

Exploring Business V2.1  
By Karen Collins

FLAT WORLD  
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## Chapter 13

# Managing Financial Resources



# Chapter Objectives

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- Identify the functions of money and describe the government's measure of money supply.
- Identify different types of financial institutions and explain their services and role in expanding the money supply
- Identify the goals of the Federal Reserve System (FED) and explain its policies
- Explain how a new business gets start-up cash and the ways existing companies finance operations and growth
- Show how the securities market operates and is regulated
- Understand market performance measures and equity/debt financing

# Functions Of Money

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## Bartering

## Money

**Medium Of Exchange**

**Trade Stuff For Stuff**

**Easily Acceptable  
Divisible  
Portable  
Durable**

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**Measure Of Value**

**Difficult To Determine Value**

**Easy To State Price**

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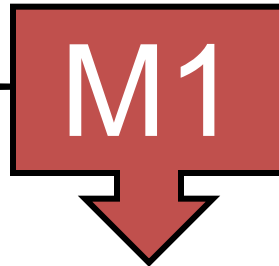
**Store Of Value**

**Stuff Cannot Always Be Saved**

**Keeps Value**

# Money Supply

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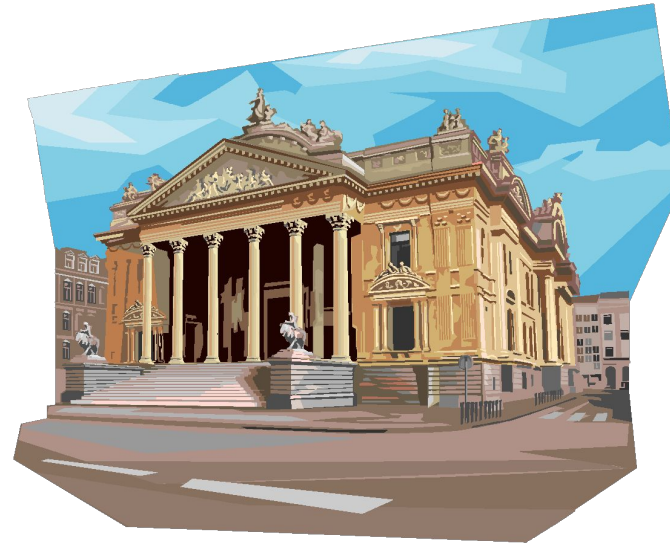
[Federal Reserve Board Website](#)

[Census Population Clock](#)

# Depository Institutions

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- Commercial Banks
- Savings Banks
- Credit Unions





# Nondepository Institutions

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- Finance Companies
- Insurance Companies
- Brokerage Firms



# Financial Services

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- Checking/Savings Accounts
- ATMs
- Credit/Debit Cards
- Loans
- Financial Advice
- Sells Financial Products
- Insurance
- Electronic Banking

Date	Amount
10/20	\$ 738.97
10/21	526.82
10/22	590.53
10/23	524.21
10/26	362.24
10/27	308.42



# Define the Institution

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Description of Institution	Type of Institution
1. Non-deposit institution that collects firm premiums from policyholders for protection against losses and invests these funds	Insurance company
2. Provides services to only its members (who are associated with a particular organization)	Credit union
3. Originally set up to provide mortgages and encourage savings, which now offer services similar to those of commercial banks	Savings
4. Non-deposit financial institution that makes bank loans from funds acquired by selling securities or borrowing from commercial banks	Finance company
5. Generates profits by loaning funds and providing customers with services, such as check processing	Commercial bank
6. Non-deposit financial institution that buys and sells stocks, bonds, and other investments for clients	Brokerage

# Bank Regulation

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- Federal Depository Insurance Corporation
  - 1933
  - Insures Deposits
  - Periodic Examinations
- Office of Thrift Supervision
- National Credit Union Administration



