## **Contents**

Preface xxv Introduction PART 1 **CHAPTER 1** The Role and Objective of Financial Management ...... 2 Introduction The Goal of Shareholder Wealth Maximization 1-2 Stakeholder Concerns 6 Divergent Objectives 7 1-2b 1-2c Agency Problems 8 Maximization of Shareholder Wealth: Managerial Strategies 10 1-3 Determinants of Value 12 1-3b Managerial Actions to Influence Value 13 Forms of Business Organization 1-4 1-4a Sole Proprietorship 1-4b Partnership 1-4c Corporation 15 Ethical Issues: The Practice of Financial Management 16 1-4d Other Types of Business Organizations 18 Organization of the Financial Management Function Financial Management and Other Disciplines Entrepreneurial Issues: Shareholder Wealth Maximization 21 Marketing, Production, Quantitative Methods, and Human Resources Management 22 1-6 Career Opportunities in Finance 1-7 Professional Finance Affiliations and Certifications 1-8 Summary Questions and Topics for Discussion **CHAPTER 2** 2-1 Introduction An Overview of the U.S. Financial System 2-2a Financial Assets 30 2-2b Financial Markets 30 Financial Intermediaries 31 The Structure and Operation of U.S. Security Markets Security Exchanges and Stock Market Indexes Regulation of the Security Markets The Global Economy and Multinational Enterprises 2-4 37 Foreign Currency Markets and Exchange Rates

The Eurocurrency Market 38

	2-5b The Euro: A Common European Currency 39
	2-5c Direct and Indirect Quotes 39
	2-5d Spot Rates 39
	2-5e Forward Rates 40 2-5f Foreign Currency Futures 41
	2-5f Foreign Currency Futures 41 2-5g Foreign Currency Options 42
2-6	Market Efficiency 42
	2-6a Information and Capital Market Efficiency 43
	2-6b Degrees of Market Efficiency 44
	2-6c Implications of Market Efficiency for Financial Managers 46
2.7	2-6d Behavioral Finance Perspectives on the Financial Marketplace 47
2-7	Holding Period Returns 48  Ethical Issues: Insider Trading 49
2-8	
2-0	Overview of the Financial Crisis beginning in 2007 49 International Issues: Market Efficiency Outside the United States 50
	2-8a Causes of the Financial Crisis 51
	2-8b How Firms Were Affected by the Financial Crisis 54
2-9	Income Taxes and Financial Management 55
	2-9a Implications of Income Taxes for Financial Managers 55
	2-9b Tax Rate Used in the Text 56
2-10	Summary 56
2-11	
2-12	Self-Test Problems 58
2-13	Problems 58
APP	ENDIX 2A: TAXES 61
2A-1	Introduction 61
2A-2	Corporate Income Taxes 61
	Entrepreneurial Issues: S Corporations 63
2A-3	Questions and Topics for Discussion 63
2A-4	Self-Test Problems 63
2A-5	Problems 64
	PTER 3
	nation of Financial Performance
3-1	Introduction 68 3-1a Uses of Financial Analysis 68
	3-1b Interpreting Financial Ratios 68
3-2	Basic Classifications of Financial Ratios 69
_	3-2a Key Financial Statements 70
	3-2b Liquidity Ratios 72
	3-2c Asset Management Ratios 74
	3-2d Financial Leverage Management Ratios 77 3-2e Profitability Ratios 80
	3-2f Market-Based Ratios 81
	3-2g Dividend Policy Ratios 83
3-3	Summary of Financial Ratio Analysis 84
	Trend Analysis 85
	Analysis of Profitability: Return on Investment 85

3-6	Analyzing Profitability Through Return on Stockholders Equity 90
3-7	Sources of Comparative Financial Data 91
3-8	A Word of Caution About Financial Ratio Analysis 92
3-9	Earnings and Balance Sheet Quality and Financial Analysis 93 3-9a Earnings Quality 93 3-9b Balance Sheet Quality 95 Ethical Issues: The Sarbanes-Oxley Act and the Financial Reporting Process 96
2.10	Market Value Added/Economic Value Added: An Alternative Measure of
3-10	Performance 97 3-10a The Market Value Added Concept 97 3-10b Economic Value Added 98
	International Issues: Financial Analysis of Multinational Corporations 99
3-11	Inflation and Financial Statement Analysis 100
3-12	Summary 101
3-13	Questions and Topics for Discussion 103
3-14	Self-Test Problems 104
3-15	Problems 105
	PTER 4  ncial Planning and Forecasting
4-2	Financial Planning 116
4-3	Cash Flow Analysis 118 4-3a The Cash Flow Generation Process 118 4-3b Importance of Cash Flows 119 4-3c Cash Flows and Shareholder Wealth 120 4-3d The Cash Flow Concept 120 4-3e The Statement of Cash Flows 121
4-4	Financial Forecasting 125 4-4a Percentage of Sales Forecasting Method 125 4-4b Cash Budgeting 128 4-4c Pro Forma Statement of Cash Flows 131 4-4d Computerized Financial Forecasting and Planning Models 133 4-4e Using Financial Ratios to Forecast Future Financial Performance 134
4-5	Summary 135
4-6	Questions and Topics for Discussion 136
4-7	Self-Test Problems 136
4-8	Problems 137
PAF	RT 2 Determinants of Valuation
	PTER 5 Time Value of Money
5-I	Introduction 146
	5-1a A Word About Notation 147 5-1b CFM Excel Templates 147
5-2	The Use of Financial Calculators and Spreadsheets 147 5-2a Calculator Solution 148

