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ABSTRACTS

Intermediate Financial Management

FIN 362

Since 20% of your grade is based upon your written abstracts, it behooves you to understand what the minimum components are of this assignment.

ABSTRACT – represents a brief statement of essential thoughts of an article; summary.

Specially your abstract should have a maximum length of two (2) double-spaced type written pages and although you are not graded directly on your writing style, certainly the content of your paper (what you are graded on) is markedly improved by quality. edited sentences. Consider the following components:

A. Required Areas – Required in Your Abstract

1. Purpose of the Article
2. Scope of the Article
3. Classification of the Article
4. Findings or Inferences of the Article

B Additional Areas to Consider for Discussion in Your Abstract

1. Potential Bias in the Article
2. Has This Article Generated Any Additional Articles By the Author or Other Authors on the Same or Similar topic. (This will obviously require you to conduct research)
3. Critically, yet based on specific rationale, identify the value of the article to financial managers based on your insight.

INTERMEDIATE FINANCIAL MANAGEMENT

5th EDITION BRIGHAM & GAPENSKI

CHAPTER 1

AN OVERVIEW OF FINANCIAL THEORY

You were probably introduced to financial markets and institutions, to investments, and to corporate financial management in your first finance course. In this text, we review and reinforce those basic concepts, then go on to discuss in more depth the theory and concepts that underlie financial management and practice. At the end of the course, you should have a sufficiently strong background to make, or at least understand, most types of actual financial decisions.

Chapter 1 lays the groundwork by providing an overview of financial theory. Virtually all financial decisions, including capital budgeting, dividend policy, and capital structure, are based on rules that stem from financial theory. Most financial theory is *normative* in the sense that it dictates what financial managers "ought to do." However, *positive,* or *descriptive,* studies are also important because they shed light on such relationships as those between dividend policy and stock prices, and on the extent to which financial managers are actually doing what financial theorists say they should be doing. When theory and practice differ, we face a dilemma: Is the theory incorrect, or is the financial manager making a mistake? The answer is generally not clear. In some instances, it appears that the financial theory is based on unrealistic assumptions, and the decision rules it produces are simply not valid in the real world. In other situations, it is impossible to apply the specific theory because we cannot obtain the data necessary to implement it. In these situations, the theory may be correct, but it can be used only indirectly, to gain insights into how decisions should be made. In still other situations, the theory may be correct and possible to apply, but the cost is simply not worth the benefit. Finally, there may be situations in which theory should be applied, but due to the inertia resulting from doing things the old way, improper practices are still followed. In this latter case, though, competition will eventually force managers to use the theory.

In general, if unexplained differences persist between theory and practice, the theory should be questioned. Indeed, modern financial theory is predicated on the proposition that, to be accepted, theories must explain real-world behavior: when a theory is inconsistent with practice, it must be revised or else scrapped in favor of an alternative theory.