FIN 360: PRINCIPLES OF FINANCIAL MANAGEMENT
INTRODUCTION TO CORPORATE FINANCE
CRITICAL THINKING & CONCEPTUAL QUESTIONS

1. Provide an example of a capital budgeting, capital structure, and working capital decision. What differentiates these types of decisions from one another?
2. Which of the three types of financial decisions tends to be shorter-term? Why is short-term decision making important for a firm?
3. What is the VP of Finance or the CFO of the firm ultimately responsible for?
4. What are the three main responsibilities of the controller?
5. What are the three main responsibilities of the treasurer?
6. Would the treasurer or controller be more likely to handle the preparation of the audited financial statements?
7. What is the role of the Board of Directors at the firm? Whose interests do they represent? How do they earn their spot on the Board?
8. Describe the differences between limited and unlimited liability.
9. Why is limited liability important? Why are limited liability structures "permitted" in the US? What benefit does it offer society?
10. List the features of the sole proprietorship. What features are attractive? What features may be problematic?
11. What type of partner in a partnership is allowed to participate in the day-to-day operation of the firm? What risks does this type of partner take on?
12. Describe the features of a corporation. Which features are attractive? Which features may be problematic?
13. Define "double taxation" as it pertains to types of business organization.
14. What's the difference between C-Corps and S-Corps?
15. Explain how transferring ownership is generally easier for owners of a C-Corp than for owners of a partnership, sole proprietorship, LLC, or S-Corp.
16. Two things finance the purchase of assets: debt and equity. What two things do debtholders expect to receive for financing a firm's assets? What do equity holders expect to receive for financing a firm's assets? (Equity holders may expect one *or* two things in return.)
17. What is the only source of equity that a sole proprietor can "raise" if they want to finance an asset purchase *without* borrowing?
18. Corporations can borrow through a bank or by issuing what financial instrument to investors?
19. If you wanted to start a small business, what form of business organization would most likely be the best one to choose? Why? How would you go about creating this business? What organization(s) are responsible for granting and approving your business structure?

20. *Maximizing sales*, *maximizing profits*, and *surviving* might often be mistaken as the ultimate goal of financial management at a corporation. Why are each of these goals insufficient? What *is* the ultimate goal of financial management at a corporation?
21. Who are stakeholders, and how might they each be negatively affected by the ultimate goal of financial management? Are they *always* negatively affected by firms pursuing that goal?
22. What causes agency problems? Name and describe two ways in which firms might overcome or mitigate the agency problem.
23. Which of the three main types of firm (sole proprietorship, partnership, corporation) is most likely to experience agency problems? Why?
24. Describe the difference between primary markets and secondary markets. Why are each important? In which of these markets does the firm experience a cash flow?
25. What is the major difference between the NYSE and NASDAQ? Which of the two markets are they both in?
26. List and define four reasons why managers care about their stock price.
27. Describe how a declining market cap can increase the firm's chance of being taken over.