

Foundations of Financial Management

The background of the cover is a deep blue with a fine, light blue grid pattern. A series of parallel lines, colored in a gradient from dark blue to light blue, converge from the left edge towards the center, creating a funnel or perspective effect. The lines are closely spaced and extend across the entire width of the cover.

Stanley B. Block
Geoffrey A. Hirt

Fourth Edition

Foundations of Financial Management

Stanley B. Block

Texas American Bank/Fort Worth Chair of Finance
Texas Christian University

Geoffrey A. Hirt

Chairman of the Department of Finance
DePaul University

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Preface

The fourth edition of *Foundations of Financial Management* provides a number of changes from the third edition while still maintaining the basic strengths. The authors remain strongly committed to presenting the concepts of finance in an enlightening and interesting manner. Because very careful treatment is given to conceptual material related to valuation, capital structure formulation, and risk-return considerations, the student is also given a very sound background in important aspects of the theory of finance.

The authors remain committed to enabling the student to gain a firmer grasp on material previously covered in accounting, but now translated into the financial decision-making process. The special chapter devoted to a review of accounting (Chapter 2) also includes considerations of current versus historical cost issues. Ex-students embarking on a successful career in finance, as well as potential employers, continue to emphasize the need for facility and confidence in the areas of financial analysis and planning. The authors concur.

Among the major changes in the fourth edition is a division of the previous Chapter 10, Valuation and Cost of Capital, into two chapters. The first of the two chapters deals exclusively with valuation and rates of return. The second chapter is centered around cost of capital. By expanding to two chapters, we are able to cover more material relating to valuation concepts. We have taken particular care to write the material on valuation so that it can be understood and easily applied by the student. It is no more or less difficult than other material in the book. The valuation chapter immediately follows time value of money so the student can put present value concepts to immediate application. The cost of capital chapter then follows the valuation material. It is easy to show that the cost of capital to the corporation is directly linked to the valuation and required rates of return of security holders. A number of texts divide up this material throughout different sections of a book: we find this can cause a continuity problem. In general, we feel that some of the most important changes in this fourth edition have come in the valuation/cost of capital section described above. While the presentation level has not changed, it is more complete.

Many readers stress the need to present real-world examples to support textual material. We have taken care to integrate the use of actual examples, particularly in the sections dealing with long-term financing and working capital management.

A number of contemporary factors and issues are also highlighted in the fourth edition. These include corporate restructuring and divestitures, leveraged buy-outs, the changing nature of the financial services industry, new forms of stock issuance (such as General Motors Class E and Class H common stock), the increased importance of corporate stock repurchases, and advances in computerized cash management. Attention is also given to such topics as shelf registration, floating rate and zero-coupon debt issue, and the Euromarket for securities.

The effects of Reagan administration policy are also woven into the coverage of the economic environment, and the authors remain sensitive to the impact of both inflation and disinflation on reported profits, cash flow, and valuation.

In terms of structure, the major parts of the book are the Introduction (goals and functions of financial management), Financial Analysis and Planning, Working Capital Management, The Capital Budgeting Process, Long-Term Financing, and Expanding the Perspective of Cor-

porate Finance (mergers and international financial management). A short introductory essay precedes each section and serves as a guide for the material to follow. For example, in the part on capital budgeting, the interrelationship between the time value of money, valuation, the cost of capital, the decision process, and the goals of the firm are laid out for the reader.

The professor who wishes to revise the order of material coverage can easily accomplish that objective. For example, Part Four of the book (time value of money, valuation, cost of capital, etc.) can be presented toward the beginning of the course and working capital (or other topics) at a later point. The book covers virtually all topics; it is merely a question of the professor's preferred order of topical coverage. As is true of most introductory finance texts, it is almost impossible for the instructor to cover every topic so some early decisions must be made.

The material in the text is supported by an unusually large number of questions and problems, particularly in the financial analysis and capital budgeting areas. The problems begin at a very basic level and increase in complexity, with optional comprehensive problems at the end of many chapters. There are approximately 20 percent more problems in the fourth edition than in the third edition, with well over half the old problems rewritten. Many of the problems better reflect the changing corporate environment. Risk-return considerations also are given increased attention.

There are six other teaching support items in the overall package. The *Instructor's Manual* contains detailed solutions to all the problems at the end of the chapters as well as teaching notes or strategies for each of the 21 chapters. To further aid the professor, we provide a separate test bank of over 1,100 short-answer questions. This test bank is also available in a computerized format on floppy disk called *CompuTest*. There are a large number of Transparency Masters (listed in the *Instructor's Manual*) that can be used in the classroom. Also, an excellent student *Study Guide* has been developed by Dwight C. Anderson in which he outlines the chapters and presents and solves sample questions and problems.

Finally, there is a computer software package entitled, "A Financial Analyst's Spreadsheet Using Scratch Pad." It is tailor designed for the text with its own manual and disk. Please contact Richard D. Irwin or your representative if you are interested in seeing any of these support items.

Preface

We wish to thank those finance professors who have contributed directly to the preparation of the manuscript, particularly Tim Gallagher for his help in problem development and G. N. Naidu for his work in the area of international financial management.

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Stanley B. Block
Geoffrey A. Hirt

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