5-3 Interest 149 5-4 Simple Interest 149 5-5 Compound Interest and Future Value 151 5-5a Solving for the Interest Rate 154 5-5b Solving for the Number of Compounding Periods 154 5-6 Present Value 155 5-6a Solving for Interest and Growth Rates 158 5-7a Annuities 158 5-7a Future Value of an Ordinary Annuity 160 5-7b Future Value of an Annuity Due 162 5-7c Present Value of an Annuity Due 167 5-8 Present Value of an Uneven Payment Stream 168 5-8a Perpetuities 168 5-8b Present Value of an Uneven Payment Stream 169 5-8c Present Value of Deferred Annuities 171 5-9 Compounding Periods and Effective Interest Rates 172 5-9a Effect of Compounding Periods on Present and Future Values 172 5-10 Effective Rate Calculations 174 5-11 Net Present Value Rule 175 5-12 Summary 176 5-13 Questions and Topics for Discussion 178 5-14 Self-Test Problems 179 5-15 Problems 180 APPENDIX 5-A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189 5-A-1 Continuous Compounding 189 5-A-2 Continuous Compounding 190 5-A-3 Effective Rate Calculations 190 5-A-4 Self-Test Problems 190 5-A-5 Problems 191  CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation 192 6-1 Introduction 194 6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 195 6-2b Estumes of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2d Bond Ratings 203 6-2f Advantages and Disadvantages of Long-Term Debt Financing 205		5-2b Spreadsheet Solution 148
5-5 Compound Interest and Future Value 151 5-5a Solving for the Interest Rate 154 5-5b Solving for the Number of Compounding Periods 154  5-6 Present Value 155 5-6a Solving for Interest and Growth Rates 158  5-7 Annuities 158 5-7a Future Value of an Ordinary Annuity 160 5-7b Future Value of an Annuity Due 162 5-7c Present Value of an Annuity Due 163 5-7d Present Value of an Annuity Due 167  5-8 Present Value: Some Additional Cash Flow Patterns 168 5-8a Perpetuities 168 5-8b Present Value of an Uneven Payment Stream 169 5-8c Present Value of Deferred Annuities 171  5-9 Compounding Periods and Effective Interest Rates 172 5-9a Effect of Compounding Periods on Present and Future Values 172 5-10 Effective Rate Calculations 174 5-11 Net Present Value Rule 175 5-12 Summary 176 5-13 Questions and Topics for Discussion 178 5-14 Self-Test Problems 179 5-15 Problems 180  APPENDIX 5-A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189 5-A-1 Continuous Compounding 189 5-A-2 Continuous Discounting 190 5-A-3 Effective Rate Calculations 190 5-A-4 Self-Test Problems 190 5-A-5 Problems 191  CHAPTER 6  Fixed-Income Securities: Characteristics and Valuation 192 6-1 Introduction 194 6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 195 6-2b Features of Long-Term Debt 195 6-2c Users of Long-Term Debt 203 6-2c Users of Long-Term Debt 205	5-3	Interest 149
5-5a Solving for the Interest Rate 154 5-5b Solving for the Number of Compounding Periods 154  5-6 Present Value 155 5-6a Solving for Interest and Growth Rates 158  5-7a Annuities 158 5-7a Future Value of an Ordinary Annuity 160 5-7b Future Value of an Annuity Due 162 5-7c Present Value of an Annuity Due 167  5-7d Present Value of an Annuity Due 167  5-8 Present Value of an Ordinary Annuity 163 5-7d Present Value of an Ordinary Annuity 163 5-8a Perpetiuties 168 5-8a Perpetiuties 168 5-8b Present Value of an Uneven Payment Stream 169 5-8c Present Value of Deferred Annuities 171  5-9 Compounding Periods and Effective Interest Rates 172 5-9a Effect of Compounding Periods on Present and Future Values 172  5-10 Effective Rate Calculations 174  5-11 Net Present Value Rule 175 5-12 Summary 176 5-13 Questions and Topics for Discussion 178  5-14 Self-Test Problems 179 5-15 Problems 180  APPENDIX 5-A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189 5-A-1 Continuous Compounding 189 5-A-2 Continuous Discounting 190 5-A-3 Effective Rate Calculations 190 5-A-4 Self-Test Problems 190 5-A-5 Problems 191  CHAPTER 6  Fixed-Income Securities: Characteristics and Valuation 192 6-1 Introduction 194 6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 195 6-2a Types of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2d Advantages and Disadvantages of Long-Term Debt Financing 205	5-4	Simple Interest 149
5-5b Solving for the Number of Compounding Periods 154  5-6 Present Value 155 5-6a Solving for Interest and Growth Rates 158  5-7 Annutites 158 5-7a Future Value of an Ordinary Annuity 160 5-7b Future Value of an Annuity Due 162 5-7c Present Value of an Annuity Due 163 5-7d Present Value of an Annuity Due 167  5-8 Present Value Some Additional Cash Flow Patterns 168 5-8a Perpetuities 168 5-8b Present Value of Deferred Annuities 171  5-9 Compounding Periods and Effective Interest Rates 172 5-9a Effect of Compounding Periods on Present and Future Values 172  5-10 Effective Rate Calculations 174  5-11 Net Present Value Rule 175 5-12 Summary 176 5-13 Questions and Topics for Discussion 178 5-14 Self-Test Problems 179 5-15 Problems 180  APPENDIX 5-A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189 5A-1 Continuous Compounding 189 5A-2 Continuous Discounting 190 5A-3 Effective Rate Calculations 190 5A-4 Self-Test Problems 191  CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation 192 6-1 Introduction 194 6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 195 6-2b Features of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2d Bond Ratings 203 6-2e Users of Long-Term Debt 203 6-2e Users of Long-Term Debt 203 6-2e Users of Long-Term Debt 195 6-2b Good Advantages and Disadvantages of Long-Term Debt Financing 205	5-5	Compound Interest and Future Value 151
5-6 Present Value 155 5-6a Solving for Interest and Growth Rates 158 5-7 Annuities 158 5-7a Future Value of an Ordinary Annuity 160 5-7b Future Value of an Annuity Due 162 5-7c Present Value of an Annuity Due 167 5-7d Present Value of an Annuity Due 167 5-8 Present Value Some Additional Cash Flow Patterns 168 5-8a Perpetuities 168 5-8b Present Value of an Uneven Payment Stream 169 5-8c Present Value of Deferred Annuities 171 5-9 Compounding Periods and Effective Interest Rates 172 5-9a Effect of Compounding Periods on Present and Future Values 172 5-10 Effective Rate Calculations 174 5-11 Net Present Value Rule 175 5-12 Summary 176 5-13 Questions and Topics for Discussion 178 5-14 Self-Test Problems 179 5-15 Problems 180  APPENDIX 5-A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189 5-A-1 Continuous Compounding 189 5-A-2 Continuous Discounting 190 5-A-3 Effective Rate Calculations 190 5-A-4 Self-Test Problems 190 5-A-5 Problems 191  CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation 192 6-1 Introduction 194 6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 195 6-2b Features of Long-Term Debt 195 6-2c Information on Debt Financing Activities 200 6-2d Bond Ratings 203 6-2e Users of Long-Term Debt 203 6-2e Users of Long-Term Debt 195 6-2d Advantages and Disadvantages of Long-Term Debt Financing 205		
5-6a Solving for Interest and Growth Rates 158  5-7 Annuities 158  5-7a Future Value of an Ordinary Annuity 160 5-7b Future Value of an Annuity Due 162 5-7c Present Value of an Annuity Due 163 5-7d Present Value of an Annuity Due 167  5-8 Present Value: Some Additional Cash Flow Patterns 168 5-8a Perpetuities 168 5-8a Perpetuities 168 5-8b Present Value of an Uneven Payment Stream 169 5-8c Present Value of Deferred Annuities 171  5-9 Compounding Periods and Effective Interest Rates 172 5-9a Effect of Compounding Periods on Present and Future Values 172  5-10 Effective Rate Calculations 174  5-11 Net Present Value Rule 175 5-12 Summary 176 5-13 Questions and Topics for Discussion 178 5-14 Self-Test Problems 179 5-15 Problems 180  APPENDIX 5-3: CONTINUOUS COMPOUNDING AND DISCOUNTING 189 5A-1 Continuous Compounding 189 5A-2 Continuous Discounting 190 5A-3 Effective Rate Calculations 190 5A-4 Self-Test Problems 190 5A-5 Problems 191  CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation 192 6-1 Introduction 194 6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2e Users of Long-Term Debt 203 6-2f Advantages and Disadvantages of Long-Term Debt Financing 205		
5-7a Future Value of an Ordinary Annuity 160 5-7b Future Value of an Annuity Due 162 5-7c Present Value of an Annuity Due 163 5-7d Present Value of an Annuity Due 167  5-8 Present Value Some Additional Cash Flow Patterns 168 5-8a Perpetuities 168 5-8b Present Value of an Uneven Payment Stream 169 5-8c Present Value of Deferred Annuities 171  5-9 Compounding Periods and Effective Interest Rates 172 5-9a Effect of Compounding Periods on Present and Future Values 172  5-10 Effective Rate Calculations 174 5-11 Net Present Value Rule 175 5-12 Summary 176 5-13 Questions and Topics for Discussion 178 5-14 Self-Test Problems 179 5-15 Problems 180  APPENDIX 5A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189 5A-1 Continuous Compounding 189 5A-2 Continuous Discounting 190 5A-3 Effective Rate Calculations 190 5A-4 Self-Test Problems 190 5A-5 Problems 191  CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation 192 6-1 Introduction 194 6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2e Users of Long-Term Debt 203 6-2e Users of Long-Term Debt 203 6-2f Advantages and Disadvantages of Long-Term Debt Financing 205	5-6	
5-8a Perpetuities 168 5-8b Present Value of an Uneven Payment Stream 169 5-8c Present Value of Deferred Annuities 171  5-9 Compounding Periods and Effective Interest Rates 172 5-9a Effect of Compounding Periods on Present and Future Values 172  5-10 Effective Rate Calculations 174  5-11 Net Present Value Rule 175  5-12 Summary 176  5-13 Questions and Topics for Discussion 178  5-14 Self-Test Problems 179  5-15 Problems 180  APPENDIX 5A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189  5A-1 Continuous Compounding 189  5A-2 Continuous Discounting 190  5A-3 Effective Rate Calculations 190  5A-4 Self-Test Problems 190  5A-5 Problems 191  CHAPTER 6  Fixed-Income Securities: Characteristics and Valuation 192  6-1 Introduction 194  6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 195 6-2b Features of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2d Bond Ratings 203 6-2e Users of Long-Term Debt 203 6-2e Geaf Advantages and Disadvantages of Long-Term Debt Financing 205	5-7	<ul> <li>5-7a Future Value of an Ordinary Annuity 160</li> <li>5-7b Future Value of an Annuity Due 162</li> <li>5-7c Present Value of an Ordinary Annuity 163</li> </ul>
5-9a Effect of Compounding Periods on Present and Future Values 172  5-10 Effective Rate Calculations 174  5-11 Net Present Value Rule 175  5-12 Summary 176  5-13 Questions and Topics for Discussion 178  5-14 Self-Test Problems 179  5-15 Problems 180  APPENDIX 5A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189  5A-1 Continuous Compounding 189  5A-2 Continuous Discounting 190  5A-3 Effective Rate Calculations 190  5A-4 Self-Test Problems 190  5A-5 Problems 191  CHAPTER 6  Fixed-Income Securities: Characteristics and Valuation 192  6-1 Introduction 194  6-2 Characteristics of Long-Term Debt 195  6-2a Types of Long-Term Debt 196  6-2c Information on Debt Financing Activities 200  6-2d Bond Ratings 203  6-2e Users of Long-Term Debt 203  6-2f Advantages and Disadvantages of Long-Term Debt Financing 205	5-8	<ul><li>5-8a Perpetuities 168</li><li>5-8b Present Value of an Uneven Payment Stream 169</li></ul>
5-11 Net Present Value Rule 175 5-12 Summary 176 5-13 Questions and Topics for Discussion 178 5-14 Self-Test Problems 179 5-15 Problems 180  APPENDIX 5A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189 5A-1 Continuous Compounding 189 5A-2 Continuous Discounting 190 5A-3 Effective Rate Calculations 190 5A-4 Self-Test Problems 190 5A-5 Problems 191  CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation 192 6-1 Introduction 194 6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 195 6-2b Features of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2d Bond Ratings 203 6-2e Users of Long-Term Debt 203 6-2f Advantages and Disadvantages of Long-Term Debt Financing 205	5-9	
5-12 Summary 176 5-13 Questions and Topics for Discussion 178 5-14 Self-Test Problems 179 5-15 Problems 180  APPENDIX 5A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189 5A-1 Continuous Compounding 189 5A-2 Continuous Discounting 190 5A-3 Effective Rate Calculations 190 5A-4 Self-Test Problems 190 5A-5 Problems 191  CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation 192 6-1 Introduction 194 6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 195 6-2b Features of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2d Bond Ratings 203 6-2e Users of Long-Term Debt 203 6-2f Advantages and Disadvantages of Long-Term Debt Financing 205	5-10	Effective Rate Calculations 174
5-13 Questions and Topics for Discussion 178 5-14 Self-Test Problems 179 5-15 Problems 180  APPENDIX 5A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189 5A-1 Continuous Compounding 189 5A-2 Continuous Discounting 190 5A-3 Effective Rate Calculations 190 5A-4 Self-Test Problems 190 5A-5 Problems 191  CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation 192 6-1 Introduction 194 6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 195 6-2b Features of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2d Bond Ratings 203 6-2e Users of Long-Term Debt 203 6-2f Advantages and Disadvantages of Long-Term Debt Financing 205	5-11	Net Present Value Rule 175
5-14 Self-Test Problems 179 5-15 Problems 180  APPENDIX 5A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189 5A-1 Continuous Compounding 189 5A-2 Continuous Discounting 190 5A-3 Effective Rate Calculations 190 5A-4 Self-Test Problems 190 5A-5 Problems 191  CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation	5-12	Summary 176
APPENDIX 5A: CONTINUOUS COMPOUNDING AND DISCOUNTING	5-13	Questions and Topics for Discussion 178
APPENDIX 5A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189 5A-1 Continuous Compounding 189 5A-2 Continuous Discounting 190 5A-3 Effective Rate Calculations 190 5A-4 Self-Test Problems 190 5A-5 Problems 191  CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation	5-14	Self-Test Problems 179
5A-1 Continuous Compounding 189  5A-2 Continuous Discounting 190  5A-3 Effective Rate Calculations 190  5A-4 Self-Test Problems 190  5A-5 Problems 191  CHAPTER 6  Fixed-Income Securities: Characteristics and Valuation 192  6-1 Introduction 194  6-2 Characteristics of Long-Term Debt 195  6-2a Types of Long-Term Debt 195  6-2b Features of Long-Term Debt 196  6-2c Information on Debt Financing Activities 200  6-2d Bond Ratings 203  6-2e Users of Long-Term Debt 203  6-2f Advantages and Disadvantages of Long-Term Debt Financing 205	5-15	Problems 180
5A-1 Continuous Compounding 189  5A-2 Continuous Discounting 190  5A-3 Effective Rate Calculations 190  5A-4 Self-Test Problems 190  5A-5 Problems 191  CHAPTER 6  Fixed-Income Securities: Characteristics and Valuation 192  6-1 Introduction 194  6-2 Characteristics of Long-Term Debt 195  6-2a Types of Long-Term Debt 195  6-2b Features of Long-Term Debt 196  6-2c Information on Debt Financing Activities 200  6-2d Bond Ratings 203  6-2e Users of Long-Term Debt 203  6-2f Advantages and Disadvantages of Long-Term Debt Financing 205	APP	ENDIX 5A: CONTINUOUS COMPOUNDING AND DISCOUNTING 189
5A-2 Continuous Discounting 190 5A-3 Effective Rate Calculations 190 5A-4 Self-Test Problems 190 5A-5 Problems 191  CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation 192 6-1 Introduction 194 6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 195 6-2b Features of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2d Bond Ratings 203 6-2e Users of Long-Term Debt 203 6-2f Advantages and Disadvantages of Long-Term Debt Financing 205		
5A-3 Effective Rate Calculations 190 5A-4 Self-Test Problems 190 5A-5 Problems 191  CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation 192 6-1 Introduction 194 6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 195 6-2b Features of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2d Bond Ratings 203 6-2e Users of Long-Term Debt 203 6-2f Advantages and Disadvantages of Long-Term Debt Financing 205		
CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation		
CHAPTER 6 Fixed-Income Securities: Characteristics and Valuation	5A-4	Self-Test Problems 190
Fixed-Income Securities: Characteristics and Valuation	5A-5	Problems 191
Fixed-Income Securities: Characteristics and Valuation		
6-1 Introduction 194 6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 195 6-2b Features of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2d Bond Ratings 203 6-2e Users of Long-Term Debt 203 6-2f Advantages and Disadvantages of Long-Term Debt Financing 205		
6-2 Characteristics of Long-Term Debt 195 6-2a Types of Long-Term Debt 195 6-2b Features of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2d Bond Ratings 203 6-2e Users of Long-Term Debt 203 6-2f Advantages and Disadvantages of Long-Term Debt Financing 205		
<ul> <li>6-2a Types of Long-Term Debt 195</li> <li>6-2b Features of Long-Term Debt 196</li> <li>6-2c Information on Debt Financing Activities 200</li> <li>6-2d Bond Ratings 203</li> <li>6-2e Users of Long-Term Debt 203</li> <li>6-2f Advantages and Disadvantages of Long-Term Debt Financing 205</li> </ul>		
Michiganolia 135465. The international bond market 205	6-2	6-2a Types of Long-Term Debt 195 6-2b Features of Long-Term Debt 196 6-2c Information on Debt Financing Activities 200 6-2d Bond Ratings 203 6-2e Users of Long-Term Debt 203
6-3 Valuation of Assets 206	6-3	Valuation of Assets 206
6-3a Capitalization of Cash Flow Method 206		
6-3b Market Value of Assets and Market Equilibrium 207 6-3c Book Value of an Asset 208		•

