

B A S I C FINANCIAL MANAGEMENT



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SOUTH-WESTERN College Publishing

An International Thomson Publishing Company

Acquisitions Editor: Christopher Will
Developmental Editor: Ann Sass
Production Editors: Marci Dechter, Rebecca Roby
Production House: TSI Graphics
Cover Design: Ben Ross Design
Internal Design: Ellen Pettengell Design
Cover Illustrator: Nickolai Punin
Photo Editor: Jennifer Mayhall
Photo Research: Debbie Leffert
Marketing Manager: Denise Carlson

FN64AA

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South-Western College Publishing
Cincinnati, Ohio

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Library of Congress Cataloging-in-Publication Data

Marsh, William H.,

Basic financial management / William H. Marsh. -- 1st ed.

p. cm.

Includes index.

ISBN 0-538-84170-2

1. Corporations--Finance. 2. Business enterprises--Finance.

I. Title.

HG4026.M365 1994

658.15--dc20

94-2856

CIP

ISBN: 0-538-84170-2

2 3 4 5 6 7 8 9 0 VH 3 2 1 0 9 8 7 6 5

Printed in the United States of America



This book is printed on acid-free paper that meets Environmental Protection Agency standards for recycled paper.

ITP

International Thomson Publishing

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Preface

In writing *Basic Financial Management*, I wanted this text to be different. My goal was to create a readable, visual, useful, and friendly text for students taking financial management for the first time. As a result, the writing style is direct and the chapter structure is simple. As we all know, students must absorb a large amount of material in a small amount of time.

Today's students access new material most easily through visual images, partly the result of television's impact on the 20th century. In *Basic Financial Management* I've made every effort to acknowledge that reality by providing:

- An inviting four-color design;
- Color-coded cash flow diagrams, to help students visualize problems involving the time value of money; and
- *THE FINANCIAL MANAGER*, a spreadsheet program that furnishes a two-dimensional presentation of financial calculations.

Each chapter also includes the following pedagogical features to assist students in learning the material:

- A real-world, opening vignette to stimulate interest in the material to be covered,
- Highlighted examples to help reinforce new material,
- Boxed features, based on real-world situations, to lightly introduce international, ethical, quality, technological, competitive, and environmental issues,
- Color-coded graphs to provide a visual level of understanding,
- Learning objectives keyed to the chapter summary, to remind students of the key points covered,
- A finance case problem at the end of each chapter, to combine the "gray" real world with the "black and white" world of problems,
- A financial tables card that includes even years after year 30, and
- An Answers to Chapter Problems Appendix that provides answers to all of the end-of-chapter problems.

VALUATION ORIENTATION AS A UNIFYING THEME

The unifying theme of *Basic Financial Management* is a *valuation orientation*. As a result, time value of money, bond and stock valuation, and capital budgeting

are introduced early in the text. This approach is consistent with the goal of the financial manager to maximize the price per share of stock. Since the emphasis is on adding value to the firm, each part of the text connects financial decision-making to common stock valuation.

- Part I, Basic Concepts. The student learns time value techniques and then applies this knowledge to bond and stock valuation.
- Part II, Financial Analysis and Planning. The student evaluates the relationships within a set of financial statements and prepares a financial plan for internal application or for use with various lenders.
- Part III, Capital Budgeting. The student studies cash flow estimation and project evaluation, with and without risk.
- Part IV, Leverage, Capital Structure Theory, Cost of Capital, and Dividend Policy. The student discovers how the determination of the marginal cost of capital relates to the optimal capital structure, the structure that maximizes shareholder wealth.
- Part V, Long-Term Financing. The student examines how to obtain securities, while making valuation choices that fit into a plan for minimizing the marginal cost of capital.
- Part VI, Working Capital Management. The student finds methods for minimizing the total costs of maintaining working capital, while studying the sources of financing required to support daily operations.
- Part VII, Special Topics. The student explores topics such as the formulation and evaluation of mergers, consolidations, and acquisitions, as well as business failure. In the final chapter, the student then relates the study of financial management to multinational organizations.