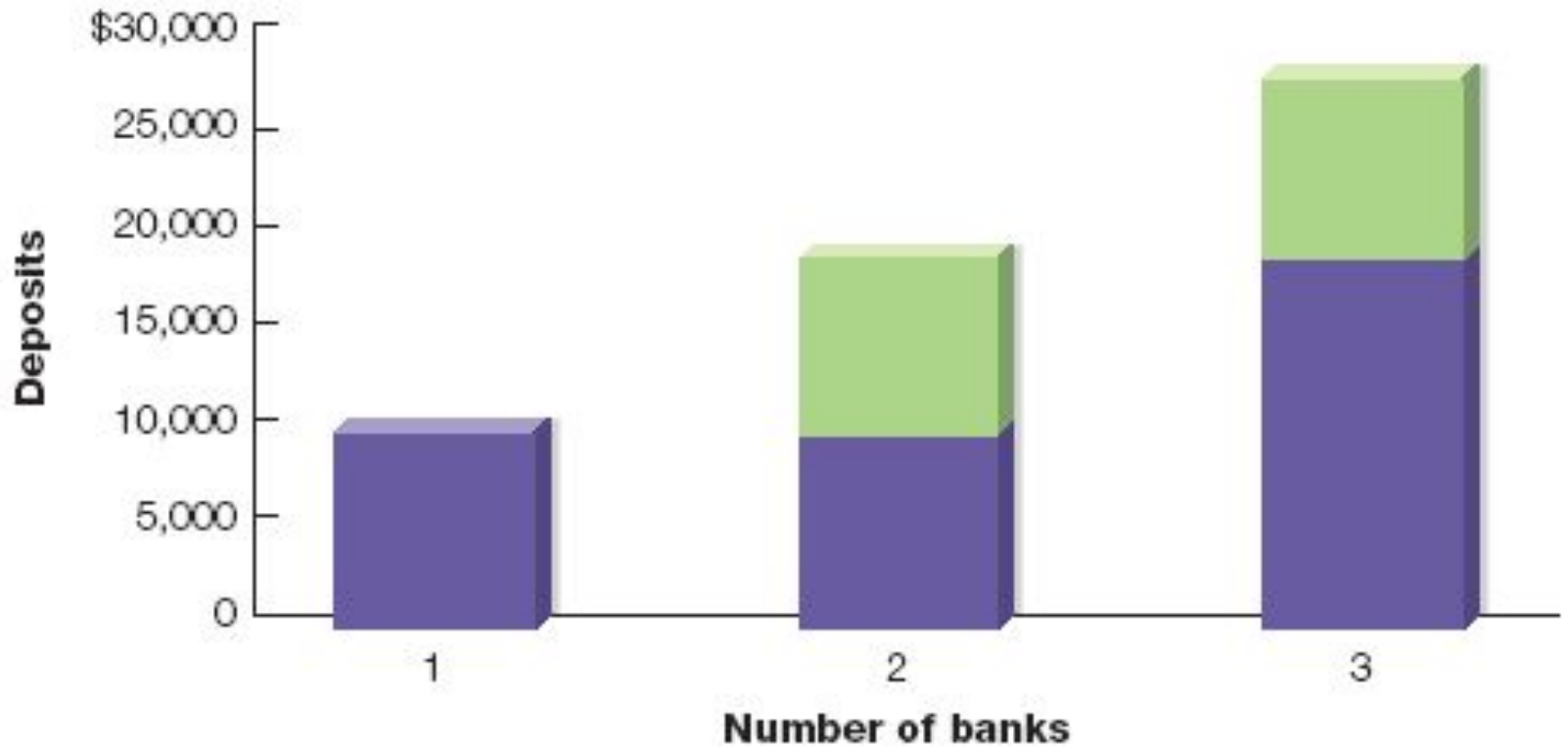
# Crisis in the Financial Industry

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- Risky (sub-prime) loans made for homes between 2001 and 2005
- Easy credit drove home prices up
- Housing bubble burst: prices dropped and foreclosures rose
- Bank profits plummeted
- Stock prices fell, people stopped spending, country went into a recession
- Congress passed Dodd-Frank bill to reduce likelihood of this happening again

# Money Multiplier

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# Fluctuating Reserve Rates

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You just won \$10 million in the lottery and used the money to start a bank. On the day you open your doors, the reserve requirement set by the Fed is 10 percent. What's the maximum amount of money you can loan out? What if the reserve requirement is raised to 12%? Then how much could you loan out? In changing the reserve requirement, what is the Fed trying to do?