6-4	Bond Valuation 208 6-4a Bonds Having Finite Mat 6-4b Perpetual Bonds 212	curity Dates 209	
	Ethical Issues: Leveraged Buyouts at 6-4c Yield-to-Maturity of a Bo		
6-5	Characteristics of Preferred Stor 6-5a Features of Preferred Stor 6-5b Trading of Preferred Shar 6-5c Users of Preferred Stock 6-5d Advantages and Disadvant 6-5e Valuation of Preferred Stork	ck 216 res 217 217 ntages of Preferred Stock Financing	218
6-6	Summary 219		
6-7	Questions and Topics for Discu	assion 220	
6-8	Self-Test Problems 221		4 <sup>*</sup>
6-9	Problems 222		
CHAI	PTER 7		
Com	mon Stock: Characteristics, V	aluation, and Issuance	226
7-1	Introduction 228 7-1a Understanding Stock Que	otations 228	
7-2	Characteristics of Common Sto	ck 229	
	7-2a Common Stock and Accordance 7-2b Stockholder Rights 231		
	7-2c Other Features of Comm		
	7-2d Advantages and Disadvar	's 233 ntages of Common Stock Financing	; 234
7-3	The Security Offering Process: 17-3a How Securities Are Sold	Role of the Investment Banker 236	235
7-4	Valuation of Common Stock 7-4a One-Period Dividend Va	241 luation Model 242	
	<ul> <li>International Issues: Global Equity IV</li> <li>7-4b Multiple-Period Dividend</li> <li>7-4c A General Dividend Value</li> </ul>	d Valuation Model 243	
7-5		Valuation Model 245 nd Valuation Model 246 vidend Valuation Model 248	
<b>~</b> .	Entrepreneurial Issues: Valuation of	Closely Held Firms 249	
7-6	Summary 251		
7-7	Questions and Topics for Discu	assion 252	
7-8	Self-Test Problems 253		
7-9	Problems 254		
	PTER 8		
8-1	Introduction 262		
8-2		n: 1 aca	
0.2	Meaning and Measurement of 18-2a Probability Distributions 8-2b Summary of Notation 28-2c Expected Value 264	Risk 262 263 264	

