

## Introduction to Finance

**Chapter 1 and 6**  
**An Overview of Financial**  
**Management**  
**Interest Rates** (p 162-180)

## Areas of Finance

- **Institutions** - Study of banks, insurance companies, S&Ls, credit unions
- **Money Management (Investments)** - Study of risk/return, portfolio considerations
- **Corporate Finance** - Study of a business' financial operations

## Goal of Corporation Manager

To Maximize Shareholders Wealth!!

Remember: Shareholders=Owners

Management work as owners' agents

## Corporate Governance

Shareholders → Board of Directors



Management

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On behalf of Owners, the Board monitors top managers (hire and fire)

## Mirage Resorts, Inc.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MAY 21, 1998

The Annual Meeting of Stockholders (the "Meeting") of Mirage Resorts, Incorporated (the "Company" ) will be held at The Mirage, 3400 Las Vegas Boulevard South, Las Vegas, Nevada on Thursday, May 21, 1998, at 1:00 P.M., for the following purposes:

## Mirage Resorts, Inc.

1. To elect two directors for the term set forth in the accompanying Proxy Statement;
2. To approve the 1998 Stock Option and Stock Appreciation Rights Plan;
3. To ratify the appointment of Arthur Andersen LLP as the Company's independent accountants for 1998; and
4. To transact such other business as may properly come before the Meeting and any adjournments thereof.

## Mirage - Proxy Card

Please mark your votes as in this example  
using dark ink only

	FOR	WITHHELD
1. Election of Directors	<input type="checkbox"/>	<input type="checkbox"/>

For, except vote withheld from the following nominee(s) :

## Mirage - Proxy Card

2. Proposal to approve the 1998 Stock Option and Stock Appreciation Rights Plan

FOR	AGAINST	ABSTAIN
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Mirage - Proxy Card

3. Proposal to ratify the appointment of Arthur Anderson LLP as independent accountants for 1998.

FOR            AGAINST            ABSTAIN  
                                       

## Large Owners and Ownership by Directors and Executive Officers of the Mirage

<u>Name</u>	<u>Number of Shares</u>	<u>Approximate Percentage of Outstanding Common Stock</u>
Stephen A. Wynn	23,511,531	12.1%
J. P. Morgan & Co.	17,420,478	9.6%
TCW Group, Inc.	11,646,206	6.4%
Capital Research State Street	10,740,000	5.9%
Melvin Wolzinger	9,135,000	5.0%
Daniel B. Wayson	3,166,314	1.7%
Elaine P. Wynn	526,740	*
George J. Mason	252,990	*
Richard D. Bronson	186,490	*
Ronald M. Popeil	475,000	*
Barry A. Shier	75,331	*
Bruce A. Levin	756,290	*
Daniel R. Lee	167,500	*
Frank P. Visconti	899,700	*
	300,000	*

## Mirage - Board of Directors

<u>Name</u>	<u>Year First Elected</u>
<b>Elaine P. Wynn</b> , 56, Director	1977
<b>Richard D. Bronson</b> , 54, Director	1993
<b>Stephen A. Wynn</b> , 57, Chairman of the Board, President and Chief Executive Officer	1973
<b>Ronald M. Popeil</b> , 63, Director and Member of Audit, Stock Option and Bonus Committees	1980
<b>Melvin B. Wolzinger</b> , 78, Director and Member of Audit, Stock Option and Bonus Committees	1973
<b>Daniel B. Wayson</b> , 46, Director	1988
<b>George J. Mason</b> , 68, Director and Member of Audit, Stock Option and Bonus Committees	1973

## Mirage - Officers

<u>Officers</u>	<u>Pay</u>
Stephen Wynn, 57, Pres and CEO	\$3.9M
Bobby Baldwin, CFO	\$2.1M
Barry Shier, 44, Exec. VP- Marketing and Hotel Operations	\$1.6M
Thomas Sheer, 61, Sr. VP- Gov. and External Affairs	\$1.2M
Bruce Levin, 59, VP, General Counsel, Secretary	\$1.1 M

## Corporate Governance

In theory the Board and Managers act as agents for owners

In practice there are problems with the proxy system (1) only management's slate, (2) not voting equates to vote for management

## Agency Problem

Agent (defined) - hired by the principal to act in their interests. In theory, agents should make decisions consistent with what principals want.

Agency problem (conflict) - When agents act based on their own interests that are inconsistent with principals.

We see this with managers (agents) when they do not make decisions consistent with what owner-stockholders (principals) desire.

## Solutions to Agency Problems

### Regulation

The **Securities and Exchange Comm. (SEC)** - PCAOB part of SEC

**Sarbanes-Oxley Act** - attempts to increase monitoring ability and responsibilities of boards of directors (Independence and Responsibility)

## Solutions to Agency Problems

### Regulation

**Sell-side analysts** - (NASD Rule 2711; NYSE Rule 472) - cuts ties between analysts and investment banks

**Accountants and Auditors** - regulated by FASB (create standards - GAAP) and the Public Company Accounting Oversight Board (PCAOB)

## Solutions to Agency Problems

### Market-oriented Solutions

- **Credit Rating Agencies** - Moody's, S&P, Dominion, Fitch, and A.M. Best. Rate the credit worthiness of companies
- **Executive Compensation** schemes - Incentive-based compensation (options and bonuses)
- **Takeover Market**

## Financial Markets

**Financial Markets (def)** - markets where financial instruments are bought and sold

### Types of Financial Instruments

Money Markets v. Capital Markets

Primary Markets v. Secondary Markets

## Financial Institutions

The primary function of a financial institution is to act as a financial intermediary (middleman)

A financial intermediary buys long-term assets and raise funds by creating short-term liabilities

## Financial Institutions

Borrower		Intermediary		Lender
Corporation	← \$\$	<b>Bank</b>	DD →	Investor
Individual	Bonds → Loans →		SD →	Saver
Government			TD →	
			← \$\$	

## Examples of Intermediaries

- **Commercial Bank** - traditionally deal with businesses and government.
- **S&Ls** - traditionally deal with individuals
- **Credit Unions** - deal with employee groups, etc.
- **Pension Funds** - retirement funds - invest in stock/bond/money market/mortgages/real estate.
- **Life Insurance Companies** - take in premiums - invest in stock/bonds/real estate/mortgages
- **Mutual Funds** - offer diversified portfolio of securities to investors
- **Investment Banker** - raise funds for corporations by selling securities.

## Securities issued by corporations

- common stock
- corporate debt
- preferred stock
- convertible securities
- derivatives (options)

## Interest Rates

$$r = r^* + IP + DRP + LP + MRP$$

$r$  = nominal rate

$r^*$  = real rate (pure compensation)

IP= inflation-risk premium (change in cost of goods)

DRP = default-risk premium (ability to pay P & I)

LP = liquidity premium (ability to convert to cash)

MRP = maturity risk premium ( $\delta P / \delta i$ )

## Yield Curve

