Finance:

"Since UK firms raise very little capital from new share issues, the behaviour of the UK stockmarket is largely irrelevant to them. Discuss."

Some hints:

.1 Q Needs to you look at sources of finance for UK firms. Obviously you need to focus on 'quoted' companies (sometimes called 'public firms' or corporations). I also suggest you avoid banks and otherr financial institutions.

2. Info on coporate balance sheets and on 'sources and uses of funds' is available in *Financial Statistics* (monthly) in library.

3. You need to think about how ways in which the SM might affect firms <u>even if they are not in the process of making new issues of shares</u>.

e.g remember the weighted average cost of capital. What is this? How calculated? How is it affected by share pices?

What is the significance of the WACC? What constraints does it impose on firms?

What happens if a firm persistently fails to match the retun required by shareholders?

Does the behaviour of the share price affect other sources of finance?

What happens if sherholders are interested only in short-term returns?

<u>Reading:</u>

Virtually any text book in coporate finance will explain the WACC and link it to stockmarkets and shareholder objectives. The same book will probably tell you something about recent patterns of fund raising.

I checked G. Arnold, *Corporate Financial Management* (FT-Prentice Hall, 2e 2002) because multiple copies are in the short loan collection.

On the internet, you can go to http://papers.ssrn.com and enter the key words <short termism> . This will return several papers concerned with the hypothesis that shareholders generally want max short-run profits which makes it diffiult for firms to invest for the long-term. You can download these papers or read on screen.