	<ul> <li>8-2d Standard Deviation: An Absolute Measure of Risk 265</li> <li>8-2e Normal Probability Distribution 266</li> <li>8-2f Coefficient of Variation: A Relative Measure of Risk 268</li> </ul>
	8-2g Risk as an Increasing Function of Time 269
8-3	Relationship Between Risk and Return 270 8-3a Risk-Free Rate of Return 270 8-3b Risk Premium 271
	8-3c Business and Financial Risk 274
	8-3d Risk and Required Returns for Various Types of Securities 275
8-4	Investment Diversification and Portfolio Risk Analysis 276 8-4a Expected Returns from a Portfolio 278 8-4b Portfolio Risk 279
0.5	8-4c Efficient Portfolios and the Capital Market Line 283
8-5	Portfolio Risk and the Capital Asset Pricing Model 285 8-5a Systematic and Unsystematic Risk 285 8-5b Security Market Line (SML) 286
	8-5c Beta: A Measure of Systematic Risk 287
	8-5d Security Market Line and Beta 290
	8-5e Inflation and the Security Market Line 293 8-5f Uses of the CAPM and Portfolio Risk Concepts 293
	International Issues: Diversification and Multinational Corporations 293
	8-5g Assumptions and Limitations of the CAPM 294
	Ethical Issues: High-Risk Securities 295
8-6	Other Dimensions of Risk 295
8-7	Summary 296
8-8	Questions and Topics for Discussion 298
8-9	Self-Test Problems 299
0 10	Problems 301
9-10	
PAR	
PAR	
PAR CHAI	T 3 The Capital Investment Decision
PAR CHAI	T 3 The Capital Investment Decision
PAR CHAI Capi	TT 3 The Capital Investment Decision  PTER 9 tal Budgeting and Cash Flow Analysis
PAR CHAI Capi 9-1	TT3 The Capital Investment Decision  TER 9 tal Budgeting and Cash Flow Analysis
PAR CHAI Capi 9-1	TT3 The Capital Investment Decision  PTER 9  tal Budgeting and Cash Flow Analysis
PAR CHAI Capi 9-1 9-2	TT3 The Capital Investment Decision  PTER 9  tal Budgeting and Cash Flow Analysis
PAR CHAR Capi 9-1 9-2	TT3 The Capital Investment Decision  TER 9  tal Budgeting and Cash Flow Analysis
PAR CHAI Capi 9-1 9-2	TT3 The Capital Investment Decision  PTER 9  tal Budgeting and Cash Flow Analysis
PAR CHAR Capi 9-1 9-2	Ta The Capital Investment Decision  TER 9  tal Budgeting and Cash Flow Analysis
PAR CAPI 9-1 9-2 9-3 9-4	TTA The Capital Investment Decision  TER 9  tal Budgeting and Cash Flow Analysis
AI	Ta The Capital Investment Decision  TER 9  tal Budgeting and Cash Flow Analysis

