PROBLEMS TO ACCOMPANY. THE FINANCIAL POLICY OF CORPORATIONS

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9780649027392

Problems to Accompany. The Financial Policy of Corporations by Arthur Stone Dewing

Edited by Trieste Publishing Pty Ltd.
Cover @ 2017

www.triestepublishing.com

ARTHUR STONE DEWING

PROBLEMS TO ACCOMPANY. THE FINANCIAL POLICY OF CORPORATIONS

Trieste

PROBLEMS TO ACCOMPANY

THE FINANCIAL POLICY OF CORPORATIONS

By

ARTHUR STONE DEWING

THE RONALD PRESS COMPANY
NEW YORK

4

,SC

PREFACE

This book of problems has been prepared at the request of several teachers of corporation finance in the belief that college classes working in that general field would profit by a discussion of typical cases. The material has been taken, for the most part, from actual experiences, although in the majority of cases irrelevant details have been omitted. The matter has also been simplified, especially in the problems of the latter sections of the pamphlet. Most of the problems have been used by the author in his course on corporation finance at the Harvard School of Business Administration.

It is now a commonplace in educational theory that case instruction is, wherever practicable, the best form of teaching. A student cannot be said to know a subject until he feels sufficiently at home in it to solve its problems. Not only does this kind of exercise test the student's grasp on fundamental principles, but it also affords a form of training which should be the ideal of all educational processes—it creates conditions that force a student to isolate relevant evidence from a mass of detail and weigh this evidence in the light of principles. It creates a mental and moral power that enables a man to meet new situations in any field, wherever his life work may lie.

ARTHUR S. DEWING

Cambridge, Mass.
June 1, 1921.

HINTS TO TEACHERS

This pamphlet consists in a sense of two main divisions. In the first and large division, comprising Parts I–V, problems are given in corporation finance, paralleling the five parts of "The Financial Policy of Corporations" (Ronald Press Company, New York, 1920). So far as possible, there is a correlation between the text of this book and the problems. In Part VI, constituting the second main division, are given a few problems in investment.

The distinction between the point of view of corporation finance and the point of view of investment is fundamental. Financial problems of a corporation are connected with getting capital from the investor as cheaply as possible and under the least arduous terms. The problem for the investor is exactly opposite. It consists of getting the largest income return and the amplest security from the corporation. The student working in these two fields should keep this difference constantly in mind.

Without laying down any rules for the use of these problems, it may be remarked that the writer has found it most useful to assign problems to the class and then to devote a considerable amount of time to discussing the several solutions offered. In many cases, especially with problems covering promotion, expansion and reorganization, there is no absolutely right or absolutely wrong answer. In each case it is a matter of financial expediency. The reasons why one solution of a problem is better than another should be carefully described to the class, so that men will understand that financial practice is a matter of judgment, based in each

case upon individual expediency. It is a mistake for a teacher to insist pedantically that his solution of the problem is the only right one. So far as possible, the class should be conducted as one might conduct the meeting of a large board of directors. The opinion of each member of the class should be given consideration and every one should be led to feel that the reasons back of his judgment are worthy of respect.

So far as possible, moreover, a teacher does well to emphasize the public significance of his subject. It is well to point out that corporation finance is one aspect of a great body of economic questions connected with our modern industrial life, and that no solution of financial problems is permanently sound, which is not at the same time justifiable and wise from the point of view of public welfare. Teachers should also emphasize the fact that sound investment subserves a social purpose insofar as it conserves accumulated capital for productive and socially justifiable enterprises and directs it away from useless highly speculative and socially iniquitous projects.

While the compiler of this pamphlet has no ready and certain method or manner of treating the solution to the problems, certain points appear to be worth noting.

It is absolutely necessary for a student to have clearly in mind the specific end or purpose of the problem. He should be urged to separate in his mind the essential parts of the problem not merely from the mere verbiage but also from the unimportant facts and figures. These essential parts he should study carefully in their relations with each other. Thus if the problem concerns itself with quick assets and these alone, a student should set down first all the information about quick assets and discard entirely from his consideration every other fact and every other possible deduction from irrelevant facts. He should then examine

carefully the data concerning quick assets and make such deductions as the purpose of the problem involves.

In the later sections of the book a considerable number of the problems permit of several answers. A student should be taught to discuss his own solution, indicating the grounds of preference over other possible solutions. He should be required to give reasons for his grounds of preference and to show their bearing on matters of financial policy. Thus in the preparation of the financial plan of a public utility the necessary capital might, in a particular case, be secured either by a small issue of bonds and a small issue of preferred stock or by a large issue of bonds alone. A student who constructs his financial plan according to one or the other of these alternatives should be required to state explicitly the reasons for his choice, and, if possible, the fundamental principles behind these reasons.

There have been inserted three discussions or solutions to problems—problem XXII, page 15, dealing with promotion and consolidation, problem LIX, page 77, dealing with reorganization, and problem LXV, page 109, dealing with investments. In connection with these the attention of the students should be drawn to the fact that a considerable part of the solution is devoted to "discussing" the problem in its various phases.

The student's discussion of a problem often shows a more intelligent understanding of financial principles than is shown in the solution alone.