This course supports the assessments for Concepts and Problems in Finance. The course covers 14 competencies and represents 3 competency units.

**Introduction**

**Overview**
The content in this course of study will help you comprehend and appreciate the complexities of the financial system and the markets in which it operates. As you study money and banking, corporate finance, investments, and financial institutions like banks and the Federal Reserve, pay attention to current events. The study of finance is where Wall Street meets Main Street. Enjoy!

**Competencies**
This course provides guidance to help you demonstrate the following 14 competencies:

- **Competency 303.1.1: Role of Money and Monetary Policy**
The student understands the role of money and monetary policy in the economy.

- **Competency 303.1.2: Role of Risk**
The student understands the role of risk in the financial system and what influences are involved in determining interest rates.

- **Competency 303.2.1: Equity Markets**
The student understands how equity markets operate and the characteristics of equity securities as an investment.

- **Competency 303.2.2: Bond Markets**
The student understands how bond markets operate and the characteristics of bonds as an investment.

- **Competency 303.2.3: Derivatives Markets**
The student understands how derivatives markets operate and the characteristics of derivatives as an investment.

- **Competency 303.2.4: Mortgage Markets**
The student understands how mortgage markets operate.

- **Competency 303.2.5: Foreign Markets**
The student understands how foreign markets operate and the factors involved in currency valuation and investing.

- **Competency 303.3.1: Commercial Banks**
The student understands how commercial banks operate and their role in the financial system.

- **Competency 303.3.2: Depository Institutions**
The student understands how depository institutions operate and their role in the financial system.

- **Competency 303.3.3: Insurance Companies**
The student understands how insurance companies operate and their role in the financial system.

- **Competency 303.3.4: Capital Sources**
The student understands capital sources appropriate for entrepreneurs, small business,
and large business.

- **Competency 303.4.1: Capital Markets**
  The student understands the capital markets.

- **Competency 303.4.2: Risk Analysis and Return Analysis**
  The student understands risk analysis and return analysis.

- **Competency 303.4.3: Effective Financial Management**
  The student understands effective financial management.

**Course Mentor Assistance**
As you prepare to successfully demonstrate competency in this subject, remember that course mentors stand ready to help you reach your educational goals. As subject matter experts, mentors enjoy and take pride in helping students become reflective learners, problem solvers, and critical thinkers. Course mentors are excited to hear from you and eager to work with you.

Successful students report that working with a course mentor is the key to their success. Course mentors are able to share tips on approaches, tools, and skills that can help you apply the content you're studying. They also provide guidance in assessment preparation strategies and troubleshoot areas of deficiency. Even if things don't work out on your first try, course mentors act as a support system to guide you through the revision process. You should expect to work with course mentors for the duration of your coursework, so you are welcome to contact them as soon as you begin. Course mentors are fully committed to your success! You will complete the following assessments as you work through the course of study.

**Preparing for Success**

The information in this section is provided to detail the resources available for you to use as you complete this course.

**Learning Resources**

The learning resources listed in this section are required to complete the activities in this course. For many resources, WGU has provided automatic access through the course. However, you may need to manually enroll in or independently acquire other resources. Read the full instructions provided to ensure that you have access to all of your resources in a timely manner.

**Automatically Enrolled Learning Resources**

You can access the learning resources listed in this section by clicking on the links provided throughout the course. You may be prompted to log in to the WGU student portal to access the resources.

**VitalSource E-Texts**

The following textbooks are available to you as e-texts within this course. You will be directly linked to the specific readings required within the activities that follow.

You will use the following learning resources for this course.

**Bookmark the Following Textbook Websites**

- [Financial Institutions, Markets, and Money](#)

You will be directed to use these textbook websites throughout this course as a means of self-assessing your understanding of the material. These publisher-developed websites support the textbooks used in this course and offer various study aids, including quizzes, PowerPoint slides, sample questions, etc.

