Lecture 1

This opening lecture existed of a first taste of the main course topics, a course outline and of an overview of chapter one and two which give an introduction to Corporate Finance.

Appetizer Corporate Finance

During this course students will get an insight in the rational behind how manager loans, which depend on share expectations, are determined. Also bond rates will be an important topic, because the interest rates of these bonds will be the costs for the operation. The management of every operation faces difficult decisions that have to do with determining such entities. As a manager you have to make a wise depiction. During this course you will learn how to make a good decision and what are the rationals behind these decisions.

The following five Corporate Finance topics will be the core of the course:

- Corporations and Agency Conflicts
  Key question: why do corporations pay their managers (large) bonuses?

- Security pricing: stocks
  Key question: how is a share price determined?

- Security pricing: Bonds and Yields
  Key question: how is a bond price (and its yield) determined?

- Capital Budgeting
  Key question: how do managers make wise investment decisions?

- Cost of capital
  Key question: how do managers determine their firm's capital costs?

Course Outline

In the second part of the lecture the lecturer outlined what to expect during the coming weeks of this course. Specialties for this course were that there are no lectures during week 6, homework should be made for the tutorial and is outlined in the course schedule, the practical involves a quiz for what should be studied. You should attend at least 5 out of the 6 tutorials and practicals, otherwise the average grade of your quizzes will not count for your final grade.

Furthermore students will have to make a group assignment during which they will have to make manager decisions. During the tutorial in week five some groups will be invited to present their model to the rest of their group.

Lastly, the second edition of the book International Economics and Business is also usable but not ideal because of small changes and different page numbers.

Introduction to Capital Finance, chapter 1 & 2

Capital Finance is similar to Financial Accounting, both courses are about making decisions that entail financial consequences.

The cooperation

- The cooperation's aim is to maximize the earnings for the shareholders. This distinguishes a cooperation from small companies, the aim of a small company is to maximize the wealth of the owner of the company.
- Limited Liability: shareholders have only a liability for the money they invest in the company, the share price. This means they will not risk their possessions when the company goes bankrupt. This limited liability is important, because otherwise companies would not be able to sell their shares.
- Ownership and management are separated. An advantage of this separation is that management is more experienced. However, it might also lead to conflicting interests of the owners and the management, owners want to maximize their revenues while management might be more interested in a new flashy office building. Such conflicts are called agency problems.

Financial markets

- Primary markets: the company issues the shares an thus offers them for sale.
- Secondary markets: here investors trade the shares among each other, the exchange rates in the secondary market are the ones about which you hear in the news.

Loop

In financial markets exists a law of one price (loop) for securities with identical cash flows. This means that all over the world stock prices for the same stock will be identical. If their exists an price difference between tow countries with a different currency, the law of one price does not hold and hence, and arbitrage opportunity exists. However, specialists are constantly looking for such price difference and will profit from buying and immediately selling the security. Therefore the price differences will be immediately corrected and are invisible for the ordinary consumer. Because of this immediate correction of the difference in price the law of one price holds.