



BUSS207 Financial Management

Joonghyuk Kim

Office: LP516

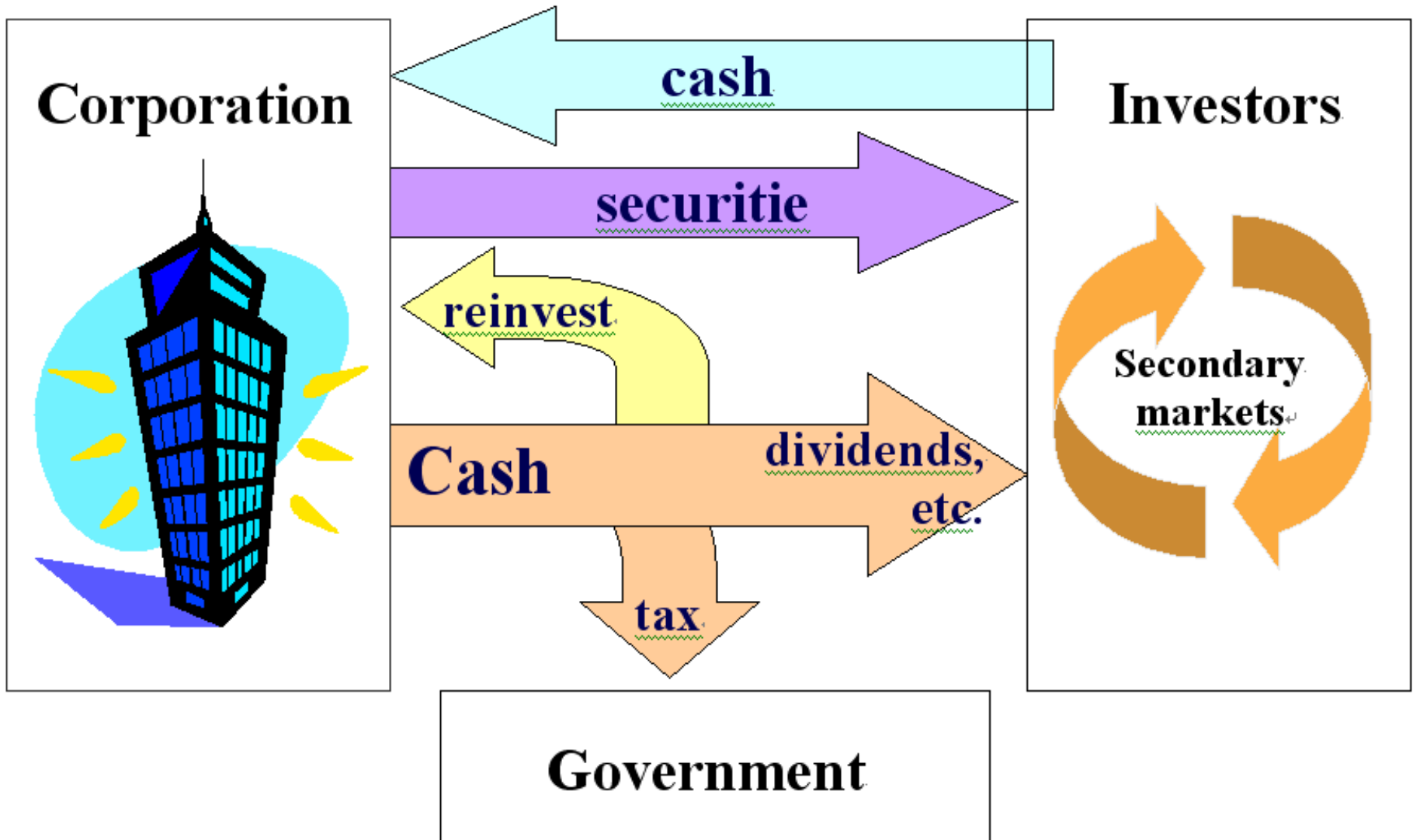
Phone: 3290-2607

Email: j-kim@korea.ac.kr



Chapter 1: Introduction to Corporate Finance

- **What is Corporate Finance?**
 - In the simplest sense: involves what assets a company should invest in and how to finance these investments
- **Where does a company get cash to run and finance its business?**





Chapter 1: Introduction to Corporate Finance

■ Goals of the Corporation

- The primary goal is $\text{maximize firm value}$, which translates to
- This means
 - Maximizing Firm Value (market price per share of common stock x number of outstanding shares)
 - Maximizing stock price



Chapter 1: Introduction to Corporate Finance

- This leads us to answer the following questions?
 - ✓ Who sees that firm management follows this goal?
 - ✓ How can management be coerced or encouraged to accomplish this goal?
 - ✓ What things should management consider in trying to achieve this goal?



Chapter 1: Introduction to Corporate Finance

■ **Agency Relationships**

- Why is it important?
- Achieving the goal of the corporation can be affected by agency problems



Chapter 1: Introduction to Corporate Finance

- Within a corporation, **agency relationships** exist between
 - Shareholders and managers
 - Shareholders and creditors

Q) Who bears the agency cost here?

A)



Chapter 1: Introduction to Corporate Finance

- **Who sees that firm management meets this goal?**
 - The company's stockholders (the owners) with the Board of Directors acting on their behalf overseeing management
 - An agency relationship exists between management and stockholders



Chapter 1: Introduction to Corporate Finance

- **How can the owners, shareholders, encourage managers to act in stockholder's best interest?**
 - Or how can shareholders reduce any problem caused by agency relationship between managers and shareholders?



Chapter 1: Introduction to Corporate Finance

- ✓ Managerial compensation plans
 - Ex) Executive compensation scheme
 - Performance shares
 - Stock options
- ✓ The threat of firing
- ✓ The threat of takeover
- ✓ Direct Intervention by stockholders



Chapter 1: Introduction to Corporate Finance

- **What things should management consider in trying to achieve this goal?**
 - Factors influenced by managers that affect stock price
 - Expected cash flows
 - Timing of cash flows
 - Riskiness of cash flows
 - Use of debt (capital structure)
 - Dividend policy