Financial Management Practices Assessment

Name of Student

Course Code

Instructor’s Name

Institutional Affiliation

Financial Management Practices Assessment

a. Why is corporate finance important to all managers?

Corporate finance is important to you, Sofia, as it assists in decision-making on funding, investments, and financial risk management of your apparel business (Brigham & Ehrhardt, 2023). It helps in ensuring that resources are utilized effectively to make your company more valuable and profitable.

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.

As you commence your apparel business, Sofia, you can start as a sole proprietorship or a partnership. As your business expands, you might graduate to an LLC to protect your liability or a corporation with easy access to capital (Brigham & Ehrhardt, 2023). Every structure has advantages, as well as disadvantages.

c. How do corporations go public and continue to grow? What are agency problems? What is corporate governance?

Your business can issue its shares in an Initial Public Offering (IPO) to raise capital to go public. Nonetheless, agency issues can occur when you have a different interest from the shareholders as the founder (Brigham & Ehrhardt, 2023). Corporate governance builds transparency and concurrence between your objectives and those of investors.

d. What should be the primary objective of managers?

As a business owner, you, Sofia, must aim to maximize your shareholders' wealth by adding value to your company. It includes profitable investments, cost management, and sustainable growth orientation to maintain success in the long term (Brigham & Ehrhardt, 2023).

1. **Do firms have any responsibilities to society at large?**

Yes, such companies as yours, Sofia, owe a duty to society. They involve ethical businesses, sustainability, and community contributions (Brigham & Ehrhardt, 2023). Being a responsible business means establishing a favorable image and guaranteeing that all stakeholders will benefit in the long term.

2. **Is stock price maximization good or bad for society?**

   By maximizing stock prices, a society gains by stimulating investment and job creation. However, it can be detrimental to society when it results in indifference to staff members or environmental issues (Brigham & Ehrhardt, 2023). Sustainable business requires a balance between the interests of stockholders and social responsibility.

3. **Should firms behave ethically?**

   Yes, Sofia, a code of ethics is valuable to your business. It gains credibility among your customers, employees, and investors (Rossi et al., 2021). Your apparel company can achieve long-term and sustainable growth with the help of ethical decisions that would make all stakeholders loyal to your company.

e. What three aspects of cash flows affect the value of any investment?

Timing, amount, and risk are the three critical features of cash flows, Sofia, that influence investment value (Brigham & Ehrhardt, 2023). Earlier, greater, and less risky cash flows make an investment such as your business more valuable.

f. What are free cash flows?

Free cash flow is the amount of money remaining when your business pays you back in terms of operational and capital expenses. You are allowed to reinvest it in your apparel company or send it to you as an investor (Majka, n.d.). To grow your business or reward investors, you need free cash flow.

g. What is the weighted average cost of capital?

The weighted average cost of capital (WACC) is the average rate that your company incurs to finance its assets (Brigham & Ehrhardt, 2023). It consists of debt and equity. WACC allows you to determine whether your business projects are getting returns more than your financing costs.

h. How do free cash flows and the weighted average cost of capital interact to determine a firm's value?

Free cash flow and WACC correlate to establish the value of your business, Sofia. Low WACC adds value to your business, and high free cash flows indicate a healthier business, making it more attractive to investors (Majka, 2024)

i. Who are the providers (savers) and users (borrowers) of capital? How is capital transferred between savers and borrowers?

Capital is given by savers, e.g., banks, investors, and utilized by the borrowers, such as your company, to expand. Financial markets allow capital to flow through them so that by issuing stocks or bonds, you can raise capital to help your business grow (Brigham & Ehrhardt, 2023).

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?

The rate of interest charged upon the debt obtained is called the cost of debt. The cost of equity incorporates the expected dividend yield and capital gains by investors (Brigham & Ehrhardt, 2023). Interest rates and capital costs in your business are affected by inflation, economic growth, risk, and government policy.

k. What are some economic conditions that affect the cost of money?

Inflation, interest rates, and economic growth are economic factors that impact the cost of money for your business (Mazikana, 2023). The cost of borrowing tends to increase due to high inflation and low economic growth, leading to higher funding costs for your apparel project.

l. What are financial securities? Describe some financial instruments.

The trading assets are financial securities such as stocks and bonds. Stocks are ownership of a company, and bonds are debts (Brigham & Ehrhardt, 2023). The tools will enable your business to raise capital and allow investors to generate returns on their investment.

m. List some financial institutions.

The banks, insurance firms, pension funds, and investment firms are financial institutions. Such organizations can assist your business to raise capital, offer loans, and investment services to grow your apparel firm (Brigham & Ehrhardt, 2020).

n. What are some different types of markets?

Various markets are the capital market (long-term investments), the money market (short-term borrowing), and the commodity market (immovable assets such as oil or gold) (Busu, 2022). Such markets assist companies in your sector to raise funds and handle risk.

o. Along what two dimensions can we classify trading procedures?

The trading processes may be divided into the execution mode (market orders or limit orders) and trading venue (exchange-traded or over-the-counter) (Brigham & Ehrhardt, 2023). The dimensions influence the speed of processing your transactions and the degree of market clarity.

p. What are the differences between market orders and limit orders?

A market order is completed as quickly as the prevailing market price. A limit order provides your sale with the understanding that it can be executed only when the price attains a specific level (Brigham & Ehrhardt, 2023). Investments in your business, market orders focus on fast reactions, whereas limit orders provide better price control.

q. Explain the differences among broker-dealer networks, alternative trading systems, and registered stock exchanges.

Broker-dealer networks facilitate private trading between brokers and dealers. Alternative trading systems (ATS) refer to private securities trading platforms, whereas regulated stock exchanges (e.g., the NYSE) are public, transparent securities trading markets (Brigham & Ehrhardt, 2023).

r. Briefly explain mortgage securitization and how it contributed to the global economic crisis.

Mortgage securitization is the process of assembling the mortgage securities that are sold to investors (Brigham & Ehrhardt, 2023). Most of the mortgages defaulted, leading to the 2008 financial crisis and emphasizing the dangers of poor regulation in the financial market.

Reference

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