

Artificial Intelligence (AI) for Investments



Lesson 1: Goals of a firm



Introduction

In this lesson we will cover the following topics:

- Different forms of corporations
- Goals of a firm and the role of management
- Introduction to Firm value and Opportunity Cost of Capital
- Investment and Financing Decisions
- Agency Problems and Corporate Governance
- Summary and Concluding remarks



Organization of a Corporation

- Organization as a legal entity
- Proprietorship and Partnerships
- Private and Public (listed) Companies
- Unlimited vs Limited liability of stockholders

Introduction to Firm value and Opportunity Cost of Capital



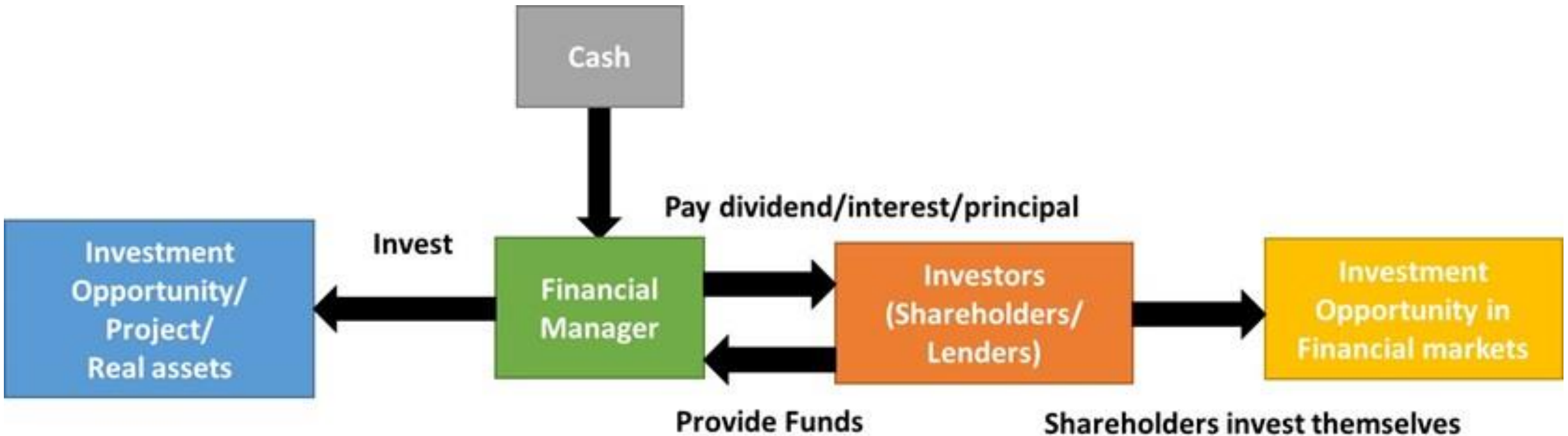
- Maximization of firm value – appropriate target?
- What about maximization of profit or cash flows
- Short-term myopic objectives vs. long term value creation
- Role of financial markets
- Opportunity cost of capital



Investment and Financing decisions

- Two key decisions affect firm value: Investment decisions and Financial decisions
- Investment decisions: investing in real assets, plant and machinery, R&D, etc.
- Risk-return profile of the investment and opportunity cost of capital
- Financing decisions: Issue of debt and equity securities to raise finances
- Availability of liquid and efficient markets

Investment and Financing decisions



Agency Problems and Corporate Governance

- Managers are the agents of the shareholders as principals
- Are their interest aligned with each other?
- Will managers always act in the best interest of owners: Not always
- Classical principal and agent problem: how to mitigate?
- Goods systems of corporate governance ensure that the interest and objectives of managers are well aligned to those of owners
- These include: Institution of board of governors, compensation management, market discipline.

Summary and Concluding remarks

- Two important financial decisions: investment decision and financing decision
- Value maximization as the ultimate objective of managers
- Trade-off faced by financial managers and opportunity cost of capital
- Separation of ownership and control
- Principal agent problem
- Good systems of corporate governance



Thanks!