**Money, Central Banks, and Interest Rates**

This course starts with an introduction to money and the financial system. An overview of the Federal Reserve and its role in determining interest rates is also explored. This section will cover money and the payments system, including checks and electronic payments. The implications of new technologies for money are discussed, as well as the measurement of the money supply. The study of monetary policy helps you to understand the network of institutions and policies that are in place supporting financial transactions and how interest rates are determined.

**Role of Money and Monetary Policy**

This section will explore the "tools of monetary policy": open market operations, the discount rate, and reserve requirements. The tools differ concretely and significantly from each other, and they have changed in relative importance as the financial system has evolved. Lastly, this section will explore how the Fed measures the money supply and the monetary aggregates -- M1, M2, and M3. The Fed manages the money supply to influence interest rates and targets the Fed funds rate.

After studying the chapters in this section, you should be able to answer the following questions:

- What is the role of the payments system in the economy?
- How are the various monetary aggregates (M1, M2, and M3) used in measuring money in the economy?
- What are the determinants of money growth?
- How are inflation and money related?
- How does the Federal Reserve use monetary policy to affect interest rates?

**Role of Money and Monetary Policy Reading**
Read the following chapter in *Money, Banking, and Financial Markets*:

- **Chapter 2 ("Money and the Payments System")**

Then read the following chapters in *Financial Institutions, Markets, and Money*:

- **Chapter 2 ("The Federal Reserve and Its Powers")**
- **Chapter 3 ("The Fed and Interest Rates")**

### Take Notes on the Role of Money and Monetary Policy

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course. Well written notes provide an effective means for reviewing the material prior to an assessment.

### Message Board and FAQs for the Role of Money and Monetary Policy

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

### Risk and Interest Rates

This subject will explore the idea of risk in the financial system and the level and structure of interest rates. You will see how to measure risk, assess whether the risk will increase or decrease, and develop an understanding of why changes in risk lead to changes in the demand for particular financial instruments as well as the corresponding changes in the price of those instruments.

**How is Risk Reflected in Interest Rates?**

Interest is the "rent" on borrowed money. An interest rate is the price of "renting" or borrowing another's purchasing power. Thus, credit or borrowed money is a price-able commodity. Interest penalizes the borrower for consuming before earning and rewards the lender for postponing consumption. The idea of the structure of interest rates is also introduced, that is, to explain why large numbers of different interest rates coexist in financial markets on any given day.

After studying the chapters in this section, you should be able to answer the following questions:

- What is risk, how is it measured, and how is it managed?
- How does inflation affect interest rates?
- Can interest rates be forecasted?
- In what ways can risk influence interest rates?

### Risk in Interest Rates Reading

Read the following in *Money, Banking, and Financial Markets*:

- **Chapter 5 ("Understanding Risk")**

Read the following in *Financial Institutions, Markets, and Money*:
- Chapter 4 ("The Level of Interest Rates")
- Chapter 6 ("The Structure of Interest Rates")

**Take Notes on Risk in Interest Rates**

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course. Well written notes provide an effective means for reviewing the material prior to an assessment.

**Check Your Understanding of Risk in Interest Rates**

Access the following textbook companion site:

- Financial Institutions, Markets, and Money

Select the appropriate chapters from the drop-down menus for the reading.

**Message Board and FAQs for Risk and Interest Rates**

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

**Derivative Markets**

Derivatives allow people to transfer risk, and this encourages them to do things they would not otherwise do. In effect, derivatives provide a kind of insurance. This section will further explain the uses and risks of derivative markets.

After studying the chapters in this section, you should be able to answer the following questions:

- What types of derivatives are available? How do they differ? What risks are involved?
- How are options and futures used?
- What factors determine the valuation of an option? Of a future?
- In what ways is the overall economy affected by derivatives?

**Derivative Markets Reading**

Read the following chapter in Money, Banking, and Financial Markets:

- Chapter 9 ("Derivatives: Futures, Options, and Swaps")

Then read the following chapter in Financial Institutions, Markets, and Money:

- Chapter 11 ("Derivatives Markets")

**Mortgage Markets**

This section will introduce and explain the evolution of mortgages and the mortgage markets.

