Chapter 13

Managing Financial Resources

Chapter Objectives

1. The Functions of Money
2. Financial Institutions
3. The Federal Reserve System
4. Role of the Financial Manager
5. Understanding Securities Markets
6. Financing the Going Concern
7. Careers in Finance

Functions Of Money

Bartering v. Money

Bartering
- Trade Stuff For Stuff
- Difficult To Determine Value
- Stuff Cannot Always Be Saved

Money
- Divisible
- Portable
- Durable
- Hard to Counterfeit
- Easy To State Price
- Stores Value

Money Supply

U.S. Money Supply

M1 is sometimes called transactions money because you can see it to buy things. It is also referred to as called cash money, which is often easy to convert to funds that you can use to make purchases.
“Plastic Money”

1) Not Spending Money
2) Buy-Now-Pay-Later = Loan
3) Money = Bill Paid

Depository Institutions

- Commercial Banks - most common
- Savings (Thrifts) Banks
- Credit Unions - group

Nondepository Institutions

- Finance Companies - don’t accept deposits
- Insurance Companies - sell protection
- Brokerage Firms

Where Our Money Is Deposited

Services Offered By Banks

- Checking/Savings Accounts
- ATMs
- Credit/Debit Cards
- Loans
- Financial Advice
- Sells Financial Products
- Insurance
- Electronic Banking

Bank Regulation

- Federal Depository Insurance Corporation
  - 1933
  - Insures Deposits ($100,000)
  - Periodic Examinations
- Office of Thrift Supervision
- National Credit Union Administration
The Effect of the Money Multiplier

Money Multiplier = 1/Reserve Requirement

The Fed and Monetary Policy

Goals
- Price Stability
- Sustainable Economic Growth
- Full Employment

Tools
- Reserve Requirements
- Discount Rate
- Open Market Operations

Key Interest Rates

Banker’s Bank & Government’s Banker

- Clears Checks
- Holds U.S. Treasury’s Checking Account
- Processes Paperwork in Buy/Sell Government Securities
- Collecting Federal Tax Payments
- Lends to Government using T-Bonds

Finance

"...all of the activities involved in planning for, obtaining, and managing a company’s funds."

Financial Manager

"...financial manager determines how much money the company needs, how and where it will get the necessary funds, and how and when it will repay the money..."
Developing A Financial Plan

- Calculate Funds Needed
- Estimating Sales
- Project Costs
- Getting The Money
  - Owner’s Personal Assets
  - Loans- Family/Friends
  - Bank Loans
- Making The Financing Decision

Where Small Businesses Get Funding

- Credit cards
- Commercial bank loan
- Leasing
- Vendor credit
- Asst Ksec
- Small Business Loan Program
- Personal/home equity loan
- Personal loans
- SBA (Small Business Administration)
- Venture capital
- Private placement

Loan Characteristics

1) Maturity
   - Short-Term, Intermediate, Long-Term
   - Line of Credit
   - Amortization
2) Security
   - Collateral
   - Unsecured
3) Interest

Growth Stage Financing

- Managing
  - Cash Flow
  - Accounts Receivable
  - Accounts Payable- Trade Credit
- Budgeting - financial plan
  - Cash
  - Capital

Investors

- Angels and Venture Capitalists
- Steps in Going Public
  - Initial Public Offering
  - Investment Banking Firm

Securities Markets

- Markets
  - Primary
  - Secondary
- Organized Exchanges
  - New York Stock Exchange
  - American Stock Exchange
  - Over-The-Counter
Securities & Exchange Commission

1934
Prospectus
Insider Trading

Prospectus

Measuring Market Performance

- Market Indexes
  - Dow Jones Industrial Average
  - NASDAQ Composite
  - S & P 500
- Reading A Stock Listing
- Bull vs. Bear Market

DJIA for 10-Year Period

NASDAQ for 10-Year Period

Stock Listing for Hershey Foods

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Interpreting A Stock Quotation

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<td>52-Week HI</td>
<td>Highest price in last year</td>
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<td>52-Week LO</td>
<td>Lowest price in last year</td>
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<td>Stock (symbol)</td>
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<td>DIV</td>
<td>Annual dividend per share</td>
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<td>Investors pay on SI earnings</td>
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<td>VOL</td>
<td>Volume of shares traded</td>
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<td>Close</td>
<td>Price at close of business day</td>
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**Options for Financing**

The Going Concern

- Equity Financing
- Debt Financing

**Stockholders’ Equity**

- Risk/Reward Tradeoff - Dividends
- Types of Stock
  - Common
  - Preferred
  - Cumulative
  - Convertible

**Bonds**

- "...debt securities that obligate the issuer to make interest payments to bondholders and to repay the principal when the bond matures."

**Treasury Bills/Bonds & Municipals (munis)**

**Ten-Year Investment Returns**

- Graph: Return on investments (Large company stocks, Long-term corporate bonds, Treasury Bonds)

**Career Positions In Finance**

- Commercial Banking
- Corporate Finance
  - Analyze Industry Trends
  - Evaluate Corporate Investment
  - Conduct Financial Planning
  - Evaluate Acquisitions
  - Review Financial Needs

- Investment Industry
- Graduate Education & Certification
  - CFA
  - CFP
  - CCM
  - CFM