termination
   (a) Employee doesn't meet requirements
   (b) Employees services no longer needed
   (c) Reasons for termination should be legal and well-documented
   (d) Severance Pay - Payments after termination

17 Opportunities and Challenges in Managing Assets

17.1 Appreciating the Nature and Importance of Assets

1. Various Types of Assets
   (a) Asset - Economic resource that the business owns and uses to make an operating profit and create value
   (b) Cash
   (c) Marketable Securities
   (d) Accounts Receivable
   (e) Inventory
   (f) Prepaid expense
   (g) Property, plant, and equipment
   (h) Patents, copyrights, and trademarks
   (i) Goodwill
2. Assets and Operating a Business - just example through Target

17.2 How Assets are Used in Business

1. Working Capital and Current Assets
   (a) Working Capital - Current Assets
   (b) Operating Cycle - Time from inventory purchase to cash collected
   (c) Current Liabilities - Accounts payable and other debts
   (d) Net Working Capital - Current assets less Current Liabilities
   (e) Cash
      i. Transaction Demand for Money - Business needs cash to pay bills

ii. Precautionary Demand for Money - Extra cash in case of bad times
iii. Speculative Demand for Money - Need for cash in case of unique opportunities

(f) Marketable Securities - Short-term investments a business makes in financial securities, which are low risk
  i. Liquid - If asset can be easily sold and turned into cash
  ii. Businesses invest because while even though it is low risk low return, some return is better than no return
  iii. Since Marketable Securities are liquid, should meet precautionary and speculative demand

(g) Accounts Receivable
  i. Receivable - Claim on another person or business
  ii. Allowance for Bad Debts - Business's understanding that some customers won't be able to pay back debt
  iii. Net Receivables - Accounts receivable less allowance for bad debts; amount of money business expects to get from customers
  iv. Bad-debt Expense - Amount business does not collect is an expense
  v. Trade Discount - Discount for paying debt early, ex: 2/10, net 30 = 2% discount if paid within 10 days, else full must be paid in 30

(h) Rainy Days and Where Cash is King
  i. Rainy Days - Opportunities to buy valuable assets at low prices
  ii. Cash is King - Extra cash can take advantage of distressed situation resulting in low asset prices

(i) Inventory - Store of goods that a business owns and sells to customers
  i. Purchased Inventory - Goods that are purchased by a business, to be resolved without modification, as is
  ii. Produced Inventory - Goods purchased to convert into another good
  iii. Raw Materials
  iv. Work-In-Progress - Name of product during transformation from raw materials to completed product
  v. Finished Goods - Inventory of finished products
  vi. Consignment - Business holds and sells inventory owned by another person

(j) Prepaid Expense - Cost paid by business prior to receiving benefit from cost, ex: rent, insurance

2. Non-Current Assets

(a) Tangible Assets - Can be touched, property, plant, equipment
   i. Facilities or Fixed Assets
   ii. Buildings
      A. Depreciation - Estimate of how much of non-current tangible assets declines over a period of time
      B. Accumulated Depreciation
      C. Net Book Value - Original cost less accumulated depreciation
      D. Depreciation Expense - Estimated decrease in value each period
   iii. Land
   iv. Leased Property
      A. Operating Leases - Lease for small amount of assets useful life
      B. Capitalized Leases - Lease for entirety of assets useful life
(b) Intangible Assets
   i. Amortization Expense - Decreasing value of intangible asset
   ii. Patents
      A. Federal Patent Statue 1972 - Current law governing patents
      B. US Patent and Trademark Office (PTO) - Oversees granting patents
      C. Patent Infringement - When a business or person improperly uses another's patent
      D. US Court of Appeal for Federal Court - Judge patent lawsuit
   iii. Copyright
      A. Copyright has 70 years beyond author or artist
      B. If business owns copyright, either 95 years after first publication or 120 years from creation
      C. Public Domain - Copyright becomes available to everyone
      D. Copyright Act 1976 - Law governing copyrights
      E. United States Copyright Office - Oversees granting of copyrights
      F. Copyright Infringement
   iv. Trademark
      A. Distinctive mark, symbol, name, word, motto, device that identifies business
      B. United States Patent and Trademark Office - Grants trademarks for period of 10 years; can be renewed
      C. Federal Lanham Trademark Act of 1946 - Law
      D. Trademark Infringement
      E. Generic Name - Name that becomes a common name for product line, ex: Laser, Kerosene, Frisbee, Nylon

v. Goodwill
   A. Value of business exceeding tangible and intangible assets
   B. Easy to recognize, hard to measure
   C. If purchasing business pays a price that exceeds the value of the acquired business's tangible and intangible assets, it will recognize an asset called goodwill
   D. If recognized, asset is not amortized

