



Financing business operations

10

Chapter preview

The purpose of this chapter is that of providing a general background to the financing of business operations. All managers need to have, at least, a basic level of financial literacy. They need to understand the importance of financial markets, the basic sources of funds available to their businesses and the costs of such finance. The whole of financial theory is predicated on the fact that management and investors are able to raise funds and buy and sell securities by transactions in efficient financial markets. We discuss the importance and role of **stock exchanges** and whether stock exchanges are indeed efficient. In discussing efficiency we consider to what degree market speculators are able to beat the market and whether management are able to overstate their firm's financial performance by means of **creative accounting**. Whilst this chapter is mainly concerned with the financing of long-term operations it is also necessary to recognise that short to medium sources of funds are also important to the firm and we briefly review the main sources of these funds and their advantages and disadvantages.