After studying the chapter in this section, you should be able to answer the following questions:

- What types of mortgages are available? How do they differ? What risks are involved?
How are mortgage interest rates determined?  
How do borrowers qualify?  
What is the secondary mortgage market, and how does it operate?  
What role does the mortgage market play within the overall economy?  
Are mortgage markets regulated? How? By whom?  
How do federal mortgage programs operate and affect the U.S. economy?  

**Mortgage Markets Reading**

Read the following chapter in *Financial Institutions, Markets, and Money*:

- Chapter 9 ("Mortgage Markets")

**Take Notes on Mortgage Markets**

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course. Well written notes provide an effective means for reviewing the material prior to an assessment.

**Message Board and FAQs for Mortgage Markets**

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

**Financial Markets: Foreign Markets**

When the dollar is strong, foreign goods are relatively cheap for consumers in the United States. This helps keep inflation in check. A strong dollar also attracts foreign investment. However, when the dollar is strong, U.S. goods are also more expensive for foreigners, and U.S. exports fall. So a strong dollar benefits some people and hurts others. What is more beneficial is a stable dollar so there is not much exchange-rate risk. The significance of the value of the dollar as well as currency and foreign exchange will be explored in the following reading and activities.

**International Markets and Foreign Exchange**

Exchange rates are a key tool that makes international trade possible. Since buyers and sellers both want to use their own currencies, which are likely to be different, there must be an exchange of currencies. The exchange rate is the price of one currency in terms of another. Exchange rates have implications for countries and individuals; long swings or sudden spikes in exchange rates affect the costs of different goods in different countries.

After studying the chapters in this section, you should be able to answer the following questions:

- In what ways are foreign markets used for investment purposes?  
- Why does foreign exchange facilitate international trade?  
- What risks are associated with foreign exchange?  
- In order to facilitate payments in international trade, what documents are needed?

**International Markets and Foreign Exchange Reading**

Read the following chapter in *Money, Banking, and Financial Markets*:
• **Chapter 10 ("Foreign Exchange")**

Then read the following chapter in *Financial Institutions, Markets, and Money*:

• **Chapter 12 ("International Markets")**

**Take Notes on International Markets and Foreign Exchange**

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course. Well written notes provide an effective means for reviewing the material prior to an assessment.

**Message Board and FAQs on International Markets and Foreign Exchange**

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

**Financial Institutions: Depository Institutions**

Banks are the most visible financial intermediaries in the economy. These depository institutions accept deposits from savers and make loans to borrowers. They include commercial banks, savings and loans, and credit unions. Banks seek to profit from their various lines of business by providing accounting and record-keeping services; providing access to the payments system; pooling the savings of small depositors and using the funds to make loans to borrowers; and offering customers risk-sharing services. Banks are important, and when they are poorly managed, the entire economy suffers.

**Depository Institutions**

This section will explore the use of depository institutions, such as banks, and significance of their role in the financial system as a whole.

After studying the chapters in this section, you should be able to answer the following questions:

• What role do depository institutions play in financial intermediation? Why is that role important?
• What are the names and basic differences among the various depository institutions?

**Depository Institutions Reading**

Read the following reading chapters in *Money, Banking, and Financial Markets*:

• **Chapter 11 ("The Economics of Financial Intermediation")**
• **Chapter 12 ("Depository Institutions")**

**Take Notes on Depository Institutions**

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course. Well written notes provide an effective means for reviewing the material prior to an assessment.

**Message Board and FAQs for Depository Institutions**
Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

**Financial Institutions: Depository Institutions (cont.) and Task#2**

Banks are important, and when they are poorly managed, the entire economy suffers. Of all the banks that exist, the central banks play a very special role within the economy. They are "banker's banks" and are tasked with controlling the money supply, among other things. Central banks (the Federal Reserve Bank in the United States) use "tools" known collectively as *monetary policy* to impact the economy.

**Depository Institutions and the Money Creation Process**

The central bank has many functions that are important to a country's economy. Setting the reserve requirement is one of its many responsibilities. The reserve requirement is a powerful tool that helps determine the size of the money supply. Because financial institutions operate on a fractional reserve system, depository institutions actually "create money."

