

PREFACE

This book describes the theory and practice of corporate finance with particular emphasis on financial environment. We hardly need to explain why financial managers need to master the practical aspects of their job, but we should spell out why down-to-earth managers need to bother with theory.

Managers learn from experience how to cope with routine problems. But the best managers are also able to respond to change. To do so you need more than time-honored rules of thumb; you must understand *why* companies and financial markets behave the way they do. In other words, you need a *theory* of finance.

Does that sound intimidating? It shouldn't. Good theory helps you to grasp what is going on in the world around you. It helps you to ask the right questions when times change and new problems need to be analyzed. It also tells you which things you *do not* need to worry about. Throughout this book we show how managers use financial theory to solve practical problems.

Of course, the theory presented in this book is not perfect and complete—no theory is. There are some famous controversies where financial economists cannot agree. We have not glossed over these disagreements. We set out the arguments for each side and tell you where we stand.

Much of this book is concerned with understanding what financial managers do and why. But we also say what financial managers *should* do to increase company value. Where theory suggests that financial managers are making mistakes, we say so, while admitting that there may be hidden reasons for their actions. In brief, we have tried to be fair but to pull no punches.

CHANGES IN THIS EDITION

Principles is written for students of financial management. For many readers it is their first look at the world of finance. Therefore, in each edition we try to make the book simpler, clearer, and more fun to read. But the book is also used extensively as a reference and guide for practicing managers around the world. Therefore we also strive to make each edition more comprehensive and authoritative. We believe that this edition is better for both the student and the practicing manager. Here are some of the major changes.

The most important change that we have brought out in this edition is its focus on Indian financial environment. In almost all the chapters, you will find discussion on Indian companies, reference to Indian research results, India-specific chapter-end questions, and Indian examples. And this has not come at the cost of having lower exposure to international examples and research.

PREFACE

Indian corporate finance managers do not operate in a vacuum and awareness of international research results and laws are as relevant to them as to any manager operating from the US, or Russia. In this book, we maintain a judicious balance between having an India-centric view of corporate finance and having an international outlook on the subject at the same time.

Recent financial scandals have highlighted the importance of good systems of corporate governance. In Chapter 34, we compare financial markets, institutions, and corporate governance around the world. We explain why these different systems have developed and we discuss their relative strengths and weaknesses.

Chapter 34 is not the only place where we have increased coverage of the agency problems of motivating and controlling managers. For example, Chapter 2 contains an expanded section on corporate goals and corporate governance and Chapter 12 includes a deeper discussion of executive compensation structures and the measurement of managers' performance.

We have also expanded coverage of behavioral finance. The first natural place to introduce behavioral issues is in the discussion of market efficiency in Chapter 13, but we also circle back to the topic in later chapters. For example, we ask whether an understanding of behavioral psychology can help us to understand new issue pricing, dividend policy, and mergers.

Chapters 16 and 19 have also been rewritten. Chapter 16 now speaks more broadly about payout policy, not just about cash dividends. This responds to the growth in stock repurchases as a way to return cash to stockholders. Chapter 19 now shows how to use the weighted average cost of capital to value companies or divisions of com-

panies. By covering valuation after we have discussed capital structure, we are able to introduce and work through more complex and realistic valuation problems.

Financial managers work in an international environment. Therefore in this edition we have continued to add international material. International issues are the subject matter of Chapter 28 (Managing International Risks) and Chapter 34 (Governance and Corporate Control around the World). But you will also find many international examples throughout the rest of the book.

The eighth edition is more web-friendly than the seventh. There are more web references in the text and we have included an updated and expanded list of useful websites at the beginning of each part. We have also included a list of useful Indian websites towards the end of the book. We have also added web exercises that give the reader the opportunity to gain experience with useful financial websites.

As every first-grader knows, it is easier to add than subtract, so to make way for these new topics we have needed to do some judicious pruning. Readers familiar with earlier editions will notice two places where we have consolidated. First, we have combined the two chapters on cash management and credit management. We believe that as a result the main tasks of working capital management come through with less clutter. Second, we no longer have a separate chapter on convertible debt and warrants. Instead, we describe them in Chapter 25, which reviews the many different kinds of debt that companies issue.