9-8	Asset Expansion Projects 324  9-8a Calculating the Net Investment 324  9-8b Calculating Annual Net Cash Flows 325
9-9	Asset Replacement Projects 326 9-9a Calculating the Net Investment 326 9-9b Calculating Annual Net Cash Flows 327
9-10	Problems in Cash Flow Estimation 329
9-11	The Practice of Cash Flow Estimation for Capital Budgeting 329
	Ethical Issues: Cash Flow Estimation Biases 330
9-12	Summary 331
9-13	Questions and Topics for Discussion 332
9-14	Self-Test Problems 332
9-15	Problems 333
APP	ENDIX 9A: DEPRECIATION
9A-1	Introduction to Depreciation 339
9A-2	Straight-Line Depreciation 339
9A-3	Modified Accelerated Cost Recovery System (MACRS) 340
9A-4	Real Property 342
9A-5	Questions and Topics for Discussion 342
9A-6	Problems 343
Cap	PTER 10 ital Budgeting: Decision Criteria and Real Option Considerations 344 Introduction 346
	Decision Models for Evaluating Alternatives 346
10-2	10-2a Net Present Value 346
	10-2b Profitability Index 351
	10-2c Internal Rate of Return 352 10-2d Payback (PB) Period 356
10-3	Capital Rationing and the Capital Budgeting Decision 359
	Reviewing and Post-Auditing an Accepted Project 362
10-5	
	Bank Branch 363
	International Issues: A Framework for International Capital Expenditure Decisions 365
10-6	Real Options in Capital Budgeting 367
	10-6a Classification of Real Options in Capital Budgeting 367
	Ethical Issues: The Use of Shareholder Resources 368 10-6b How Are Real Options Concepts Being Applied? 370
10-7	
10-8	•
10-9	
10-1	0 Problems 372
ADI	PENDIX 104. MITHALLY EVOLUCION TO THE PROPERTY OF THE PROPERTY
HA	PENDIX 10A: MUTUALLY EXCLUSIVE INVESTMENTS VING UNEQUAL LIVES

10A-	2 Equivalent Annual Annuities 382
10A-	3 Problems 384
СНУ	PTER 11
	tal Budgeting and Risk
_	Introduction 388
11-2	Total Project Risk Versus Portfolio Risk 388
	Adjusting for Total Project Risk 390  11-3a Net Present Value/Payback Approach 390  11-3b Simulation Analysis 390  11-3c Sensitivity Analysis 393  11-3d Scenario Analysis 395  11-3e Certainty Equivalent Approach 396
	11-3f Risk-Adjusted Discount Rate Approach 398
11-4	Adjusting for Beta Risk in Capital Budgeting 399 11-4a The All-Equity Case 400
	International Issues: Special Elements of Capital Budgeting Risk 401
	11-4b The Equity and Debt Case 401
	11-4c Computing the Risk-Adjusted Net Present Value 403
	Summary 404
II-6	Questions and Topics for Discussion 405
11-7	Self-Test Problems 406
11-7 11-8	Problems 407  RT 4 The Cost of Capital, Capital Structure, and
11-7 11-8 PAR	Problems 407  RT 4 The Cost of Capital, Capital Structure, and Dividend Policy  PTER 12
11-7 11-8 PAR	Problems 407  RT 4 The Cost of Capital, Capital Structure, and Dividend Policy
PAR	Problems 407  RT 4 The Cost of Capital, Capital Structure, and Dividend Policy  PTER 12
PAR CHAI	Problems 407  RT 4 The Cost of Capital, Capital Structure, and Dividend Policy  PTER 12 Cost of Capital 416
11-7 11-8 PAF CHAI Γhe	Problems 407  RT 4 The Cost of Capital, Capital Structure, and Dividend Policy  PTER 12 Cost of Capital 416 Introduction 418
PAF  PAF  11-7  11-8  PAF  12-1  12-2  12-3	Problems 407  RT 4 The Cost of Capital, Capital Structure, and Dividend Policy  PTER 12  Cost of Capital
PAF  CHAI  The  12-1  12-2  12-3	Problems 407  RT 4 The Cost of Capital, Capital Structure, and Dividend Policy  PTER 12  Cost of Capital 416  Introduction 418  Summary of Notation 419  Weighted Cost of Capital 419  12-3a Market Value Versus Book Value Weights 420  12-3b Gasco Inc.'s Weighted Cost of Capital 421  12-3c The Problem of "Lumpy" Capital 421
11-7 11-8 PAF CHAI Γhe 12-1 12-2 12-3	Problems 407  RT 4 The Cost of Capital, Capital Structure, and Dividend Policy  PTER 12  Cost of Capital

12-7	Determining the Weighted (Marginal) Cost of Capital Schedule 436  International Issues: The Cost of Capital for Multinational Companies 438
12-8	Determining the Optimal Capital Budget 439
	Entrepreneurial Issues: The Cost of Capital 441
12-9	Cost of Depreciation-Generated Funds 442
12-10	Summary 442
12-11	Questions and Topics for Discussion 444
12-12	Self-Test Problems 444
12-13	Problems 445
CHAP	PTER 13
Capit	tal Structure Concepts
	Introduction 457
13-2	Capital Structure Decisions and Maximization of Shareholder Wealth 458
	13-2a Assumptions of Capital Structure Analysis 458
13-3	Business Risk 458
	13-3a Business Risk: Systematic or Unsystematic? 460
13-4	Financial Risk and Financial Leverage 460
	13-4a Financial Risk: Systematic or Unsystematic? 462
	13-4b Effect of Financial Leverage on Stockholder Returns and Risk 462
13-5	Capital Structure Theory 463
	13-5a Capital Structure Without a Corporate Income Tax 464
	13-5b Capital Structure with a Corporate Income Tax 467 13-5c Capital Structure with a Corporate Income Tax: Financial Distress Costs and
	Agency Costs 468
	13-5d Value-Maximizing Capital Structure 472
	13-5e The Cost of Capital and the Optimal Capital Structure 472
	13-5f Other Considerations in the Capital Structure Decision 475
	Ethical Issues: LBO Stakeholder Impacts 478
	International Issues: Capital Structure 479
13-6	Managerial Implications of Capital Structure Theory 480
13-7	Summary 481
13-8	Questions and Topics for Discussion 482
13-9	Self-Test Problems 482
13-10	Problems 483
СНАЕ	PTER 14
	tal Structura Managamant in Dunctin
	Introduction 490
14-2	
14-2	Operating and Financial Leverage 491 14-2a Leverage and the Income Statement 491
	14-2a Leverage and the Income Statement 491 14-2b Short-Run Costs 491
	14-2c Long-Run Costs 493
	14-2d Measurement of Operating and Financial Leverage 493
	14-2e Degree of Operating Leverage 493
	14-2f Degree of Financial Leverage 496
	14-2g Degree of Combined Leverage 498
	14-2h Effect of Leverage on Shareholder Wealth and the Cost of Capital 500