After studying the chapter in this section, you should be able to answer the following question:

- How do depository institutions create money?

**Money Creation Process Reading**

Read the following chapter in *Money, Banking, and Financial Markets*:

- Chapter 17 ("The Central Bank Balance Sheet and the Money Supply Process")

**Take Notes on the Money Creation Process**

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course. Well written notes provide an effective means for reviewing the material prior to an assessment.

**Message Board and FAQs for the Money Creation Process**

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

**Financial Institutions: Commercial Banks**

Banks are profit maximizers and earn most of their income from loans and investments financed by both deposit and non-deposit liabilities. Fee-based services and "off-balance-sheet" activities have become increasingly important, providing revenue without additional capital or regulatory burden. The main source of bank funds is various types of transaction and time deposits.

**Commercial Banks**

After studying the chapters in this section, you should be able to answer the following questions:
• What roles do commercial banks play in the financial system?
• What are the sources and uses of bank funds?
• Why do banks have contingent assets and contingent liabilities? What are they?
• What are a bank's primary sources of income? Expenses?
• What capital requirements must commercial banks meet?
• How do banks manage liquidity risk, credit risk, and interest rate risk?

Commercial Banks Reading

Read the following chapters in Financial Institutions, Markets, and Money:

- Chapter 13 ("Commercial Bank Operations")
- Chapter 14 ("Bank Management and Profitability")

Take Notes on Commercial Banks

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course. Well written notes provide an effective means for reviewing the material prior to an assessment.

Message Board and FAQs for Commercial Banks

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

Financial Institutions: Structure and Regulation

For decades, most U.S. banks were unit banks, meaning banks without branches. Today, only one-third of U.S. banks are unit banks. This change in structure is not the only change in the industry; at the end of 1999, the law forbidding combinations of commercial banks, investment banks, and insurance companies was repealed, and the result was an organization like Citigroup, which has these and other services under its umbrella.

Structure

This section will introduce you to the complexities and evolution of the structure of the financial industry and the services it provides.

After studying the chapters in this section, you should be able to answer the following questions:

• How has the structure of the financial industry evolved over time?
• What are the major differences among thrifts, credit unions, and finance companies?

Structure Reading

Read the following chapter in Money, Banking, and Financial Markets:

- Chapter 13 ("Financial Industry Structure")

Then read the following chapter in Financial Institutions, Markets, and Money:
• Chapter 17 ("Thrift Institutions and Financial Companies")

**Take Notes on Structure**

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course. Well written notes provide an effective means for reviewing the material prior to an assessment.

**Message Board and FAQs for Structure**

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

**Financial Institutions: Regulation**

The institutional safeguards, like deposit insurance, that the government has built into the system are an attempt to avert financial crises. Most regulation focuses on safety and soundness and particularly aims to prevent either of the main causes of bank failure: illiquidity or insolvency.

**Regulation**

Depository institutions are heavily regulated because society heavily depends on them. Their deposit liabilities represent most of the money supply, and their operations are critical to the payments system. The following activities will delve into financial regulation.

After studying the chapters in this section, you should be able to answer the following questions:

- What regulations apply to these depository institutions?
- What are considered assets to these financial institutions? What are considered liabilities?

**Regulation Reading**

Read the following chapter in *Money, Banking, and Financial Markets*:

- Chapter 14 ("Regulating the Financial System")

Then read the following chapter in *Financial Institutions, Markets, and Money*:

- Chapter 16 ("Regulation of Financial Institutions")

**Take Notes on Regulation**

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course. Well written notes provide an effective means for reviewing the material prior to an assessment.

**Message Board and FAQs for Regulation**

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read
the FAQs and make suggestions for additional topics.

Financial Institutions: Insurance Companies and Pension Funds

Why buy insurance? What products are appropriate? Where do entrepreneurs get the money to start a business and help it grow? Should they insure it?

