

# **BUSINESS ORGANIZATION AND FINANCE**

Legal and Economic Principles  
Sixth Edition

**William A. Klein**  
**John C. Coffee, Jr.**  
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**BUSINESS ORGANIZATION  
AND FINANCE  
LEGAL  
AND  
ECONOMIC PRINCIPLES**

**SIXTH EDITION**

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## PREFACE

The principal objective of this book is to explain, in simple terms but not simplistically, (a) the basic economic elements and legal principles, as well as the language, of business organization and finance; (b) the interrelationships between and among the economic elements and legal principles; and (c) the practical importance of a basic understanding of those elements, principles, and interrelationships. While we like to think that the book contains some sophisticated ideas, we have tried to make it understandable for a person with no background whatsoever in business, in accounting, in economics, or in law. As our audience, we have tried to keep in mind a bright young woman or man from a family of musicians, with a college major in English, now entering a law school or a graduate school of business—on the brink of discovering, with great surprise, that the study of business can be interesting and enjoyable, as well as profitable, and that it need not be intimidating. Another important goal was to humanize big business; to overcome a natural tendency to think of corporations, especially those big enough to have become household names, as bloodless entities; to show that the word “corporation” or a name such as “General Motors” is nothing more than a shorthand device for describing a complex set of relationships among people—people with all the human characteristics of the readers and their friends; and to demonstrate that an awareness of this reality is essential to understanding and learning how to deal with this kind of complex socioeconomic organization.

Because the book is intended for a bright but untutored audience, the order in which topics are considered reflects our intuitive sense of the order in which questions might occur to, and need to be answered for, such a reader. To that extent, we have abandoned a potentially more sophisticated logic that would have focused on such fundamental structural issues as control, risk and return, duration (including termination and withdrawal), conflicts of interest, and additional capital needs. We have also followed the traditional format of separating the law of proprietorship (agency), partnership, and corporations, resisting the temptation to demonstrate how each of these can best be seen as a set of legal rules resolving in different ways the underlying structural issues. We assume, however, that a thoughtful reader will ultimately be unable to avoid recognition and appreciation of that basic theme and its importance to an understanding of business organization.

The final two chapters are concerned with the field known as “corporate finance.” At a superficial level, there is a break between these chapters and the three that precede them. Yet there is continuity as well. The various corporate securities (common stock, bonds, etc.) and Market instruments (options, margin loans, etc.) that are discussed in Chapter 4 can perhaps best be understood as devices for allocating control, risk,

## *PREFACE*

and return and for resolving other issues that are the underlying focal points of the first three chapters. Thus, Chapter 4 represents an effort to provide an understanding not just of the formal characteristics of financial instruments but of their economic function as well. Finally, in Chapter 5 the inquiry turns to valuation and considers the question of what difference it might make in the valuation of an enterprise whether control, risk, etc., are allocated one way rather than another. Chapter 5 also reviews some of the recent literature on relationships between managers and shareholders and on financial theory and contains a description of the markets in which securities are issued and traded.

WILLIAM A. KLEIN  
JOHN C. COFFEE, JR.

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