MAKING LEARNING EASIER

Each chapter of the book includes an introductory preview, a summary, and an annotated list of sug-

PREFACE

gestions for further reading. There is a quick and easy quiz, practice questions on both numerical and conceptual topics, and a few challenge questions. Many questions use financial data on actual companies, which the reader can download from the websites mentioned in the book itself. Answers to the quiz questions may be found at the end of the book, along with a glossary and tables for calculating present values and pricing options. We have also provided for each chapter concept review questions and have keyed these to the page in the book where the topic is discussed. Sample questions are shown at the end of each chapter. The full set of Concept Review Questions is available on the CD that comes with the book and on the book's website www.mhhe.com/bmam8e.

The mini-cases at the end of each chapter have been revised and include specific questions to guide the case analyses. Answers to the mini-cases are available to instructors on this book's website.

A new feature of this edition is that a number of tables are now shown in the text as Excel spreadsheets. In these cases an equivalent "live" spreadsheet is contained on the book's CD and on the website. Readers can use these live spreadsheets to understand better the calculations behind the table and to see the effect of changing the underlying data. A number of end-of-chapter questions ask the student to use the spreadsheets to check that they understand the effect of changing inputs.

The 35 chapters in this book are divided into 11 parts. Each part includes a short introduction that explains the sequence of topics. Parts 1 to 3 of the book cover valuation and capital investment decisions, and Parts 4 to 8 discuss long-term financing. Part 9 focuses on financial planning and short-

term financial decisions. Part 10 looks at mergers and corporate control. Part 11 concludes. We realize that instructors will wish to select from these topics and many will prefer a different sequence. Therefore, we have ensured that the text is modular, so that topics can be introduced in several logical orders. For example, there should be no difficulty in reading the material on financial statement analysis and short-term financial decisions before the chapters on valuation and capital investment.

SUPPLEMENTS

In this edition, we have gone to great lengths to ensure that our supplements are equal in quality and authority to the text itself.

For the Student

Student CD-ROM

Packaged with each new text is a CD-ROM for students that contains many features designed to enhance the classroom experience. Eleven learning modules from the Finance Tutor Series are included. Some of the featured modules are: Time Value of Money, Stock and Bond Valuation, and Capital Budgeting. In each module, students answer questions and solve problems that not only assess their general understanding of the subject, but also their ability to apply that understanding in real-world business contexts. In "Practice Mode," students learn as they go by receiving in depth feedback on each response before proceeding to the next question. Students who want to assess their current knowledge may select "Test Mode," where they read an extensive evaluation report after they have completed the test.

Also included are the PowerPoint presentation slides, Excel spreadsheet templates, Interactive Quizzes, Concept Review Questions,

PREFACE

Interactive FinSims, video clips, and many useful web links.

Online Learning Center

www.mhhe.com/bmam8e

Find a wealth of information online! This site contains information about the book and the authors as well as teaching and learning materials for the instructor and the student, including:

- **Interactive FinSims** This newly developed asset consists of multiple simulations of key financial topics. Ideal for students to use in order to reinforce their knowledge and gain additional practice in strengthening their skills.
- **Online Quizzes** These multiple choice questions are provided as an additional testing and reinforcement tool for students. Each quiz is organized by chapter to test the specific concepts presented in that particular chapter. Immediate scoring of the quiz will occur upon submission and the correct answers will be provided.
- **Standard & Poor's Educational Version of Market Insight** McGraw-Hill is proud to partner with Standard & Poor's by offering instructors and students access to the educational version of Market Insight. A passcode is given at the end of the book after *Some Useful Formulas*. It gives access to six years of financial data for over 800+ companies. Relevant chapters contain end-of-chapter problems that use this data to gain a better understanding of practical business situations.
- **PowerWeb: Ethics in Finance** This password-protected website offers professors a turnkey solution to adding the Internet to a course. Included are current articles from the

public press, curriculum-based materials, weekly updates with assessment, interactive exercises, and much more!

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PREFACE

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