

1 Introduction to Corporate Finance

1.1 Financial Management Decisions

Cash first raised from investor, invested in firm, generated by operations, and finally reinvested or returned to inventers.

1.2 Corporation

Definition: from CF perspective, a firm is a collection of projects. Projects are anything that can generate cash. It's also a business form. There are different types of business forms including: *Sole Proprietorship*, *Partnership (General and Limited-Liability)*, *Limited-Liability Company*, *Corporation*.

Corporation is consists of *board of directors* who manage the *asset*, *debt* which is concerned with *debt holders*, *equity* which is concerned with *share holders*.

1.3 Goal of Finance Management

Primary financial goal is *shareholder wealth maximization*, which can be translated to maximizing *stock price*.

Stock price maximization is not same as profit maximization: stock price relies upon *current earnings*, *future earnings* and *cash flow*. They may not be change in the same way. In particular, factors that determine stock price are:

- a. Projected cash flow to share holders
- b. Timing of the cash flow stream
- c. Rickness of the cash flow