14-3	Other Financial Risk Measures 500
14-4	EBIT-EPS Analysis 501  14-4a EBIT-EPS Analysis and Capital Structure Decisions 504  14-4b EBIT-EPS Analysis and Stock Prices 506
14-5	Cash Insolvency Analysis 507
14-6	Other Factors to Consider in Making Capital Structure Decisions 510 14-6a Industry Standards 510 14-6b Profitability and Need for Funds 511
	International Issues: Balancing Operating and Financial Risks at Nestlé 512  14-6c Lender and Bond-Rater Requirements 512  14-6d Managerial Risk Aversion 513  14-6e Retention of Control 513
14-7	Summary 514
14-8	Questions and Topics for Discussion 515
14-9	Self-Test Problems 516
14-10	Problems 517
A DD1	ENDIN 144. DDE AVEVENI ANALVCIC
	ENDIX 14A: BREAKEVEN ANALYSIS
14A-1	
14A-2	
14A-3	,
14A-4	****
14A-5	
14A-6	Breakeven Analysis and Risk Assessment 532
14A-7	Some Limitations of Breakeven Analysis 532
14A-8	3 Cash Breakeven Point 534
14A-9	Questions and Topics for Discussion 535
14A-1	0 Self-Test Problems 535
14A-1	1 Problems 536
	PTER 15
	lend Policy
	Introduction 540  Determinants of Dividend Policy 542
13-2	15-2a Industry and Company Variations in Dividend Payout Ratios 542 15-2b Legal Constraints 543 15-2c Restrictive Covenants 544 15-2d Tax Considerations 544 15-2e Liquidity and Cash Flow Considerations 545
	15-2f Borrowing Capacity and Access to the Capital Markets 546 15-2g Earnings Stability 546
	15-2h Growth Prospects 547
	15-2i Shareholder Preferences 547
	15-2j Protection Against Dilution 548
15-3	Dividend Policy and Firm Value 549
	15-3a Arguments for the Irrelevance of Dividends 549
	15-3b Arguments for the Relevance of Dividends 550 15-3c Transaction Costs 551
	15.56 ***********************************

