

# Michelle dellatorre financial case

Business



Week 1: Introduction to Corporate Finance 1. 4. Assignment 1a Due date: January 30, 2011 Instruction: Please submit your assignment as an attachment to my Blackboard E- mail by midnight on the due date Assume that you recently graduated with a degree in finance and have just reported to work as an investment advisor at the brokerage firm of Balik and Kiefer Inc. One of the firm's clients is Michelle Dellatorre, a professional tennis player who has just come to the United States from Chile.

Dellatorre is a highly ranked tennis player who would like to start a company to produce and market apparel that she designs.

She also expects to invest substantial amounts of money through Balik and Kiefer. Dellatorre is also very bright, and, therefore, she would like to understand, in general terms, what will happen to her money. Your boss has developed the following set of questions which you must ask and answer to explain the U. S. financial system to Dellatorre. a.

Why is corporate finance important to all managers?

Answer: Corporate finance is important to all managers because it helps them gauge the future of the company and subsequently strategize and decide the path that they believe is best for the company to take, in order to maximize profit and increase the overall value of the corporation. By knowing the financial situation, managers can determine whether the company is financially healthy and thus determine how best to proceed. 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.

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Answer: There are three main organizational forms and their advantages and disadvantages are listed below: Sole proprietorship – These are ‘one-man’ operations opened by one person.

They are easy to create, have little regulations, and no corporate income tax. However, the life of the operation is limited to the life of the creator, there is unlimited liability on the creator and it is difficult to raise capital. Partnership – These involve bringing in more than one person to put in their equity and time into the operation. The advantages and disadvantages are the same as a sole proprietorship.

Corporation – A corporation is a legal entity formed by the state/ province and is separate from its owners and managers, thus making it a separate entity. They have an unlimited lifespan, provide easy transfer of ownership as well as raising capital, and have limited liability.

However, there is double taxation as there is the corporate income tax added on, and have extensive set up costs and report filing requirements. How do corporations “go public” and continue to grow? What are agency problems? Answer: Corporations “go public” by selling their stocks on the public market in an IPO.

As they continue to grow, they issues further stocks as well. Agency problems happen when corporate management act on their self interests instead of acting on corporate and shareholder interests. d.

What should be the primary objective of managers? Answer: The primary objective of managers in a corporation should be to maximize the earnings

and wealth of the corporation and, in turn, the shareholders. e. Do firms have any responsibilities to society at large? Answer: Firms have numerous responsibilities to society as a whole, and being ethical is definitely the most important.

Not only should they operate fairly in the sense that they should not cheat, but they should also treat their employees fairly. But due to relaxed rules and regulations, most corporations go about business by looking at the bottom line and ethics and morality usually take a back seat.

Is stock price maximization good or bad for society? Answer: Theoretically stock price maximization is good for society because it requires efficiency, high quality and low cost. This requirement forces companies to always strive for better operations and thus creates new technology, new jobs, etc. which helps society grow and improve!

Should firms behave ethically? Answer: Yes, firms should definitely behave ethically because although there is always that debate that making money/profit and ethics cannot coincide, there are a lot of issues and problems that can arise if a firm behaves unethically including lawsuits, government investigations, and even bankruptcy! Firms don't behave ethically though because everyone else around them is also cutting corners so they believe that they can also cheat here and there and make some more money. For a little short term gain, they are tarnishing their long-term reputation and future!