

Assume that you recently graduated and have just reported to work as an investment advisor at the brokerage firm of Balik and Kiefer Inc. One of the firm's clients is Michelle DellaTorre, a professional tennis player who has just come to the United States from Chile. DellaTorre is a highly ranked tennis player who would like to start a company to produce and market apparel she designs. She also expects to invest substantial amounts of money through Balik and Kiefer. DellaTorre is very bright, and she would like to understand in general terms what will happen to her money. Your boss has developed the following set of questions you must answer to explain the U.S. financial system to DellaTorre.

- a. Why is corporate finance important to all managers?
- b. Describe the organizational forms a company might have as it evolves from a start-up to a major corporation. List the advantages and disadvantages of each form.
- c. How do corporations go public and continue to grow? What are agency problems? What is corporate governance?
- d. What should be the primary objective of managers?
 - (1) Do firms have any responsibilities to society at large?
 - (2) Is stock price maximization good or bad for society?
 - (3) Should firms behave ethically?
- e. What three aspects of cash flows affect the value of any investment?
- f. What are free cash flows?
- g. What is the weighted average cost of capital?
- h. How do free cash flows and the weighted average cost of capital interact to determine a firm's value?
- i. Who are the providers (savers) and users (borrowers) of capital? How is capital transferred between savers and borrowers?
- j. What do we call the cost that a borrower must pay to use debt capital? What two components make up the cost of using equity capital? What are the four most fundamental factors that affect the cost of money, or the general level of interest rates, in the economy?
- k. What are some economic conditions that affect the cost of money?