# Federal Reserve System

- Central Banking (1913)
- 12 Districts/Banks
- Board of Governors



<https://www.stlouisfed.org/in-plain-english/history-and-purpose-of-the-fed>



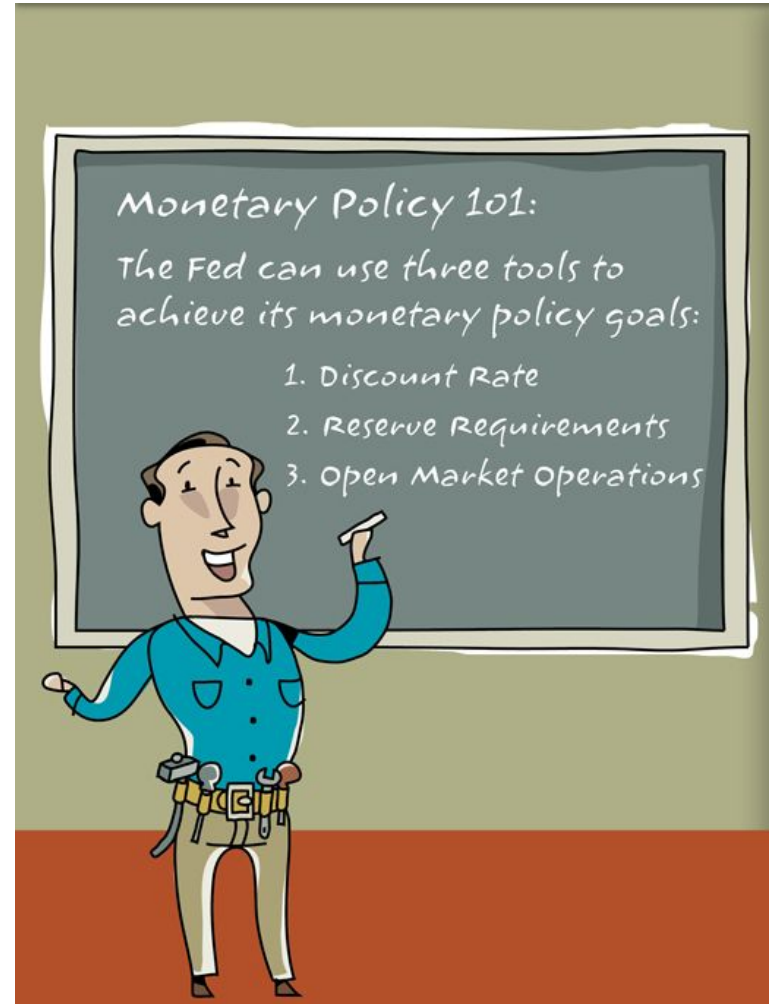
# Tools Of The Fed

- Price Stability
- Sustainable Economic Growth
- Full Employment

## Goals

- Reserve Requirements
- Discount Rate
- Open Market Operations

## Tools



# Open Market Operations

<https://www.stlouisfed.org/in-plain-english/a-closer-look-at-open-market-operations>



## Expansionary Monetary Policy

<b>Step: 1</b>	When the Fed buys government securities through securities dealers in the bond market, it deposits the payment into the bank accounts of the banks, businesses, and individuals who sold the securities.
<b>Step: 2</b>	Those deposits become part of the funds commercial banks hold at the Federal Reserve and thus part of the funds commercial banks have available to lend.
<b>Step: 3</b>	Because banks want to lend money, to attract borrowers they decrease interest rates, including the rate banks charge each other for overnight loans (the federal funds rate).

## Contractionary Monetary Policy

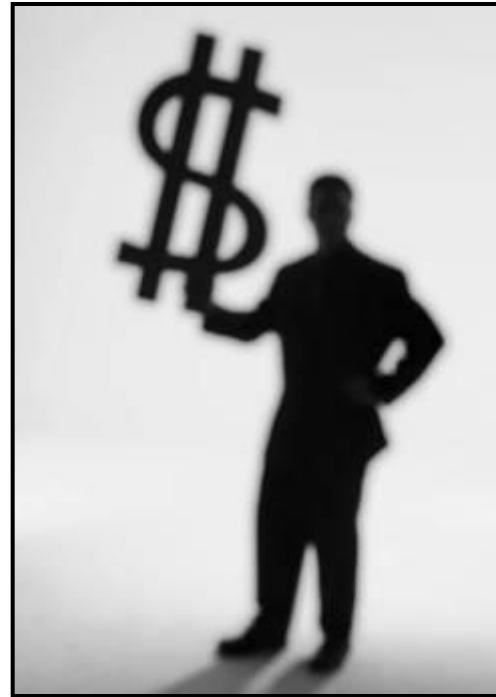
<b>Step: 1</b>	When the Fed sells government securities, buyers pay from their bank accounts, which decreases the amount of funds held in their bank accounts.
<b>Step: 2</b>	Banks then have less money available to lend.
<b>Step: 3</b>	When banks have less money to lend, the price of lending that money—the interest rate—goes up, and that includes the federal funds rate.



