

Week 2 - Summary

Post a 50-200 word response summarizing the topics discussed during the week by clicking on Reply

Response #1 Week two was a challenging week for me. There was a great deal of information covered. We discussed why companies make investments in other companies. I also learned about debt and equity investments which was interesting to me. We also discussed derivative instruments used within a company. Week two was packed with information and I enjoyed learning from everyone and I am looking forward to week three.

Response #2 This week we studied the traditional and derivative instruments. A derivative financial instrument such as a call option would be a change in stock price (underlying) time's number of shares (notional amount), whereas a traditional financial instrument such as a trading security would be the stock price times the number of shares. Derivatives can be a good investment; however, they also can be risky. They can lead to unrealized gains and losses difficult to interpret. They can be quite complex as well. We also studied companies' motivations for investing in other companies. The most notable reason is to make money or to put in an accounting language: to secure future earnings. There are other reasons, such as to create partnerships, reduce competition, to expand operations, or to increase market share but the main reason is to make money. Companies also invest in another to gain specific assets. For example, if company A has rights to specific technologies, I will probably want to create partnership with such a company for the sake of having access to those rights. Week 2 was full of interesting topics and so I am looking forward to Week 3.

Response #3 In week two, there was a lot to handle. Between individual assignments and team assignments, I was not sure which way was up there for a while. Low and behold, I made it through and learned a great deal from my teammates. Having the extra time to collaborate on the team assignment really helped me understand where I went wrong on certain parts of the problems.

In addition to the assignments, I learned a lot about derivatives and why companies invest in other companies. Derivatives are used to protect companies from variable situations such as interest fluctuations, another other changes such as foreign currency. Companies invest in other companies to gain a higher rate of return and all more control over financial decisions.

I am looking forward to week three and learning even more!

Response #4 This week, I learned that the payment provision for traditional instruments is stock price times the number of shares, investors pay full cost of initial investment, and deliver stock to receive cash for settlement. And that the payment provision for derivative instruments is change in stock price times number of shares, initial investment is much less than full cost, and receive cash equivalent based on changes in stock price times the number of shares.

I also learned that companies invest in other companies to earn a higher rate of return or to secure certain operating or financing arrangements with another company.

Another thing is the difference between debt and equity securities. Debt securities represent a creditor relationship with another entity. Equity securities represent ownership interest such as common, preferred, or other capital stock.