17.3 How Business Manages Assets to Create Value

1. The Value of Assets
   (a) Investing in Assets is Risky - Might not collect accounts receivable, if a customer will buy inventory
   (b) Interdependence of Assets - Assets work together to create value
2. Investing In and Managing Assets
   (a) Investment in an Asset
      i. Role of asset creating value
      ii. How to measure asset's contribution to value
      iii. Must forecast benefits/costs, to decide how much to invest
      iv. Monitor use and productivity of asset
   (b) Cash and Marketable Securities
      i. Volatile businesses unsure of returns hold up to 90 days' worth of bills
      ii. Less volatile and able to forecast cash flow may only hold 30 days' worth
      iii. CER measures how many days of operating expenses a business holds in cash and marketable securities
      iv. Cash-to-Expense Ratio = (Cash + Mark Sec Investments)/ Annual operating expenses/365
   (c) Accounts Receivable
      i. Businesses don't want to sell to customers that have high probability of not paying, however still needs to beat out competitors
      ii. Accounts Receivable Turnover - How many times a year a business collects its accounts receivable
      iii. ARTO = Annual Sales / Investments in Accounts Receivable
      iv. Accounts Receivable Collection Period - How many days it takes to collect receivable
      v. ARCP = Investments in Receivables / Daily Sales
   (d) Inventory

    i. Safety Stock - Extra inventory in case demand exceeds forecast
    ii. Inventory Turnover - How many times a year a business converts inventory into sales
    iii. ITO = Annual Cost of Goods Sold / Investment in Inventory
    iv. Days' Sales in Inventory - Compares level of inventory to the inventory sold per day
    v. DSI = Inventory / Cost of Daily Sales

  (e) Property, Plant, and Equipment
    i. Fixed-Asset Turnover - Measures relationship between investment in PPE versus sales
    ii. FATO = Annual Sales / Investment in PPE
    iii. PPE hard to invest in because it takes a long time to build
    iv. Net Present Value - Measures expected long-term value of PPE and related working capital vs cost of investing in PPE
    v. If the expected value from investing in PP&E is greater than the cost of PP&E, the investment has a positive NPV
    vi. To determine expected value of investment, business uses weighted average cost of financing
    vii. Internal Rate of Return (IRR) - Rate of return of investment in PPE and related working capital over time
    viii. Business then compares with weighted cost of capital
    ix. Payback - Amount of time for business to receive cash equal to cost of PPE

3. Divesting (Eliminating) Assets
  (a) Often disruptive to sell factory or discontinue selling product line
  (b) If asset doesn't create value, should be sold

4. Managing Assets - Putting it all Together
  (a) Paying Liabilities
    i. Current Ratio = Current Assets/Current Liabilities
    ii. Current Assets are cash, marketable securities, accounts receivable, inventory, pre-paid expenses
    iii. Quick Ratio = Quick Assets/Current Liabilities
    iv. Quick Assets are cash, marketable securities, accounts receivable
  (b) Total Asset Productivity
    i. Return on Assets = Net Income/ Total Assets

5. There's an example

18 Opportunities and Challenges in Managing Information, Technology, and e-Business

18.1 Nature and Importance of Information and Systems

1. Nature of Information
   (a) Information should be pertinent, correct, complete, timely, and cost effective
   (b) Information Overload - Too much information, often causing confusion
2. Information Systems
   (a) Information System (IS) - System that uses people and processes to convert data into information with analytics
   (b) Management of Information Systems (MIS)
   (c) Information Architecture - Design and structure of an information system
   (d) Information systems have 3 important elements; data, analytics, outputs
   (e) Software - Describes instructions, programs, and rules used to process data
   (f) Hardware - Describes physical assets used
   (g) Data mining - Retrieval of desired data by computers, data is analyzed to provide answers to questions

18.2 Information Technology and Business

1. Today's Information Technology - encompasses marketing, finance, accounting...
   (a) Telecommunications - Transmitting data over distance
   (b) Network - Process or system used to transmit data
   (c) Transmission techniques
      i. Digital Subscriber Line (DSL)
      ii. Fiber-Optic Line - Broadband
      iii. Airwaves - Wirelss
   (d) Internet - Information System between two independent organizations
   (e) Intranet - Information System within organization
   (f) Virtual Private Network (VPN) - Describes an Intranet