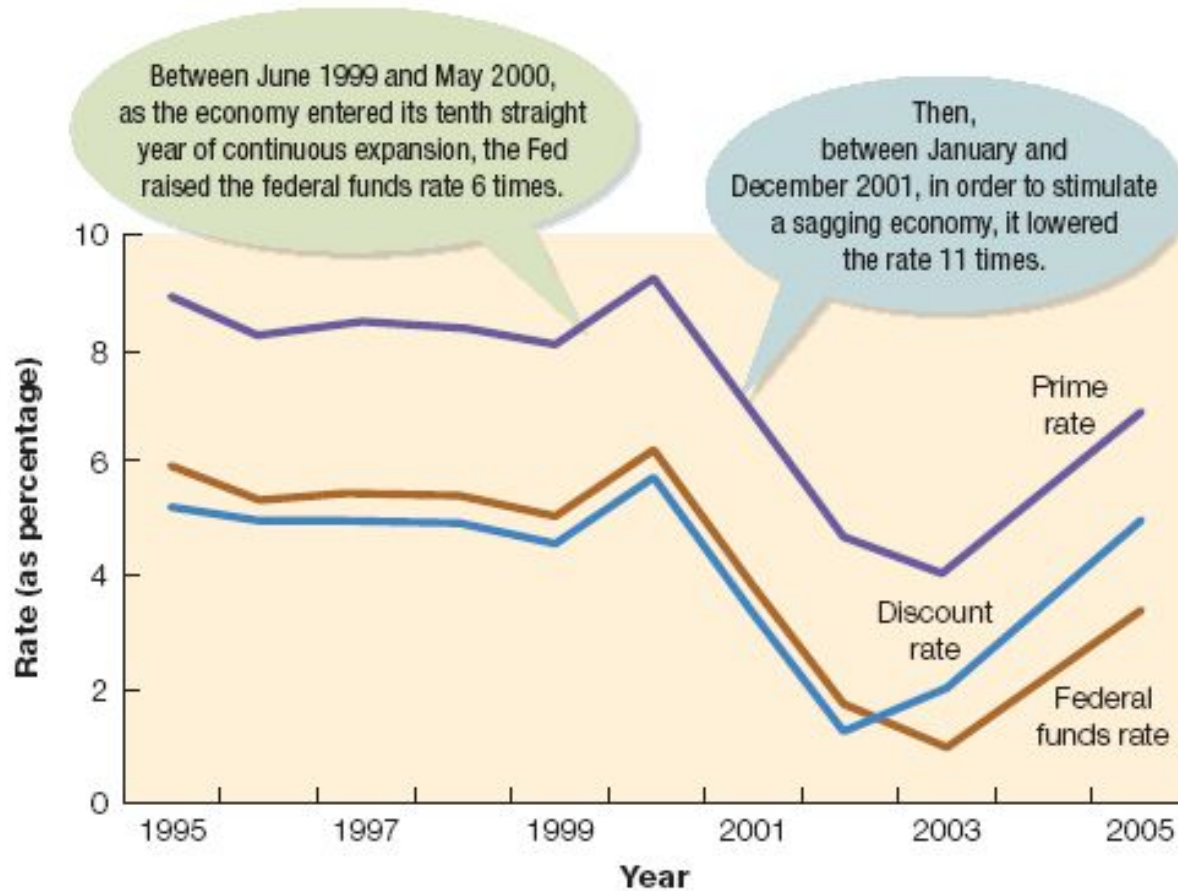
# Federal Funds Rate

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- Federal Funds  
(Discount Rate)
- Prime Rate



# Interest Rates



# Banker's Bank & Government's Banker

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- Check Clearing
- U.S. Treasury's Checking Account
- Paperwork in Government Securities
- Collect Federal Tax Payments
- Lender to Government



# Financial Manager

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“...finance is all of the activities involved in planning for, obtaining, and managing a company’s funds.”