Insurance Companies and Pension Funds

Insurance provides financial compensation for losses but does not prevent losses from occurring. Pensions are really a special kind of insurance. Key pension concepts include:

- insured versus noninsured pension funds
- fully funded versus non-funded or unfunded pension plans
- vested versus non-vested pension plans
- defined benefit versus defined contribution pension arrangements
- portability of benefits

After studying the chapter in this section, you should be able to answer the following questions:

- What role does insurance play in the financial system?
- How do insurance companies reduce their risk?
- What are the major products offered by
  - property and casualty insurers?
  - liability insurers?
  - life insurers?
  - health insurers?
- Do regulations apply in the insurance industry? What and by whom?

Insurance Companies and Pension Funds Reading

Read the following chapter in *Financial Institutions, Markets, and Money*:

- Chapter 18 ("Insurance Companies and Pension Funds")

Take Notes on Insurance Companies and Pension Funds

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course of study. Well written notes provide an effective means for reviewing the material prior to an assessment.

Message Board and FAQs for Insurance Companies and Pension Funds

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

Financial Institutions: Capital Sources

This section will look at how the financial markets operate as a mechanism for bringing together
those with excess funds looking for a return and the corporations and government entities that are in need of those funds as it explores the world of investment banking.

**Capital Sources (Investment Banking)**

Investment banks serve the money and capital market in a variety of ways, but underwriting is the most important economic function. Working in the primary market, investment banks buy the securities from governments and corporations and sell them into the market, providing financing and investment opportunities. Venture capitalists, usually persons and individuals with considerable wealth, provide necessary early-stage financing for new technology, ideas, and entrepreneurs.

After studying the chapter in this section, you should be able to answer the following questions:

- Within the financial system, what role does an investment bank play?
- How do the lending criteria differ between commercial bank loans, revolving loan funds, and angel investors? Why?
- What are the essential characteristics of an effective loan package?
- How are new securities brought to market?
- When considering an investment opportunity, what criteria would a venture capitalist consider?
- Venture capital financing includes what advantages and disadvantages?

**Capital Sources Reading**

Read the following chapter in *Financial Institutions, Markets, and Money*:

- Chapter 19 ("Investment Banking")

**Take Notes on Capital Sources**

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course. Well written notes provide an effective means for reviewing the material prior to an assessment.

**Message Board and FAQs for Capital Sources**

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

**Financial Management: Capital Markets; Risk, Return, and the SML**

Although the Efficient Market Hypothesis may have a certain number of unbelievers, the truth is that nobody can consistently predict the ups and downs of the market. In defense of the EMH, keep in mind: The EMH doesn't imply that all stocks are all priced efficiently all of the time; rather, it implies that, market prices are good estimates of economic value on average.

**Capital Markets**

Historical returns on securities have probability distributions that are approximately normal. The
normal distribution is completely described by its mean and variance. Since 1926, annual returns on large company stocks have averaged about 12.4% with a standard deviation of about 20.4%. An observation on a normally-distributed random variable has a 68% chance of being within plus or minus one standard deviation from the mean, a 95% chance of being within plus or minus two standard deviations from the mean, and a 99% chance of being within plus or minus three standard deviations from the mean.

After studying the chapter in this section, you should be able to answer the following questions:

- What, historically, has been the difference between the returns on equities, corporate and government securities, and risk-free securities? Why?
- How does inflation impact investment returns?
- What is capital market efficiency, and how does it affect an investor?
- How can returns to capital market investments help determine returns to non-financial assets?

**Capital Markets Reading**

Read the following chapter in *Fundamentals of Corporate Finance*:

- chapter 12 ("Some Lessons from Capital Market History")

**Returns, Risk, and the SML**

The following assumptions are made when analyzing risk and return:

- Investor rationality: Investors are assumed to prefer more money to less money and less risk to more risk, if all else is equal. The result of this assumption is that the ex ante risk-return trade-off will be upward sloping.
- As risk-averse return-seekers, investors will take actions consistent with the rationality assumptions. They will require higher returns to invest in riskier assets and are willing to accept lower returns on less risky assets.
- Risk-averse return-seekers will seek to reduce risk while attaining the desired level of return, or increase return without exceeding the maximum acceptable level of risk.

