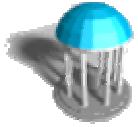


The UNIVERSITY of NORTH CAROLINA
at CHAPEL HILL

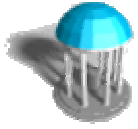
Corporate Finance

(a tentative outline)



three business questions

- (1) What long-term investment strategy should a company take on? (capital budgeting decision)
- (2) How can cash be raised for the required investments? (financing decision)
- (3) How much short-term cash flow does a company need to pay its bills? (operating decision)



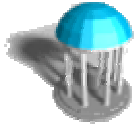
cash flows

firm ---> financial market (shareholders and bondholders): **dividends, debt payments**

firm ---> government: **tax**

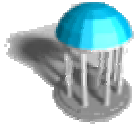
firm ---> itself: **operating costs, salaries, benefits, reinvestments, ...**

market ---> firm: **payments for stocks and bonds**



uncertainty and risk

- timing (long-term, short-term)
 - increments (+ or -, amount)
 - unexpected factors
- need for **statistics** and **probability!**
- data extracted from accounting statements

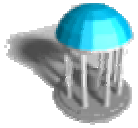


debt (bonds) vs equity (stocks)

1st, pay bondholders;

then (residual), pay stockholders' claims

--- possible **liquidation** of a firm's assets
(broke? ... file Chapter **11**, or Chapter **7**)

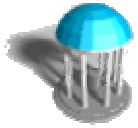


three steps

- sole proprietorship
 - partnership
 - corporation
-

Sole proprietorship

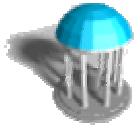
- license required
- pay personal income tax only
- personal assets = business assets



three steps (continued)

Partnership

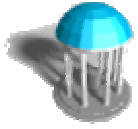
- general partners vs limited partners
(liability, management)
- hard to raise a large amount of cash
- pay personal income tax only
- hard to transfer ownership



three steps (continued)

Corporation

- articles and bylaws required
- different interests of
 - shareholders (owners);
 - directors (legislators);
 - top managers (CEO, COO, CFO, ...)
- transfer ownership through shares
- limited liability of shareholders



three steps (continued)

- unlimited life
- easy to raise cash
- double taxation: corporate income tax + personal income tax (shareholders pay on dividends)