“...financial manager determines how much money the company needs, how and where it will get the necessary funds, and how and when it will repay the money...”



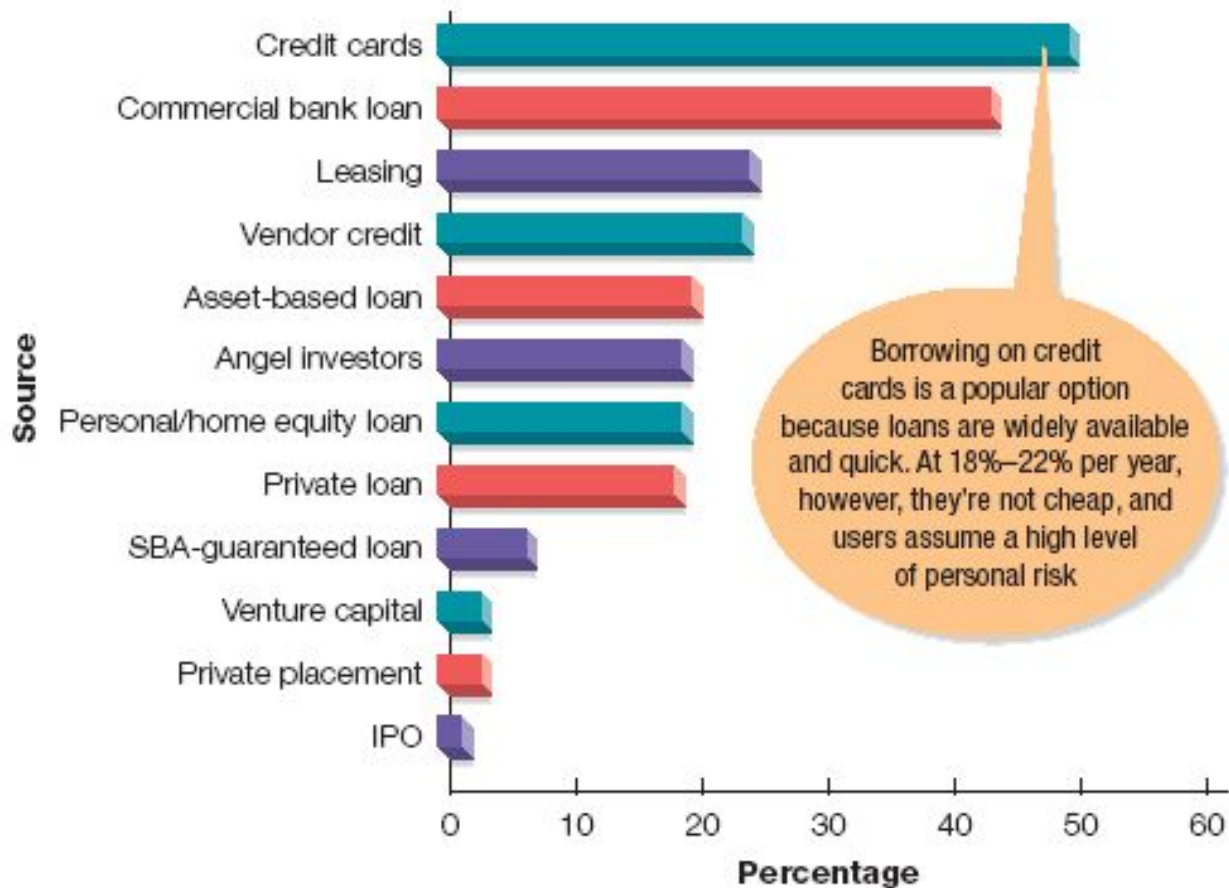
# Developing A Financial Plan

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- Estimating Sales
- Getting The Money
  - Personal Assets
  - Loans—Family/Friends
  - Bank Loans
- Making The Financing Decision