After studying the chapter in this section, you should be able to answer the following questions:

- When comparing risk to expected returns, investors can use what data from capital markets? Why?
- What is the systematic risk principle?
- What is systematic risk? What is unsystematic risk?
- How is the beta coefficient used to measure risk?
- What statistical analysis methods are useful to assess asset risk versus returns?
- Using income and capital gains, how is the percentage return calculated?
- How do you calculate
  - dividend yield?
  - capital gains yield?
  - expected return on investment?
- expected return on a portfolio?
  - In what ways does diversification impact a portfolio?
  - What is a security market line, and what information does it provide?
  - What is the Capital Asset Pricing Model (CAPM), and how is it used?

**Returns, Risk, and the SML Reading**

Read the following chapter in *Fundamentals of Corporate Finance*:

- **Chapter 13 ("Return, Risk, and the Security Market Line")**

**Take Notes on Returns, Risk, and the SML**

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course. Well written notes provide an effective means for reviewing the material prior to an assessment.

**Message Board and FAQs for Returns, Risk, and the SML**

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

**Financial Management: Long-Term Policy**

In "Corporate Strategy and the Capital Budgeting Decision" (*Midland Corporate Finance Journal*, Spring, 1985, pp. 22-36), Alan Shapiro states that a firm's capital budgeting program should "establish strategic options in order to gain competitive advantage." Further, successful investments, according to Shapiro, are those investments "that involve creating, preserving, and even enhancing competitive advantages that serve as barriers to entry." The following items are project characteristics associated with positive NPV:

- Economies of scale
- Product differentiation
- Cost advantages
- Access to distribution channels
- Favorable government policy

Shapiro's article encourages people to think of capital budgeting from the strategic or "big-picture." That is, how will this project (or group of projects) benefit the firm as a whole?

**Leverage**

The optimal or target capital structure is having a debt and equity mix that simultaneously maximizes the value of the firm, minimizes the weighted average cost of capital, and maximizes the market value of the common stock. Maximizing the value of the firm is the goal of managing capital structure. This section will provide you with more information on financial leverage and operating leverage.

After studying the chapters in this section, you should be able to answer the following questions:
● What is financial leverage?
● What is operating leverage?
● How do financial leverage and operating leverage differ?
● What factors should be considered when establishing dividend policy?

Leverage Reading

Read the following chapters in Fundamentals of Corporate Finance:

- Chapter 11 ("Project Analysis and Evaluation")
- Chapter 16 ("Financial Leverage and Capital Structure Policy")
- Chapter 17 ("Dividends and Payout Policy")

Take Notes on Leverage

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course. Well written notes provide an effective means for reviewing the material prior to an assessment.

Message Board and FAQs for Leverage

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

Financial Management: Long-Term Policy (cont.)

Review Chapter 16 ("Financial Leverage and Capital Structure Policy") in Fundamentals of Corporate Finance: Use the additional information in the URLs listed to complement your knowledge.

Optimal Capital Structure

Review the following chapter in Fundamentals of Corporate Finance:

- chapter 16 ("Financial Leverage and Capital Structure Policy")

Use the additional information in the URLs listed to complement your knowledge.

You will determine the optimal capital structure for a business in this performance task.

After completing this task, you should be able to

- explain in written format how to determine the optimal capital structure for a given situation
- define the important variables of the static theory of capital structure
- describe the general steps used to determine the optimal capital structure
- discuss the relationship between these variables at the optimal debt-to-equity ratio

Financial Management: Short-Term Policy
Discussions with CFOs quickly lead to the conclusion that, as important as capital budgeting and capital structure decisions are, they are made less frequently, while the day-to-day complexities involving the management of networking capital (especially cash and inventory) consume tremendous amounts of management time. Second, it is clear that while poor long-term investment and financing decisions will adversely impact firm value, poor short-term financial decisions will impair the firm’s ability to remain operating. Finally, good working capital decisions can also have a major impact on firm value. What is needed to satisfy the speculative and precautionary motives is an ability to pay quickly—a need that is met with liquidity. Although cash is the most liquid asset, assets such as marketable securities are near substitutes for cash. The ability to borrow quickly is also a close substitute for cash (having a line of credit, for example).

