

Course Introduction FIN 320

- John Marucci

- Your Instructor
- Class Layout
- Basic Economics
- Decision Theory
- Finance

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Your Instructor

- WMU Alumni, FIN Undergrad & MBA
- Former Professional Soccer Player
- Full-Time Financial Analyst with National City Card Services
 - Test market new products
 - Do financial modeling for new business opportunities
 - In-house financial consultant
 - I do this stuff

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Typical Class Layout

- Homework – Go over assigned homework (30 min)
- Interaction – Usually discuss assigned end of chapter questions (30 min)
- Short Break (10 min)
- Lecture – Slides from chapter material or anything I want to talk about (40 min)
- In class assignments – typically numeric problems to work (30-45 min)

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Typical Exam Layout Multiple Choice – Chapter Material

1. Which of the following statements is true?
 - a. One of the benefits of incorporating your business is that you become entitled to receive unlimited liability.
 - b. Sole proprietorships are subject to more regulations than corporations.
 - c. Sole proprietorships do not have to pay corporate tax.
 - d. All of the statements above are correct.
 - e. None of the statements above is correct.
2. The primary goal of a publicly-owned firm interested in serving its stockholders should be to
 - a. Maximize expected total corporate profit.
 - b. Maximize expected EPS.
 - c. Minimize the chances of losses.
 - d. Maximize the stock price per share.
 - e. Maximize expected net income.

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Typical Exam Layout Financial Problems

- TotAssets2003 = \$2.00B, TotAssets2002 = \$1.95B
- Debt2003 = \$1.16B, Debt2002 = \$1.20B
- Sales2003 = \$3.00B, Sales2002 = \$2.75B
- NetIncome2003 = \$115MM, NI2002 = \$120MM

1. Calculate the following metrics for both years–
 - Debt Ratio =
 - ROA =
 - Profit Margin =
2. Is the balance sheet improving?
3. Why might the stock price decline?
4. What might be the story behind the lower NI for 2003?

Formulas Provided

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Basic Economics

- How scarce resources are used
- Lots of choices, limited time, money & energy
- Measuring *estimated* personal satisfaction – something called *utility*
- Measuring the utility of what you will pass up – something called *opportunity cost*

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Decision Theory

- Utility, or your measure of estimated personal satisfaction from a choice, is:
 - A **forecast** and is by nature uncertain (risky)
 - A calculation you make based on *current limited information* and your personal experience
 - Inherently involves an internal opportunity cost calculation
 - Is usually incorrect either returning less or more utility than anticipated

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Decision Theory (cont.)

- Opportunity Cost is the estimated utility of what you pass up by making a choice:
 - "I wish we would have gone out to the movies instead of this place."
 - "I should have gone back to school instead of joining my uncle's construction company."
 - "My mother was right, I should have married Mark."
 - "I passed up playing soccer to go to this dumb work party."

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Decision Theory (cont.)

- Delaying utility (saving/investing) is a result of your belief that "pay now, play later" works
 - Statistics seem to bear this out
 - Empirical evidence seems to bear this out
 - This is known as *investing/saving* when you forgo current satisfaction for the hope of greater future satisfaction
 - "He who gathers money little by little makes it grow"

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Decision Theory (cont.)

- Avoiding potential negative utility (via insurance) is also a result of your belief that "pay now, play later" works
 - Avoiding risk is key to future utility being available
 - Empirical evidence seems to bear this out as well
 - This is known as *insuring* when you forgo current satisfaction for the hope of avoiding utility-stealing future catastrophe
 - "Don't put all your eggs in one basket"

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Finance

- Organizations are people too
 - They have limited resources and nearly unlimited choices
 - Utility = increased stakeholder benefit or other measures of success
 - Opportunity cost is still the estimated value (usually financial) of what is passed up with a decision
 - Organizations delay current utility (return to stakeholders or dividends) when they invest in assets that should bear greater future utility

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Finance (cont.)

- How do financial organizations (businesses) make decisions?
- How can we see how a business is performing at making financial decisions?
- Are there skills and tools to help us in assisting a business (or person) in making better financial decisions?
- Why should I become good at this, is there opportunity for me?

Class Website: www.WMU-FIN320.com

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