(g) Extranet - Intranet allowing users outside organization limited information

(h) Cyberspace - Describes the flow of information through a network

(i) The Internet or Net

  i. Internal Service Provider (ISP) - Commercial business or government with permanent access to Internet
  ii. World Wide Web (WWW) - System used to access Internet
  iii. Portal - Point of entry to and exit from WWW, typically called a website
  iv. Uniform Resource Locator (URL) - Identifier of a website
  v. Browser - Computer or program that permits someone to gain access to data and information on websites
  vi. Server - Contains information a business puts on their website

(j) Design and Manufacturing Systems

  i. Computer-Aided Design (CAD) - Designs and tests products
  ii. Computer-Aided Manufacturing (CAM) - Plans and controls manufacturing processes
  iii. Computer-Integrated Manufacturing (CIM) - Combines CAD and CAM

(k) Marketing Systems

  i. Customer Relationship Management (CRM) - Provides sales with information on customer needs, product availability, pricing alternatives, and promotion options
  ii. Viral Marketing - Business attempts to get customers to tell friends

(l) Human Resource Systems

  i. Expert Systems - Artificially make decisions based on rules and logic
  ii. Collaborative Learning Systems - Helps employees work together to solver problems

(m) Accounting Systems

(n) Financing Systems

2. Transformation and Emerging Technology

(a) Challenges with Informational Technology

  i. Information Overload
  ii. Case of Intrusion, ex: Cookies permit some to track what websites a user visits, Adware permits advertisers to send users ads
  iii. Security - Spyware shows outside users what a person is doing, Viruses destroys computer programs

iv. Identity Theft - Phishing is where spam emails are sent for personal information
v. Privacy
vi. Ownership - Of things such as computer software
vii. Taxes
viii. New Technologies

(b) Legal and Ethical Issues with Emerging Technologies

i. Security
A. Password or Personal Identification Numbers (PIN)
B. Firewalls - Programs on computers that limit access
C. Encryption - Transferring information into coded and unintelligible data
ii. Privacy - 4th Amendment protects from unlawful search of e-mails
iii. Ownership of Intellectual Property
iv. Illegal Activities - CAN-SPAM Act - Can't send spam to individuals requesting not to receive
v. FTC enforces laws regarding false advertising, spamming, and business on internet
vi. Taxes - Should Internet purchases charge sales tax

18.3 E-Business and E-Commerce

1. E-Business - Describes business that uses information and communication technologies to support marketing, production, finance

2. E-Commerce

(a) Buying and selling products over Internet
(b) E-tailers - Retailers that sell over Internet
(c) High-Touch Modes - Traditional shopping
(d) High-Tech Modes - E-commerce mode
(e) Dot-Com Bust - Some believed people were going to transfer from 100% High-Touch to High-Tech, which didn't happen

19 Opportunities and Challenges in Managing Financial Capital

19.1 Appreciating Importance of Financial Capital

1. Coverage Ratio - Compares earnings before taxes to cost of debt

2. Interest Coverage Ratio - Compares pre-tax operating profit with interest business owes in period
3. ICR = EBIT / Interest expense for period
4. Debt Coverage Ratio - Compares pre-tax operating profit with interest and principal owed by business
5. DCR = EBIT/ (Interest + Principal Payments on Debt)
6. High Coverage Ratio means less debt and more equity
7. If business unsure EBIT, more equity less debt, because of risk
8. Debt Ratio - Percentage of Debt used to finance assets
9. DR = Total Debt / Total Assets

19.2 Acquiring Money with Debt

1. Three major sources of debt: Trade Credit, Financial Intermediaries, Capital Market
2. Using Trade Credit
   (a) Money that a business owes to suppliers
   (b) Accounts Payable - Trade credit documented with a bill
   (c) Accrued Liabilities - Estimated amount of debt when business doesn't receive bill at time product is received
3. Borrowing from Financial Intermediaries
   (a) Business that acquires money from one source and then provides to another
   (b) FDIC and Fed are primary regulators of banks
   (c) Indenture - Document that details terms of agreement
   (d) Loan Principal - Amount of money borrowed and owed to lender
   (e) Interest Rate - Periodic cost of loan
   (f) Maturity - When loan will be completely repaid
   (g) Loan Covenants - Special conditions to which borrower and lender agree
   (h) Working-Capital Loans - Short loans that finance temporary increase in receivables and inventory
   (i) Line of Credit - Agreement between business and financial intermediary that gives business right to borrow certain amount money
   (j) Mortgages - Long-term loans, usually collateralized