**Short-Term Finance and Planning**

The timing of cash flows is the most important difference between short- and long-term finance. Managers need to determine how much cash to keep on hand for bills and near-term expenses. They also must decide how much credit they should extend to customers and which financing policy is best if their company needs to borrow money in the short term.

After studying the chapter in this section, you should be able to answer the following questions:

- What is optimal investment in current assets, and why is it important?
- Why is cash flow timing important?

**Short-Term Finance and Planning Reading**

Read the following chapter in *Fundamentals of Corporate Finance*:

- **Chapter 18 ("Short-Term Finance and Planning")**

**Take Notes on Short-Term Finance and Planning**

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course. Well written notes provide an effective means for reviewing the material prior to an assessment.

**Message Board and FAQs for Short-Term Finance and Planning**

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

**Financial Management: Short-Term Policy (cont.)**

This section will further expound on financial management and short-term policy. The following topics and activities will explore cash liquidity, and credit and inventory management. Becoming familiar with these concepts and practices will play a significant role in becoming successful in a financial business environment.

**Cash and Liquidity Management**

After studying the chapter in this section, you should be able to answer the following questions:
- What methods are used to effectively manage cash?
- What relationship exists between an effective accounts receivable management strategy and credit policy? Why?

Cash and Liquidity Management Reading

Read the following chapter in *Fundamentals of Corporate Finance*:

- chapter 19 ("Cash and Liquidity Management")

Credit and Inventory Management

After studying the chapter in this section, you should be able to answer the following questions:

- What is an optimal credit policy, and why is it important?
- What working capital issues do firms face?
- How should inventory be managed?

Credit and Inventory Management Reading

Read the following chapter in *Fundamentals of Corporate Finance*:

- chapter 20 ("Credit and Inventory Management")

Take Notes on Credit and Inventory Management

Engage in active learning by taking notes, either in a journal or electronically in the "Notes" section of the web-enabled course of study. Well written notes provide an effective means for reviewing the material prior to an assessment.

Message Board and FAQs for Credit and Inventory Management

Visit the message board. Post comments, questions, and helpful learning hints. Interacting with others reinforces your understanding and promotes a collaborative learning environment. Read the FAQs and make suggestions for additional topics.

Final Steps

Congratulations on completing the activities in this course! This course has prepared you to complete the assessments associated with this course. If you have not already been directed to complete the assessments, schedule and complete your assessments now.

The WGU Library

The WGU Library

The WGU Library is available online to WGU students 24 hours a day.

For more information about using the WGU Library, view the following videos on The WGU Channel:

Introducing the WGU library
Note: To download this video, right-click the following link and choose "Save as": download video.

Searching the WGU library

Note: To download this video, right-click the following link and choose "Save as": download video.

Center for Writing Excellence: The WGU Writing Center

If you need help with any part of the writing or revision process, contact the Center for Writing Excellence (CWE). Whatever your needs—writing anxiety, grammar, general college writing concerns, or even ESL language-related writing issues—the CWE is available to help you. The CWE offers personalized individual sessions and weekly group webinars. For an appointment, please e-mail writingcenter@wgu.edu.

Feedback

WGU values your input! If you have comments, concerns, or suggestions for improvement of this course, please submit your feedback using the following form:

- Course Feedback

ADA Policy

Western Governors University recognizes and fulfills its obligations under the Americans with Disabilities Act of 1990 (ADA), the Rehabilitation Act of 1973 and similar state laws. Western Governors University is committed to provide reasonable accommodation(s) to qualified disabled learners in University programs and activities as is required by applicable law(s). ADA Support Services serves as the principal point of contact for students seeking accommodations and can be contacted at ADASupport@wgu.edu. Further information on WGU?S ADA policy and process can be viewed in the student handbook at the following link:

- Policies and Procedures for Students with Disabilities