



Stanley B. Block  
Geoffrey A. Hirt

# Foundations of Financial Management

EIGHTH EDITION

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# Foundations of Financial Management

**Stanley B. Block**

*Texas Christian University*

**Geoffrey A. Hirt**

*DePaul University*



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Production supervisor: *Pat Frederickson*

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To my wife Cathy, children Michelle and Randy,  
and mother Mary

Stanley B. Block

To my wife Linda, children Amy and Brian,  
and parents Arnold and Lydia

Geoffrey A. Hirt

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# About the Authors

*of Foundations of Financial Management, Eighth Edition*

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**Stanley B. Block** Professor Block teaches financial management and investments at Texas Christian University, where he received the Burlington Northern Outstanding Teaching Award. His research interests include financial markets, mergers, and high-yield bonds. He has served as President of the Southwestern Finance

Association and is a Chartered Financial Analyst. Professor Block holds a Ph.D. from Louisiana State University.



**Geoffrey A. Hirt** Professor Hirt teaches investments and financial management at DePaul University, where he chairs the Finance Department. He is the former President of the Midwest Finance Association. Professor Hirt has held seminars for the Harris Bank and the American Association of Individual Investors. He is past editor of the

*Journal of Financial Education* and received his Ph.D. from the University of Illinois.



# Preface

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Opening a textbook can seem a glum prospect for many enrolled in a foundations of financial management course. All too often, what is already perceived to be a difficult and intimidating subject is only compounded by the text you are assigned. In contrast, *Foundations of Financial Management* is committed to making finance accessible to you. Significant content revisions have been made in the eighth edition in order to maintain the high quality that the market has come to expect from *Foundations of Financial Management*. As always, in the eighth edition we remain strongly committed to presenting the concepts of finance in an enlightening, interesting, and exciting manner. We have been involved in this process since the first edition of the book came out in 1978, and we have seven editions to draw upon to know what works and what doesn't work for students.

Employers of business graduates report that the most successful analysts, planners, and executives have both facility and confidence in their financial skills. We concur. One of the best ways to increase your facility in financial planning is to integrate your knowledge from prerequisite courses. Therefore, the text is designed to build on your knowledge from basic courses in accounting and economics. By applying tools learned in these courses, you can develop a conceptual and analytical understanding of financial management.

We realize, however, that for some of you some time has passed since you've completed your accounting courses. Therefore, we include Chapter 2, a thorough review of accounting principles, finance terminology, and financial statements. With a working knowledge of Chapter 2, you will have a more complete understanding of the impact of your decisions on financial statements. Furthermore, as you are about to begin your career you will be much better prepared when called upon to apply financial concepts.

**Reinforcing  
Prerequisite  
Knowledge**

## New Features and Improvements

### Content

**Comprehensive International Coverage** In keeping with the rapid *internationalization* of today's capital markets, we have expanded and updated our coverage of the impact of this development on the U.S. economy and corporations. Topics include international cash management, international security markets, currency risk hedging, and so on. Although we continue to have a separate chapter on international finance, not all classes will be able to include a whole chapter on this topic. Integrating international material into a number of earlier chapters demonstrates that financial decisions are becoming more global in scope. In addition, to facilitate locating this integrated international material, we added a List of Selected International Examples and Boxes (beginning on page xxxv) and an international icon [img alt="international icon" data-bbox="405 295 435 315"] that references the boxes throughout the text.

**Functional Integration** Students with majors in finance and accounting have found many examples in past editions relating to their future careers. However, since corporate finance is important to many other areas of business, we want to show in the eighth edition the relevance of this material to those other areas. We added more integrated examples to make this book meaningful for marketing, management, and other majors, as well as for finance and accounting majors. For example, in developing pro forma financial statements in Chapter 4, there is informative material in a "Finance in Action" box titled "Sales Forecasting: Where Marketing and Finance Come Together." Also, we used Sony Corporation in a "Finance in Action" box in Chapter 12 as an example of a firm that brings management and finance together to create an innovative environment for investment.

**The Importance of Small Business** Over two-thirds of the jobs created in the U.S. economy are by *small businesses*. Since many of you will work in a small business at some point in your careers, it is important to note the unique differences between financial operations of a typical corporation and financial operations of a small business. Because this is a *corporate* finance text, we will not dedicate entire chapters to this topic, but instead point out key distinctions within the appropriate chapters to give you a better understanding of how both types of businesses operate. For example, surveys show that small businesses do not always follow the capital budgeting techniques you will learn about in this text, so we will also discuss what might be most appropriate for the small business firm. We also discuss the valuation of small businesses and how it is different from the valuation of larger, publicly traded firms. We hope the addition of this material will enrich your understanding of finance as it is applied throughout the business world.

**Early Emphasis on Financial Markets** The role of financial markets in influencing business decisions is given special attention in the very first chapter of the book. As a student of finance, you will be given vivid examples of how financial decisions are influenced by the market's role in allocating capital to firms that are

the most efficient in their operations and represent the best trade-off between risk and return. The framework for discussion is not simply the U.S. capital markets, but financial markets throughout the world.