# Where Small Businesses Get Funding



# Loan Characteristics

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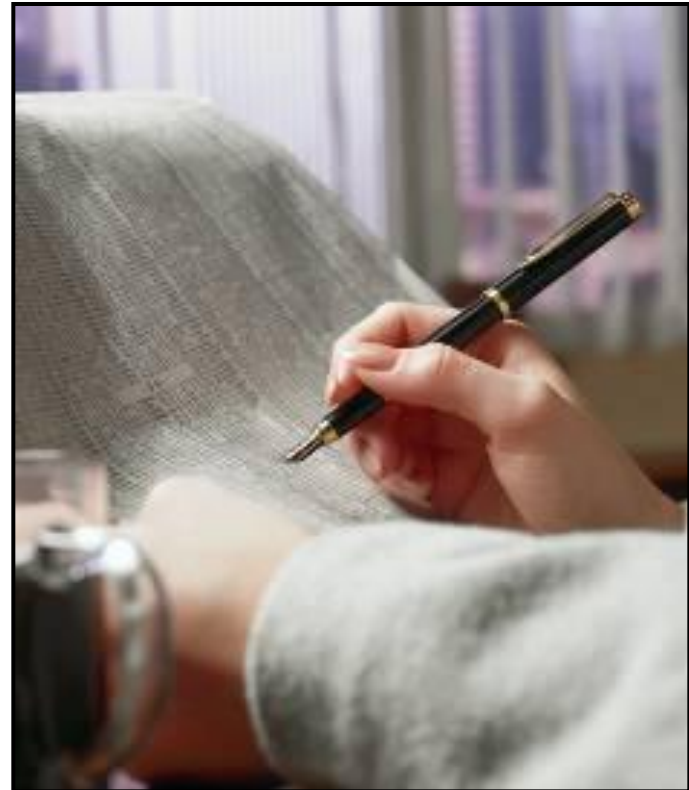
- Maturity
  - Short-Term
  - Intermediate
  - Long-Term
  - Line of Credit
  - Amortization
- Security
  - Collateral
  - Unsecured
- Interest



# Growth Stage Financing

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- Managing
  - Cash
  - Accounts Receivable
  - Accounts Payable—  
Trade Credit
- Budgeting



# Sources Of Financing During Growth Stage

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- Bank
- Additional Owners
- Private Investors



# Investors

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- Angels
- Venture Capitalists
- Going Public
  - Initial Public Offering
  - Investment Banking Firm





# Markets And Exchanges

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- Markets
  - Primary
  - Secondary
- Organized Exchanges
  - New York Stock Exchange
  - American Stock Exchange
  - Over-The-Counter (OTC)



# Regulating Securities Markets

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- Securities and Exchange Commission (1934)
  - Prospectus
  - Insider Trading
- Market Indexes
  - Dow Jones Industrial Average
  - NASDAQ Composite
  - S & P 500
- Reading a Stock Listing
- Bull vs. Bear Market



# The Dow



# NASDAQ Index



# Stock Listing For Hershey Foods

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1		2	3	4	5	6	7	8
52-Week: High:   Low:		STOCK (SYMBOL)	DIV:	YLD %:	PE:	Vol 100s:	CLOSE:	NET CHG:
65.23	48.20	Hershey Foods HSY	0.98	1.7	28	9429	57.00	0.09

# Interpreting A Stock Quotation

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<b><u>Term</u></b>	<b><u>Explanation</u></b>
<b>52-Week HI</b>	<b>Highest price in last year</b>
<b>52-Week LO</b>	<b>Lowest price in last year</b>
<b>Stock (Symbol)</b>	<b>Symbol of listing</b>
<b>DIV</b>	<b>Annual dividend per share</b>
<b>YLD %</b>	<b>D/E yield on closing price</b>
<b>PE</b>	<b>Investors pay on \$1 earnings</b>
<b>VOL</b>	<b>Volume of shares traded</b>
<b>Close</b>	<b>Price at close of business day</b>

# Learning to Quote Quotations

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Explain each item in the stock listing for Proctor & Gamble.

## Equity Financing

- Debt Financing





# Stockholders' Equity

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- Risk/Reward Tradeoff
- Dividends
- Types of Stock
  - Common
  - Preferred
    - Cumulative
    - Convertible



# Bonds

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“...debt securities that obligate the issuer to make interest payments to bondholders and to repay the principal when the bond matures.”

- Treasury Bills/Bonds
- Municipals (munis)



# Financing a Multimillion Dollar Plant Expansion

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You're the CFO for a large corporation. The CEO just showed you the plan for a multimillion-dollar plant expansion and reminded you that it's your job to raise the money. You have three choices: sell bonds, issue common stock, or issue preferred stock. Write a brief report that explains the advantages and disadvantages of each option. Conclude by stating your opinion on the best choice in today's economic environment.

# Investment Returns

