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 \[\rightarrow\] Board of Directors
\[\downarrow\]
Management

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

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

1. Election of Directors
   [ ] FOR
   [ ] WITHHELD

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

2. Proposal to approve the 1998 Stock Option and Stock Appreciation Rights Plan
   [ ] FOR
   [ ] AGAINST
   [ ] ABSTAIN
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

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of Shares</th>
<th>Approximate Percentage of Outstanding Common Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stephen A. Wynn</td>
<td>23,511,531</td>
<td>12.1%</td>
</tr>
<tr>
<td>J. P. Morgan &amp; Co.</td>
<td>17,420,478</td>
<td>9.6%</td>
</tr>
<tr>
<td>TCW Group, Inc.</td>
<td>11,640,396</td>
<td>6.4%</td>
</tr>
<tr>
<td>Capital Research</td>
<td>10,740,000</td>
<td>5.9%</td>
</tr>
<tr>
<td>State Street</td>
<td>9,105,500</td>
<td>5.0%</td>
</tr>
<tr>
<td>Melvin Wozlinger</td>
<td>3,166,314</td>
<td>1.7%</td>
</tr>
<tr>
<td>Daniel B. Wynn</td>
<td>2,567,400</td>
<td>-</td>
</tr>
<tr>
<td>Elaine P. Wynn</td>
<td>2,567,400</td>
<td>-</td>
</tr>
<tr>
<td>George J. Mason</td>
<td>1,666,300</td>
<td>-</td>
</tr>
<tr>
<td>Richard D. Bronson</td>
<td>475,000</td>
<td>-</td>
</tr>
<tr>
<td>Ronald M. Popeil</td>
<td>75,331</td>
<td>-</td>
</tr>
<tr>
<td>Barry A. Shier</td>
<td>756,290</td>
<td>-</td>
</tr>
<tr>
<td>Bruce A. Levin</td>
<td>167,500</td>
<td>-</td>
</tr>
<tr>
<td>Daniel R. Lee</td>
<td>899,700</td>
<td>-</td>
</tr>
<tr>
<td>Frank P. Visconti</td>
<td>300,000</td>
<td>-</td>
</tr>
</tbody>
</table>

Mirage - Board of Directors

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

Mirage - Officers

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

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Intermediary</th>
<th>Lender</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation</td>
<td>← $$</td>
<td>DD → SD → TD → $$, Investor</td>
</tr>
<tr>
<td>Individual</td>
<td>Bonds → Loans → Bank</td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>→ $$</td>
<td>Saver</td>
</tr>
</tbody>
</table>
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**

A. Upward-sloping term structure