	15-3d Taxes 351 15-3e Issuance (Flotation) Costs 551
	15-3f Agency Costs 551
	13-3g Conclusions regarding Distance
15-4	Dividend Policies 552 15-4a Passive Residual Policy 552
	15-4a Passive Residual Policy 552 15-4b Stable Dollar Dividend Policy 553
	15-4c Other Dividend Payment Policies 555
	Entrepreneurial Issues: Dividend Policy 556
	15-4d How Dividends Are Paid 557
	International Issues: Dividend Policies for Multinational Firms 558
	15-4e Dividend Reinvestment Plans 559
15-5	Stock Dividends and Stock Splits 559
15-6	Share Repurchases as Dividend Decisions 561
	15-6a Procedures for Repurchasing Shares 561
	15-6b Share Repurchase Versus Cash Dividend Example 562
	15-6c Tax Considerations 563
	15-6d Financial Flexibility 563
	15-6e Signaling Effects 564 15-6f Earnings-per-Share Dilution 564
	15-6g Agency Costs 564
	15-6h Advantages and Disadvantages 565
15-7	Summary 565
15-8	Questions and Topics for Discussion 566
	Self-Test Problems 567
	0 Problems 567
15 10	, 1100 cm 5 07
DAD	RT 5 Working Capital Management
	113 Working Capital Management
	PTER 16
Wor	king Capital Policy and Short-Term Financing 574
16-1	Introduction 576
16-2	Working Capital Policy 576
	Working Capital Policy 576
	16-2a Importance of Working Capital 577
	- ·
16-3	16-2a Importance of Working Capital 577 16-2b Operating Cycle Analysis 578  Levels of Working Capital Investment 580
16-3	16-2a Importance of Working Capital 577 16-2b Operating Cycle Analysis 578  Levels of Working Capital Investment 580
16-3	<ul> <li>16-2a Importance of Working Capital 577</li> <li>16-2b Operating Cycle Analysis 578</li> <li>Levels of Working Capital Investment 580</li> <li>16-3a Profitability Versus Risk Trade-Off for Alternative Levels of Working Capital Investment 581</li> </ul>
	<ul> <li>16-2a Importance of Working Capital 577</li> <li>16-2b Operating Cycle Analysis 578</li> <li>Levels of Working Capital Investment 580</li> <li>16-3a Profitability Versus Risk Trade-Off for Alternative Levels of Working Capital Investment 581</li> <li>16-3b Optimal Level of Working Capital Investment 582</li> </ul>
	<ul> <li>16-2a Importance of Working Capital 577</li> <li>16-2b Operating Cycle Analysis 578</li> <li>Levels of Working Capital Investment 580</li> <li>16-3a Profitability Versus Risk Trade-Off for Alternative Levels of Working Capital Investment 581</li> <li>16-3b Optimal Level of Working Capital Investment 582</li> <li>Proportions of Short-Term and Long-Term Financing 582</li> </ul>
	<ul> <li>16-2a Importance of Working Capital 577</li> <li>16-2b Operating Cycle Analysis 578</li> <li>Levels of Working Capital Investment 580</li> <li>16-3a Profitability Versus Risk Trade-Off for Alternative Levels of Working Capital Investment 581</li> <li>16-3b Optimal Level of Working Capital Investment 582</li> <li>Proportions of Short-Term and Long-Term Financing 582</li> <li>16-4a Cost of Short-Term Versus Long-Term Debt 583</li> </ul>
16-4	<ul> <li>16-2a Importance of Working Capital 577</li> <li>16-2b Operating Cycle Analysis 578</li> <li>Levels of Working Capital Investment 580</li> <li>16-3a Profitability Versus Risk Trade-Off for Alternative Levels of Working Capital Investment 581</li> <li>16-3b Optimal Level of Working Capital Investment 582</li> <li>Proportions of Short-Term and Long-Term Financing 582</li> <li>16-4a Cost of Short-Term Versus Long-Term Debt 583</li> <li>16-4b Risk of Long-Term Versus Short-Term Debt 583</li> </ul>
	<ul> <li>16-2a Importance of Working Capital 577</li> <li>16-2b Operating Cycle Analysis 578</li> <li>Levels of Working Capital Investment 580</li> <li>16-3a Profitability Versus Risk Trade-Off for Alternative Levels of Working Capital Investment 581</li> <li>16-3b Optimal Level of Working Capital Investment 582</li> <li>Proportions of Short-Term and Long-Term Financing 582</li> <li>16-4a Cost of Short-Term Versus Long-Term Debt 583</li> <li>16-4b Risk of Long-Term Versus Short-Term Debt 583</li> <li>Profitability Versus Risk Trade-Off for Alternative Financing Plans 583</li> </ul>
16-4 16-5	<ul> <li>16-2a Importance of Working Capital 577</li> <li>16-2b Operating Cycle Analysis 578</li> <li>Levels of Working Capital Investment 580</li> <li>16-3a Profitability Versus Risk Trade-Off for Alternative Levels of Working Capital Investment 581</li> <li>16-3b Optimal Level of Working Capital Investment 582</li> <li>Proportions of Short-Term and Long-Term Financing 582</li> <li>16-4a Cost of Short-Term Versus Long-Term Debt 583</li> <li>16-4b Risk of Long-Term Versus Short-Term Debt 583</li> <li>Profitability Versus Risk Trade-Off for Alternative Financing Plans 583</li> <li>16-5a Optimal Proportions of Short-Term and Long-Term Debt 587</li> </ul>
16-4 16-5 16-6	<ul> <li>16-2a Importance of Working Capital 577</li> <li>16-2b Operating Cycle Analysis 578</li> <li>Levels of Working Capital Investment 580</li> <li>16-3a Profitability Versus Risk Trade-Off for Alternative Levels of Working Capital Investment 581</li> <li>16-3b Optimal Level of Working Capital Investment 582</li> <li>Proportions of Short-Term and Long-Term Financing 582</li> <li>16-4a Cost of Short-Term Versus Long-Term Debt 583</li> <li>16-4b Risk of Long-Term Versus Short-Term Debt 583</li> <li>Profitability Versus Risk Trade-Off for Alternative Financing Plans 583</li> <li>16-5a Optimal Proportions of Short-Term and Long-Term Debt 587</li> <li>Overall Working Capital Policy 588</li> </ul>
16-4 16-5 16-6 16-7	<ul> <li>16-2a Importance of Working Capital 577</li> <li>16-2b Operating Cycle Analysis 578</li> <li>Levels of Working Capital Investment 580</li> <li>16-3a Profitability Versus Risk Trade-Off for Alternative Levels of Working Capital Investment 581</li> <li>16-3b Optimal Level of Working Capital Investment 582</li> <li>Proportions of Short-Term and Long-Term Financing 582</li> <li>16-4a Cost of Short-Term Versus Long-Term Debt 583</li> <li>16-4b Risk of Long-Term Versus Short-Term Debt 583</li> <li>Profitability Versus Risk Trade-Off for Alternative Financing Plans 583</li> <li>16-5a Optimal Proportions of Short-Term and Long-Term Debt 587</li> <li>Overall Working Capital Policy 588</li> <li>Short-Term Credit 589</li> </ul>
16-4 16-5 16-6	<ul> <li>16-2a Importance of Working Capital 577</li> <li>16-2b Operating Cycle Analysis 578</li> <li>Levels of Working Capital Investment 580</li> <li>16-3a Profitability Versus Risk Trade-Off for Alternative Levels of Working Capital Investment 581</li> <li>16-3b Optimal Level of Working Capital Investment 582</li> <li>Proportions of Short-Term and Long-Term Financing 582</li> <li>16-4a Cost of Short-Term Versus Long-Term Debt 583</li> <li>16-4b Risk of Long-Term Versus Short-Term Debt 583</li> <li>Profitability Versus Risk Trade-Off for Alternative Financing Plans 583</li> <li>16-5a Optimal Proportions of Short-Term and Long-Term Debt 587</li> <li>Overall Working Capital Policy 588</li> <li>Short-Term Credit 589</li> </ul>

16	9 Trade Credit 591 16-9a Credit Terms 592 16-9b Cost of Trade Credit 592 16-9c Stretching Accounts Payable 594
16	10 Accrued Expenses and Deferred Income 594 16-10a Accrued Expenses 594 16-10b Deferred Income 594
16-	11 Short-Term Bank Credit 595
	Ethical Issues: Interest Rate Manipulation 596 16-11a Single Loans (Notes) 596 16-11b Lines of Credit 598 16-11c Revolving Credit Agreements 599
	Ethical Issues: Tying Bank Loans to Other Services 599
16-	12 Commercial Paper 601
16-	13 Accounts Receivable Loans 602 16-13a Pledging Accounts Receivable 602 16-13b Factoring Accounts Receivable 604
16-	14 Inventory Loans 605 16-14a Floating Liens 607 16-14b Trust Receipts 607 16-14c Terminal Warehouse and Field Warehouse Financing Arrangements 607 International Issues: Foreign Receivables Financing 608
16-	15 Summary 609
	16 Questions and Topics for Discussion 611
	17 Self-Test Problems 612
	18 Problems 614
10-	10 Hopens of
СН	APTER 17
Th	e Management of Cash and Marketable Securities 628
17-	1 Introduction 630
17-	2 Liquid Asset Balance 631 17-2a Cash Flows and the Cash Budget 632 17-2b Corporate-Bank Relations 633 17-2c Optimal Liquid Asset Balance 634 17-2d The Practice of Liquidity Management 635
17-	3 Controlling the Collection and Disbursement of Cash 636 17-3a Float 637 17-3b Expediting Collections 637 17-3c Slowing Disbursements 642
	Ethical Issues: Cash Management 643
17-	17-4a Check Clearing for the 21st Century Act 645
17-	5 Investing in Marketable Securities 645 17-5a Choosing Marketable Securities 645
	Entrepreneurial Issues: Cash Management 646
	17-5b Types of Marketable Securities 647
	International Issues: Cash Management 651 6 Summary 653

17-7 Questions and Topics for Discussion 653

17-8	Self-Test Problems 654
17-9	Problems 655
The l	PTER 18 Management of Accounts Receivable and Inventories
18-1	Introduction 662
18-2	Accounts Receivable Management 662  18-2a Shareholder Wealth and Optimal Investments in Accounts Receivable 663  18-2b Credit Standards 663  18-2c Credit Terms 666  18-2d Collection Effort 670  18-2e Monitoring Accounts Receivable 670
18-3	Evaluating Individual Credit Applicants 671  18-3a Gathering Information on the Credit Applicant 671  18-3b Analyzing Creditworthiness and Making the Credit Decision 672
18-4	Inventory Management 673  18-4a Benefits of Holding Inventories 674  18-4b Inventory-Related Costs 675
18-5	Inventory Control Models 676  18-5a Basic EOQ Model 677  18-5b Extensions of the Basic EOQ Model 680  18-5c Just-in-Time Inventory Management Systems 683
18-6	Summary 683
18-7	Questions and Topics for Discussion 685
18-8	Self-Test Problems 686
18-9	Problems 687
PAF	RT 6 Additional Topics in Contemporary Financial
	Management
	PTER 19 e and Intermediate-Term Financing
	Introduction 698
19-2	Leasing 698
19-3	Types of Leases 699 19-3a Operating Leases 699 19-3b Financial or Capital Leases 699 19-3c Leveraged Leases 700
19-4	19-4a Advantages 703
	Entrepreneurial Issues: Leasing by Small Businessesa 704 19-4b Disadvantages 704
19-5	Tax and Accounting Aspects of Leases70519-5a Tax Status of True Leases70519-5b Leases and Accounting Practices705
19-6	Determining Lease Payments: The Lessor's Perspective 706
19-7	