A COMPREHENSIVE SUPPLEMENTS PACKAGE

In coordinating the supplements package for *Basic Financial Management*, I have purposely taken a hands-on approach, writing and/or overseeing the preparation of all materials. In doing so, I have been able to exercise tighter quality control over the finished product.

- Instructor's Manual, prepared by William H. Marsh. *The Instructor's Manual* provides the instructor with a complete teaching resource. It includes teaching strategies, teaching summaries, answers to questions, solutions to problems, and solutions to the case problems.
- Transparencies, prepared by William H. Marsh. A set of transparencies displays the principal tables, figures, and problems from each chapter. The entire set of transparencies is available on Power Point Software. A selected number of these are also available as *Acetate Transparencies*.

- Test Bank, prepared by John Bowdidge and George Swales of Southwest Missouri State University. The *Test Bank* furnishes over 1,200 short discussion questions, multiple-choice questions, and problems. This material is available in three formats: in book form; on WordPerfect 5.1 disks; and on MicroExam disks. MicroExam is South-Western's automated testing program, which permits options such as random question selection.
- The Financial Manager, prepared by F. X. McGahee and William H. Marsh of the University of South Carolina at Aiken. *The Financial Manager* includes general models rather than presenting a solution to a specific text problem. Moreover, it does not require a commercial spreadsheet. Many end-of-chapter problems indicate that a particular model should be used. *The Financial Manager* includes the following spreadsheet models for solving problems:

Interest Factor Table (TABLE) provides interest factors for combinations of term and interest rate;

Equivalent Cash Flow (CASHFLOW) provides an equivalent cash flow for a given set of cash flows;

Bond Valuation (BOND) provides bond valuation, yield to maturity, and yield to call;

Ratio Analysis (RATIO) provides standard ratios;

Cash Budgeting (BUDGET) provides cash budget;

Miller-Orr Model (MILLORR) provides target level, upper limit, and average cash balance;

Capital Budgeting (PROJECT) provides net present value, internal rate of return, modified internal rate of return, profitability index, payback period, discounted payback period, and accounting rate of return. Calculates depreciation, including MACRS;

Basic Statistics (STAT) provides expected value, variance, standard deviation, and coefficient of variation;

Expected Exchange Rate (RATE) provides expected exchange rate, N years in the future;

- CNBC Videos. This videotape series can help enhance your lectures and bring topics to life. These videos are composed of timely business topics and current news clips from CNBC, the cable news network, and are sure to invoke class discussion. Each video segment ranges from eight to twenty minutes. The complete videotape is available to adopters upon request.
- Study Guide, prepared by William H. Marsh and F. X. McGahee of the University of South Carolina at Aiken. The *Study Guide* includes an expanded summary of each chapter and additional problems with solutions. This manual also teaches the student how to use *The Financial Manager*, if

additional instruction is desired, and presents the output of the spreadsheet models for many examples.

ACKNOWLEDGMENTS

Basic Financial Management was strongly influenced by the comments and suggestions of many individuals. To the following reviewers I offer my sincere thanks:

Stephen L. Avard
East Texas State University

Samuel Bulmash
University of South Florida

Richard M. Burns
University of Alabama at Birmingham

Kenneth J. Burns
Memphis State University

P.R. Chandy
University of North Texas

Robert E. Chatfield
University of Nevada, Las Vegas

Dean A. Dudley
Eastern Illinois University

Edwin H. Duett
Mississippi State University

David R. Durst
University of Akron

Robert S. Elliott
Northwestern State University of Louisiana

M. Andrew Fields
University of Delaware

Greg Filbeck
Miami University of Ohio

Asim Ghosh
Bloomsburg University

Marcus A. Ingram
Clark Atlanta University

Larry Johnson
New Hampshire College

James B. Kehr
Miami University of Ohio

Peppi M. Kenny
Western Illinois University

Daniel P. Klein
Bowling Green State University

George W. Kutner
Marquette University

Boyden E. Lee
New Mexico State University

David Louton
Bryant College

Wayne E. McWee
Longwood College

Dianne R. Morrison
University of Wisconsin-La Crosse

Don B. Panton
University of Texas at Arlington

Eugene O. Poindexter
West Georgia College

Daniel H. Raver
Geneva College

Robert J. Ryan, Jr.
Ithaca College

Robert Schweitzer
University of Delaware

Thomas O. Stanley
Nicholls State University

Amir Tavokkol
Kansas State University

Clifford F. Thies
Shenandoah College

George W. Trivoli
Jacksonville State University

Ben Uzoaru
Southeast Missouri State University

Paul A. Vanderheiden
University of Wisconsin-Eau Claire

Bernard W. Weinrich
St. Louis Community College

Tony R. Wingler
*University of North Carolina at
 Greensboro*

Daniel T. Winkler
*University of North Carolina at
 Greensboro*

Steve B. Wyatt
University of Cincinnati

Several other individuals also dedicated their time to the development of this text. Daniel T. Winkler of the University of North Carolina at Greensboro created the Kennedy example in Chapter 2. My student assistant, Deirdre Corley, spent countless hours checking the correctness of the chapters. Claire S. Bronson of Western New England College, Peppi M. Kenny of Western Illinois University, and the professionals at Mathematical Alternatives, Inc., had the painstaking task of checking the accuracy of the in-text examples and end-of-chapter problems.

The professionals at South-Western College Publishing are willing to try new things in an era of rapid change in publishing. Chris Will, Acquisitions Editor, has the vision to recognize new approaches that work. Ann Sass, the Developmental Editor, is willing to accept new ideas. Marci Dechter and Rebecca Roby, production editors, have the patience and understanding to work with me. Debbie Kokoruda, Art Director, has the artistic ability to create a new style of text. Jennifer Mayhall, Production/Photo Editor, has the creative capability to select and blend photographs into the text. Bill Wilson, Technical Editor, has the expertise to see our computer program from a new perspective.

Finally, I owe special thanks to my colleague, F.X. McGahee, for his dedication to this project and his development of *The Financial Manager* and the *Study Guide*.

William H. Marsh
 University of South Carolina, Aiken

Real-World Companies and References

Abitibi-Price Inc.
Advanced Micro Devices Inc.
Alcatel N.V.
Allied-Signal Corporation
Amerada Hess Corporation
Augusta Newsprint Company
Avery Dennison Corporation
Avery International Corporation
Bank of Japan
Barnett Bank
Bloomingdale's
Carolina Power & Company
Castle and Cooke
Chambers Development Company
Chrysler Corporation
Ciba-Geigy AG
Citibank
Coca-Cola
Collective Intelligence Inc.
Columbia Gas System Inc.
Coniston
Crowell, Weedon & Co.
CS Holding
David L. Babson & Company
Dean Witter Reynolds Inc.
Delaware Bay Company
Dennison Manufacturing Company
Donaldson Lufkin Jenrette
Federated Department Stores Inc.
Fidelity Investments
G.D. Searle and Company
General Electric
General Motors Acceptance Corporation
Georgia-Pacific Corporation
Goldman Sachs and Company
HSBC Holdings PLC
Illinois Superconductor Corporation
Industrial Bank of Japan
Ingersoll-Rand Company
Intel Corporation

ITT Corporation
Johnson and Johnson
Lehman Brothers
Levi Straus
Lloyds Bank PLC
LM Capital Management Inc.
Loomis, Sayles & Company
Mazda Motors
McCrary Corporation
McKinsey's Global Institute
Merck & Company
Microsoft
Midland Bank PLC
Monsanto
Morgan Stanley
Nestle S.A.
Neuberger & Berman
Nomura Research Institute
Omron Corporation
Phar-Mor
Procter and Gamble
Prudential Securities Research
PS Group Inc.
R.H. Macy & Company
Rich's
R.J. Reynolds Tobacco International
Rubbermaid
Salomon Brothers
Scudder, Stevens & Clark
Securities Data Company
Shearson Lehman Brothers Inc.
Southeast Research Partners
Storer Communications
Superconductivity Inc.
Tele-Communications
The Thomson Corporation
Uritski Tobacco
Wallace Company
Wal-Mart
Walt Disney Company

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