

Four Facets of Finance - Explain It!

So, here you are, taking your first finance course. Congratulations, and welcome to an arena that is not only a critical part of the global economy, but also a crucial part of our personal lives as well. Now, if you are someone that is already looking into finance as a career, it's pretty obvious why you're here. However, for many of you, you may be saying, I don't plan to go into finance. Well, it is certainly true that most people interested in business choose to go into non-financial careers in marketing, IT, or even operations. Hey, your gig may even have nothing to do with business. But I am here to tell you that finance is not just a career choice. It's critical that you understand money matters for your personal benefit, like how to pay for college, buy a car, or even retire. So let's get started. I like to think of finance as the study of the capital market and its many players. But what is the capital market? Well, it's like matchmaking. Finance connects people with money to entrepreneurs with a great concept or business idea. If it's a good match, bingo, handsome profits. Let's start from the corporate finance side first. Say you want to throw a party. In planning the party, you're going to wrestle with three basic questions: Who's going to pay for the party? What kind of party are you going to have? And lastly, when should you repay the money? In finance terms, the financial manager at a company is responsible for answering those three basic questions. The question of who's going to pay for the party is called the capital structure decision. That means whether you borrow the money or issue stock to shareholders. Once we get the money for the party by issuing new equity, what should we eat and drink? Or in the case of a company, what are we going to make? Should we start a company from scratch or buy one that's already cooking? Okay, say we made the right decisions along the way and we made lots of money. Do you pay it out to the shareholders, or are you going to invest in those things that your company needs to grow even bigger? That's the dividend decision, and we'll have more on that later. So, how do you get the investors in the first place? Why should anyone invest in your company? That's where the financial advisor comes in. They literally make it their business to know what's shaking in the financial world. What's a person like you to do with your money? What's going to make you a quick buck or, even better, make decent dough over the long haul? Financial advisors also provide basic advice, like don't put all your eggs in one basket, and can fill you in on different kinds of stocks and bonds to put in your portfolio. An easy way to diversify is to buy mutual funds. A mutual fund is a collection of different stocks or bonds. If you are good with figures and have an eye for trends, then you might think about becoming a research analyst for a mutual fund. They help the portfolio manager make the right moves by studying everything that is going on in the market. Another place that one can work as an analyst is in an investment bank. Investment banks help companies raise money from investors by selling their stocks and bonds. Since there are a number of careers in finance, most business schools offer a variety of finance courses so students can be

successful in the role that they go after. This introductory course will hip you to the fact that finance has some pretty cool jobs you could pursue. So now you're ready to learn more. In a corporate finance course, you'll learn how a company raises, structures and spends its money. Investments will be the course where you learn how to tell the good stocks from the bad, and the sure things from the really risky. Another important course in the finance curriculum is one that covers derivative securities. Derivatives are very useful for both managing risk and for taking more speculative bets. Now remember that finance is a global game, where currencies and interest rates constantly fluctuate, so you'll surely want to study international finance as well. But enough about finance courses. Let's come back to the simple fact that finance affects us personally each and every day. Suppose you have your eye on a new ride and the dealer offers you both a loan and a lease option. Which is best for you? And what about that beach house you would like to have in 20 years, how can you eventually make that happen? Or what is the total amount that you need to retire? This course will help you tackle exactly these kinds of big life questions. So, I hope that I've managed to give you a bit of motivation to dig into finance as either a player in the financial world or someone who knows how to handle their own money. Good luck to you as you begin this journey.