19-8	Term Loans 710 19-8a Repayment Provisions 711 19-8b Interest Costs 712
19-9	Security Provisions and Protective Covenants 714 19-9a Security Provisions 714 19-9b Affirmative Covenants 715 19-9c Negative Covenants 715 19-9d Restrictive Covenants 715 19-9e Default Provisions 716
19-1	0 Suppliers of Term Loans 716 19-10a Commercial Banks and Savings and Loan Associations 716 19-10b Life Insurance Companies and Pension Funds 716 19-10c Small Business Administration (SBA) 717 19-10d Small Business Investment Companies (SBICs) 717 19-10e Industrial Development Authorities (IDAs) 717
19-1	1 Equipment Loans 717 19-11a Conditional Sales Contract 718 19-11b Chattel Mortgage 718
19-1	2 Summary 718
19-1	3 Questions and Topics for Discussion 719
19-1	4 Self-Test Problems 720
19-1	5 Problems 720
	PTER 20 Incing with Derivatives
20-2	Options 729 20-2a Option Valuation Concepts 729 20-2b Variables Affecting Call Option Valuation 730 20-2c Option Valuation Models 732 20-2d Call Options on Bonds 732 20-2e Common Stock in an Options Framework 732
20-3	Convertible Securities 732 20-3a Features of Convertible Securities 733 20-3b Managing Long-Term Funding with Convertibles 733 20-3c Valuation of Convertible Securities 734 20-3d Converting Convertible Securities 736 20-3e Convertible Securities and Earnings Dilution 737
20-4	Warrants 737 20-4a Features of Warrants 738 20-4b Reasons for Issuing Warrants 738 20-4c Valuation of Warrants 739 20-4d Comparison of Convertible Securities and Warrants 739
20-5	Analysis of Rights Offerings 740 20-5a Valuation of Rights 740
20-6	Swaps 742 20-6a Interest Rate Swaps 742 20-6b Credit Default Swaps 743
20-7	Summary 744 20-7a Options 744

20-7b Convertible Securities 744 20-7c Warrants 744 20-7d Rights Offering 744				
20-7e Swaps 745				
20-8 Questions and Topics for Discussion 746				
20-9 Self-Test Problems 746				
20-10 Problems 747				
APPENDIX 20A: THE BLACK-SCHOLES OPTION PRICING MODEL 752				
20A-1 The Foundations of Option Valuation 752				
20A-2 The Black-Scholes Option Pricing Model 753				
20A-3 Applying the Black-Scholes Model 753				
<b>20A-4 Problems</b> 754				
APPENDIX 20B: BOND REFUNDING ANALYSIS				
20B-1 The Bond Refunding Process 756				
<b>20B-2 Problems</b> 758				
CHAPTER 21  Risk Management				
21-1 Introduction 762				
21-2 Why Manage Risk? 763				
21-3 Nonhedging Risk-Management Strategies 764				
21-3a Acquisition of Additional Information 764 21-3b Diversification 765 21-3c Insurance 765 21-3d Gaining Control over the Operating Environment 766 21-3e Limited Use of Firm-Specific Assets 766				
21-4 Hedging Strategies for Risk Management 21-4a Forward Contracts 767 21-4b Futures Contracts 767 21-4c A Long Hedge 769 21-4d A Short Hedge 771				
21-5 Hedging Price Risk with Options 772				
21-5a Final Comments Regarding Risk-Management Strategies 773				
Ethical Issues: AIG, the Financial Crisis of 2008, and the Failure of Risk Management 774				
21-6 Summary 775				
21-7 Questions and Topics for Discussion 775				
21-8 Self-Test Problems 775				
21-9 Problems 776				
CHAPTER 22				
International Financial Management 778				
22-1 Introduction 780				
<ul> <li>22-2 Factors That Affect Exchange Rates 781</li> <li>22-2a Covered Interest Arbitrage and Interest Rate Parity 782</li> <li>22-2b Purchasing Power Parity 783</li> <li>22-2c Expectations Theory and Forward Exchange Rates 785</li> </ul>				

	22-2d The International Fisher Effect 785
	22-2e An Integrative Look at International Parity Relationships 786
22-3	Forecasting Future Exchange Rates 788  22-3a Using Forward Rates 788  22-3b Using Interest Rates 788
22-4	Foreign Exchange Risk 789  22-4a Transaction Exposure 789  22-4b Economic Exposure 791  22-4c Translation Exposure 792  Ethical Issues: Payment of Bribes Abroad 793
22-5	Summary 795
22-6	Questions and Topics for Discussion 796
	Self-Test Problems 796
22-8	Problems 796
CHAF	PTER 23
Corp	orate Restructuring
23-1	Introduction 802
23-2	Mergers and Acquisitions 802
	23-2a Mergers Defined 803
	23-2b Merger Statistics 803
	23-2c Types of Mergers 803
	23-2d Form of Merger Transactions 805
	23-2e Holding Companies 806
	23-2f Joint Ventures 807
	23-2g Leveraged Buyouts 807
	23-2h Divestitures and Restructurings 808 23-2i Tender Offers 809
	23-2i Rationale for Restructuring 809
	23-2k Antitakeover Measures 810
	23-21 Reasons for Mergers 811
	23-2m Accounting Aspects of Mergers 812
	23-2n Tax Aspects of Mergers 813
	23-20 Valuation of Merger Candidates 814
	23-2p Valuation Techniques 814
	23-2q Analysis of a Merger: Earnings per Share and P/E Effects 817
23-3	Business Failure 819
	23-3a Definitions of Business Failure 819
	23-3b Business Failure Statistics 820

. 800

23-3c Causes of Business Failure 821 23-3d Alternatives for Failing Businesses 822 23-3e Informal Alternatives for Failing Businesses 823

829

23-3f Formal Alternatives for Failing Businesses Under the Bankruptcy Laws 824 23-3g Reorganization 825

23-3h Liquidation 826

828

23-5 Questions and Topics for Discussion

23-4 Summary

23-6 Self-Test Problems 23-7 Problems 831

Reference Materials
Tables T-1
Glossary G-1
Solutions to Self-Test Problems s-1
Check Answers to Selected Problems C-1
Index I-1