



# Lecture 1. Course Introduction

FOR 2022. Financial Analysis for Natural Resources.

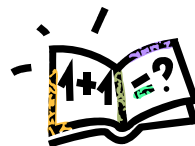


School of Forest Resources



## The syllabus – our contract

- Basics – times, text, assignments, grading
- Learning objectives
- Course policies
- Professionalism statement
- Cheating/plagiarism
- Course schedule
- Come to class prepared!



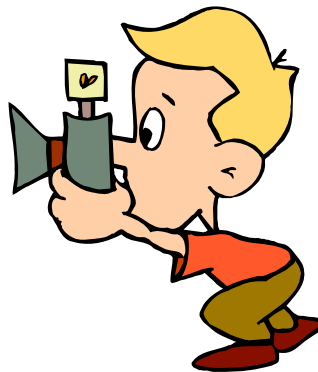


## Student Information

- Name
- Phone number(s)
- E-mail address
- Local address
- Knowledge of Excel or other spreadsheet software
  - 1 (none) to 5 (expert)



## Class pictures





## Why study finance?

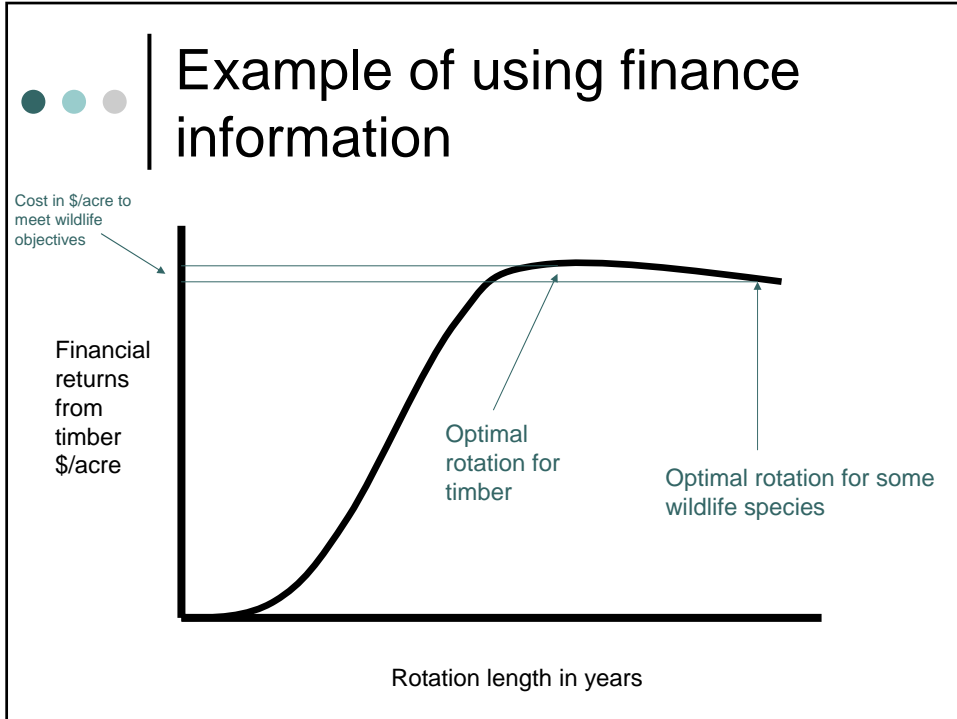


- Efficient use of resources
- Need to quantify costs and benefits of inputs and outputs
- Size and value of natural resources
  - Example: 100 acres of 35 year old pine in AR:
    - \$35 / ton stumpage
    - 100 tons / acre
    - Value =  $\$35 / \text{ton} \times 100 \text{ tons/acre} \times 100 \text{ acres} = \$350,000$
    - Value of trees only, not the land!
- Time value of money *crucial* in natural resource management
  - Long time frames, sustainability issues



## Finance / economic role in decision making

- Natural resource managers must consider:
  - Ecological sustainability of actions
  - Social and cultural impacts of actions
  - Financial costs and returns
- Financial decisions can help us determine the trade-offs in certain decisions.



## The time value of money

- “Time is money”
- Would you like \$100 today or at the end of the semester?
- Why are resources typically worth more to people today than in the future?
  - Current and expected needs and wants
  - Uncertainty about the future
  - Inflation (rising costs of good and services)

## Other factors affecting the time value of money



- Individuals
  - Current needs and income
    - People with higher income have lower time preference for money (resources)
    - However, current needs (school bills, medical bills, etc.) can elevate a person's need for immediate resources and raise their time preference for money
  - Education and maturity
    - Older and more highly educated people have lower time preference
- Individuals vs. organizations
  - Organizations generally have a lower time preference than individuals
- Risk
  - Long repayment periods mean higher time preference
  - Assuredness of repayment a factor in time preference for resources

NTLS

## Who would have the greatest time preference for resources?

- Consider the following three entities:
  - The State Government
  - A 19-year old college student
  - A 45-year old vice president of a local bank
- What is the likely order of their time preference for resources?
  - Answer:
    - Highest: 19-year old college student
    - Second-highest: 45-year old vice president of a local bank
    - Lowest: The State Government



Next lecture....

The interest rate is our  
mathematical expression of the  
time value of money.