**Other Contemporary Issues** The inclusion of *contemporary issues* remains a strong feature of the eighth edition, offering a wide range of topics, including: the expanding role of institutional investors (such as pension funds and mutual funds); explosive growth and financial success of companies in the high technology sector (NETSCAPE and America Online are used as examples); merger mania in the entertainment industry; and privatization of businesses in emerging countries that were formerly socialistic. We also include updates and revisions on corporate restructuring and divestitures, leveraged buyouts, the changing nature of the investment banking and financial services industries, corporate stock repurchases, and uses of electronic funds transfer in cash management on the international level.

## Pedagogy

**Real World Emphasis** With the eighth edition, we continue our efforts to expand and revise our use of real world examples in an integrated fashion throughout the book to bring finance to life. These real world examples are listed beginning on page xxxii for your convenience. We also include boxes highlighting real world situations. These “Finance in Action” boxes include such varied topics as the packaging and selling-off of accounts receivable at Georgia Pacific in Chapter 8 and the stock market impact of a price fixing scandal at Archer Daniels Midland in Chapter 12.

**Functional Use of Four Colors** The eighth edition includes the well-received functional use of four colors to enhance your understanding of tables, graphs, and exhibits. For example, the financial analysis chapter (Chapter 3) uses color to make the origin of the ratios easier to follow. For easy identification, the balance sheet appears in green and the income statement appears in red. These same two colors continue to be traced through the numerical ratios, with each number appearing in the same color as the financial statement from which it was derived. This linkage helps easily identify whether the ratio is a balance sheet ratio (debt to assets), an income statement ratio (profit margin), or a mixed ratio (asset turnover).

**In-Book Acetates on Time Value of Money (Chapter 9)** The concept of “time value of money” is one of the most difficult topics in any financial management book for professors to communicate to students. We think we have created a visual method for teaching future value and present value that will allow you to understand the concept simply and quickly. The eighth edition includes four-color



acetates in the text that visually relate future values and present values. We hope you agree that this innovation is an advancement in financial pedagogy.

**Chapter Concepts** Chapter Concepts are listed on the opening page of each chapter as a quick introduction to the material you will learn and as an indication of the key topics you should fully understand before moving to the next chapter.

## End-of-Chapter Material

The end-of-chapter material is designed to help reinforce your understanding of the chapter material. Following is a description of each of the components of the end-of-chapter material. This section in each chapter is coded with a blue sidebar for easy reference.

**Summary List of Equations** At the end of every chapter that includes equations, we provide a list of all equations used in that chapter. The formulas appear in red facilitating easy recognition. This summary list will help you review the mathematics of financial analysis.

**List of Key Terms** Similarly, you can use the list of key terms provided at the end of each chapter to test your comprehension and retention. Page numbers are provided for each term so that you can quickly locate the term's discussion within the text. Every term listed at the end of the chapter is fully defined in the Glossary, located at the end of the book.

**Discussion Questions and Problems** The material in the text is supported by a large number of questions that emphasize definitions, concepts, and the application of theory. The problems are a very important part of the text and have been written with care to be consistent with the chapter material. To encourage your identification of concepts and facilitate your instructor's assignment of problem material, each problem is labeled. Overall, there are approximately 250 questions and 335 problems in this edition, with many of the problems new and the remainder rewritten to better reflect the changing corporate environment.

**Comprehensive Problems** Several chapters have optional comprehensive problems, indicated with a red sidebar, that integrate and require the application of several financial concepts into one problem. Sometimes these comprehensive problems will cover several concepts from one chapter. Occasionally, a comprehensive problem at the end of the last chapter in a section (such as the Ryan Boot Company in Chapter 5) will include material from as many as four chapters.

### ***The Wall Street Journal* Edition**

With the eighth edition, we introduce *The Wall Street Journal* Edition of *Foundations of Financial Management*. Available through a unique arrangement with Dow Jones & Company, this special edition includes in its price a 10-week subscription to *The Wall Street Journal* and enables you to enhance your understanding of real world issues in corporate finance.

### **Supplemental Material for Students**

### **Ready Notes**

Ready Notes, packaged *free* with every book purchased from Richard D. Irwin, is a note-taking supplement that contains a reduced copy of every image in both the transparency and PowerPoint packages. There is room for you to take notes next to each image, allowing a more complete and organized method for recording lecture notes.

### **Study Guide and Workbook**

This valuable resource, created by Dwight C. Anderson, provides chapter summaries, outlines with page references, and additional problems and multiple-choice questions with solutions for practice.

### **Self-Study Software**

This Windows-based product is an electronic study guide that contains glossary terms, chapter outlines, chapter summaries, true-false and multiple-choice questions for each chapter. This software allows you to take a test from one chapter or several chapters at a time and provides you with your scores by test or by chapter. This study tool enables you to determine which topics in the book you need to review again, and reinforces the concepts learned. It also includes a Time Value of Money problem generator.

### **Casebook**

In this edition, we increased our selection to 21 cases. These cases, which correspond to each major section of the text, are ideal for in-depth analysis and facilitate an integrated understanding of the topics presented in the book.

### **Financial Analysis with an Electronic Calculator, Second Edition**

This helpful guide by Mark A. White provides you with information and procedures to master financial calculators and gain a deeper understanding of financial mathematics. Complete instructions are included for solving all major problem

types on three popular models of financial calculators: Hewlett-Packard's HP-10B, Sharp Electronics' EL-733A, and Texas Instruments' BA II Plus. Forty hands-on problems with detailed solutions allow you to practice the skills outlined in the book and obtain instant reinforcement.

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**Stanley B. Block**  
**Geoffrey A. Hirt**

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