4. Banks and Risk Management
    (a) Default Risk
    (b) Liquidity Risk - Not enough cash on hand
    (c) Interest Rate Risk - If people want to renegotiate interest rate b/c economy better
    (d) Operating Risk - Risk of incorrectly processing transaction
5. Borrowing in Capital Markets
    (a) Capital or Securities Market - Market where debt and equity are traded; short term or long term
    (b) Commercial Paper - Short-term, unsecured loans
    (c) Money Market - When business uses commercial paper, said to be in a special capital market
    (d) Debentures - Unsecured subordinated bonds
6. Cost of Debt
    (a) Required Rate of Return on Debt = Risk free rate + Risk Premium
    (b) 90 Day T-Bill - Government short-term borrowing, what most lenders base Risk Free rate
    (c) Risk Premium
        i. Debt Rating - Credit Agencies like Moody's, Fitch, S&P analyze default risk in a loan
    (d) Interest Rates
        i. London Interbank Offered Rate (LIBOR) - Interest rate that high quality international banks charge one another for short term interbank loans
        ii. Prime Rate - Indicates lender sees borrower as low risk
        iii. Prime Loan - Best loan, at prime rate
        iv. Subprime Loan - Quality less than prime :/
    (e) Fixed and Variable Rate Loans
        i. Fixed Rate - Interest rate that does not change over life of loan
        ii. Variable/Floating/Adjustable Rate - Interest on loan changes over time

19.3 Acquiring Money with Equity

1. Beginning
    (a) Proprietorship Capital - owners' equity account for proprietor; combination of money contributed and net income retained

(b) Partnership Capital - Same thing, separate for each partner
(c) Stock Certificates - Documents a share
(d) Cash Dividend - Payment in cash of retained earnings
(e) Dividend-Payout Ratio - Current Dividends/Current net income
(f) A business will pay dividends in unprofitable years
(g) Stock Dividend - Company issues new shares to shareholders
(h) Stock Split - Large stock dividend, where number of shares outstanding changes by 25%
(i) Par or Face Value - Official stated value of stock
(j) Capital Surplus or Paid-in-Capital in excess of par
(k) Anything from stockholders greater than par goes into Capital Surplus

2. Types of Corporate Stock
   (a) Authorized - Company approves selling of stock
   (b) Treasury Stock - Company buys stock back from shareholder; authorized, issued, but not outstanding
   (c) Retired - Existing stockholder decides Treasury Stock cannot be sold again
   (d) Retained Earnings - Accumulated profits that haven't been paid to owners in dividends
   (e) Cash Dividends - Method of distributing retained earnings to owners
   (f) Common Stock - Represents ownership of business; (in)directly control business, elect Board of Directors
   (g) Preferred Stock - Special rights or preferences, get paid before common stock owners

3. Acquiring Equity using Capital Markets
   (a) Public Capital Market - Anyone can buy debt or equity issued by business
   (b) Private Capital Market
   (c) Private Placement - Selling of debt/equity through private capital market
   (d) Investment Bankers - Brokers that help investors and lenders find businesses that need money; helps the borrower create and sell the debt or equity contract in a capital market
   (e) Initial Public Offering (IPO)
   (f) Secondary Public Offering (SPO)
   (g) Issuing debt/equity - Selling

(h) Placing debt/equity - Finding a buyer

4. Cost of Equity
    (a) Earning per Share = (Net Income - Preferred Dividends)/Outstanding Shares
    (b) Business is not legally bound to earn net income or pay dividend
    (c) Risk deals with future; past/present aren't always good indicators
5. Value of Ownership
    (a) Return on Equity - Net Income / Owners' Equity
    (b) Net Income Percentage or Profit Margin = Net Income / Sales
    (c) Total-Asset Turnover = Sales / Total Assets
    (d) Financial Leverage = Total Assets / Total Equity
    (e) Profit Margin * Total-Asset Turnover*Financial Leverage = ROE
6. Book Value of Business is Owners' Equity Value
7. Current Market Value is function of future earnings
8. Also called Market Cap = Current price * shares outstanding