About Finance

Finance is a field that studies and addresses the ways in which individuals, businesses, and organizations raise, allocate, and use monetary resources over time, taking into account the risks entailed in their projects. The term finance may thus incorporate any of the following:

- The study of money and other assets;
- The management and control of those assets;
- Profiling and managing project risks;
- The science of managing money;
- As a verb, "to finance" is to provide funds for business or for an individual's large purchases (car, home, etc.).

The activity of finance is the application of a set of techniques that individuals and organizations (entities) use to manage their financial affairs, particularly the differences between income and expenditure and the risks of their investments.

An entity whose income exceeds its expenditure can lend or invest the excess income. On the other hand, an entity whose income is less than its expenditure can raise capital by borrowing or selling equity claims, decreasing its expenses, or increasing its income. The lender can find a borrower, a financial intermediary, such as a bank or buy notes or bonds in the bond market. The lender receives interest, the borrower pays a higher interest than the lender receives, and the financial intermediary pockets the difference. A bank aggregates the activities of many borrowers and lenders. A bank accepts deposits from lenders, on which it pays the interest. The bank then lends these deposits to borrowers. Banks allow borrowers and lenders, of different sizes, to coordinate their activity. Banks are thus compensators of money flows in space. A specific example of corporate finance is the sale of stock by a company to institutional investors like investment banks, who in turn generally sell it to the public. The stock gives whoever owns it part ownership in that company. If you buy one share of XYZ Inc, and they have 100 shares outstanding (held by investors), you are 1/100 owner of that company. Of course, in return for the stock, the company receives cash, which it uses to expand its business in a process called "equity financing". Equity financing mixed with the sale of bonds (or any other debt financing) is called the company's capital structure. Finance is used by individuals (personal finance), by governments (public finance), by businesses (corporate finance), etc., as well as by a wide variety of organizations including schools and non-profit organizations. In general, the goals of each of the above activities are achieved through the use of appropriate financial instruments, with consideration to their institutional setting. Finance is one of the most important aspects of business management. Without proper financial planning a new enterprise is unlikely to be successful. Managing money (a liquid asset) is essential to ensure a secure future, both for the individual and an organization. ==Personal finance== Questions in personal finance revolve around

- How much money will be needed by an individual (or by a family) at various points in the future?
- Where will this money come from (e.g. savings or borrowing)?
- How can people protect themselves against unforeseen events in their lives, and risk in financial markets?
- How can family assets be best transferred across generations (bequests and inheritance)?
- How do taxes (tax subsidies or penalties) affect personal financial decisions?

Personal financial decisions may involve paying for education, financing durable goods such as real estate and cars, buying insurance, e.g. health and property insurance, investing and saving for retirement.<P> Personal financial decisions may also involve paying for a loan. ==Business finance== In the case of a company, managerial finance or corporate finance is the task of providing the funds for the corporations' activities. For small business, this is referred to as SME finance. It generally involves balancing risk and profitability. Long term funds would be provided by ownership equity and long-term credit, often in the form of bonds. These decisions lead to the company's capital structure. Short term funding or working capital is mostly provided by banks extending a line of credit. On the bond market, borrowers package their debt in the form of bonds. The borrower receives the money it borrows by selling the bond, which includes a promise to repay the value of the bond with interest. The purchaser of a bond can resell the bond, so the actual recipient of interest payments can change over time. Bonds allow lenders to recoup the value of their loan by simply selling the bond. Another business decision concerning finance is investment, or fund management. An investment is an acquisition of an asset in the hopes that it will maintain or increase its value. In Investment management- in choosing a portfolio - one has to decide *what*, *how much* and *when* to invest. In doing so, one needs to

- Identify relevant objectives and constraints: institution or individual - goals - time horizon - risk aversion - tax considerations
- Identify the appropriate strategy: active vs passive - hedging strategy
- Measure the portfolio performance

Financial management is duplicate with the financial function of the Accounting profession. However, Financial Accounting is more concerned with the reporting of historical financial information, while the financial decision is directed toward the future of the firm. ==Shared Services== There is currently a move towards converging and consolidating Finance provisions into shared services within an organization. Rather than an organization having a number of separate Finance departments performing the same tasks from different locations a more centralized version can be created. ==Finance of states== Country, state, county, city or municipality finance is called public finance. It is concerned with

- Identification of required expenditure of a public sector entity
- Source(s) of that entity's revenue
- The budgeting process
- Debt issuance (municipal bonds) for public works projects

Financial economics

Financial economics is the branch of economics studying the interrelation of financial variables, such as prices, interest rates and shares, as opposed to those concerning the real economy. Financial economics concentrates on influences of real]] economic variables on financial ones, in contrast to pure finance.

It studies:

- Valuation - Determination of the fair value of an asset
- *How risky is the asset? (identification of the asset appropriate discount rate)
- *What cash flows will it produce? (discounting of relevant cash flows)
- *How does the market price compare to similar assets? (relative valuation)

- *Are the cash flows dependent on some other asset or event? (derivatives, contingent claim valuation)
- Financial markets and instruments
- *Commodities - topics
- *Stocks - topics
- *Bonds - topics
- *Money market instruments- topics
- *Derivatives - topics
- Financial institutions and banking and regulation