

Chapter 1

Introduction to Financial Management

- **Key sections:**
 - **What is financial management?**
 - **Legal forms of business**
 - **Principles of taxation**
 - **Shareholder wealth, not profit, maximization is goal**
 - **The ten principles of financial management**

What is Financial Management?

- **Tools and decision making processes to maintain/create economic value and shareholder wealth**
- **What investments to make and how to finance them**
- **Allocation of scarce resources based on uncertain costs/benefits**

Goal of the Firm

- **Maximize shareholder wealth**
 - Measured by market value of stock
 - Includes effect of all financial decisions
- **Shareholder wealth max \neq profit maximization**
 - PM ignores risk/timing of cash flows
 - Increase current profits by cutting R&D and maintenance??? (Probably not good idea)
- **How should stock price be affected?**