

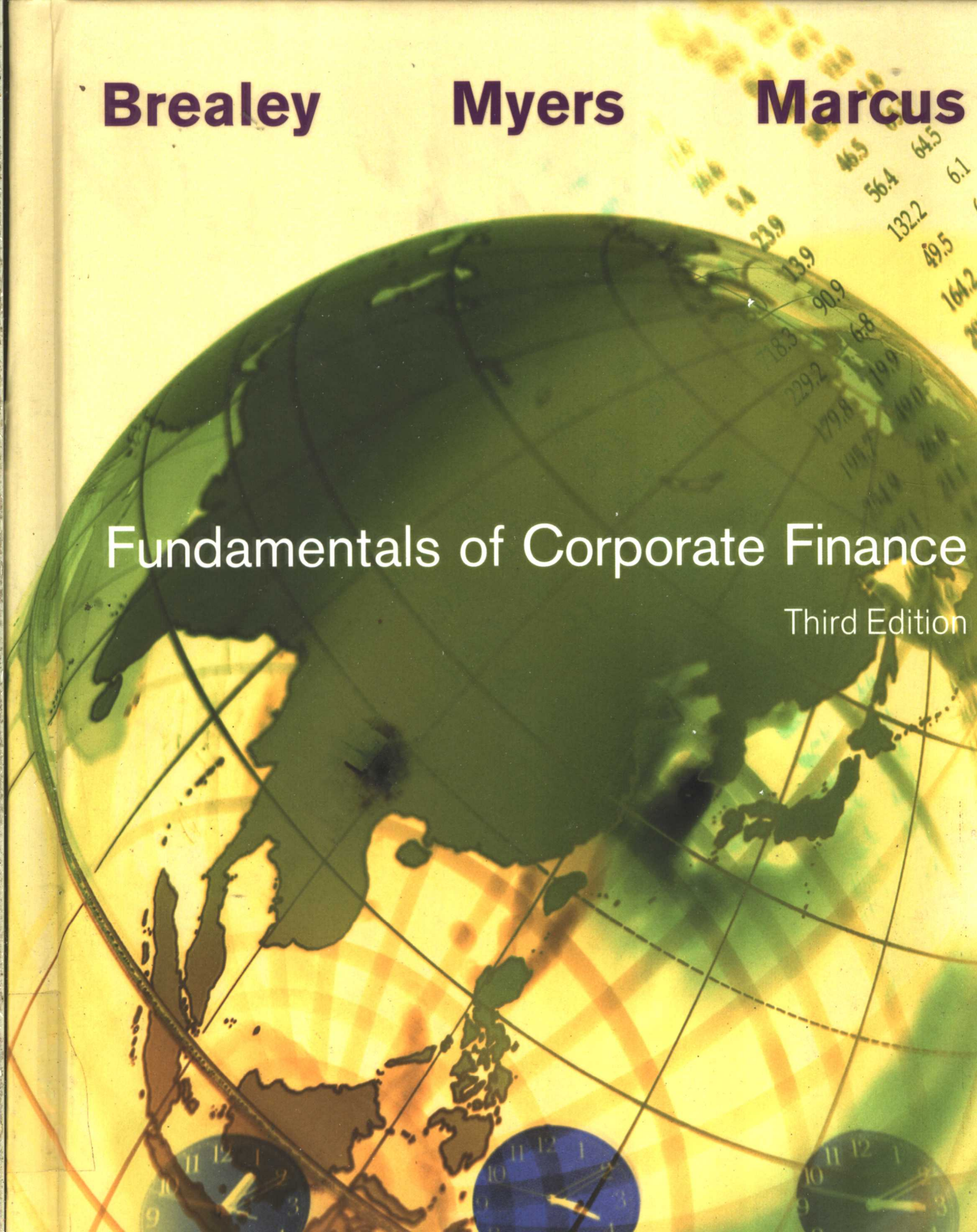
Brealey

Myers

Marcus

Fundamentals of Corporate Finance

Third Edition



Fundamentals of Corporate Finance

THIRD EDITION

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Preface

This book is about corporate finance. It focuses on how companies invest in real assets and how they raise the money to pay for these investments.

Financial management is important, interesting, and challenging. It is *important* because today's capital investment decisions may determine the businesses that the firm is in 10, 20, or more years ahead. Also, a firm's success or failure depends in large part on its ability to find the capital that it needs.

Finance is *interesting* for several reasons. Financial decisions often involve huge sums of money. Large investment projects or acquisitions may involve billions of dollars. Also, the financial community is international and fast moving, with colorful heroes and a sprinkling of unpleasant villains.

Finance is *challenging*. Financial decisions are rarely cut and dried, and the financial markets in which companies operate are changing rapidly. Good managers can cope with routine problems, but only the best managers can respond to change. To handle new problems, you need more than rules of thumb; you need to understand why companies and financial markets behave as they do and when common practice may not be best practice. Once you have a consistent framework for making financial decisions, complex problems become more manageable.

This book provides that framework. It is not an encyclopedia of finance. It focuses instead on setting out the basic *principles* of financial management and applying them to the main decisions faced by the financial manager. It explains why the firm's owners would like the manager to increase firm value and shows how managers value investments that may pay off at different points of time or have different degrees of risk. It also describes the main features of financial markets and discusses why companies may prefer a particular source of finance.

Some texts shy away from modern finance, sticking instead with more traditional, procedural, or institutional approaches. These are supposed to be easier or more practical. We disagree emphatically. The concepts of modern finance, properly explained, make the subject simpler, not more difficult. They are also more practical. The tools of financial management are easier to grasp and use effectively when presented in a consistent conceptual framework. Modern finance provides that framework.

Modern financial management is not "rocket science." It is a set of ideas that can be made clear by words, graphs, and numerical examples. The ideas provide the "why" behind the tools that good financial managers use to make investment and financing decisions.

We wrote this book to make financial management clear, useful, interesting and fun for the beginning student. We set out to show that modern finance and good financial practice go together, even for the financial novice.

Fundamentals and Principles of Corporate Finance

This book is derived in part from its sister text *Principles of Corporate Finance*. The spirit of the two books is similar. Both apply modern finance to give students a working ability to make financial decisions. However, there are also substantial differences between the two books.

First, we provide much more detailed discussion of the principles and mechanics of the time value of money. This material underlies almost all of this text, and we spend a lengthy chapter providing extensive practice with this key concept.

Second, we use numerical examples in this text to a greater degree than in *Principles*. Each chapter presents several detailed numerical examples to help the reader become familiar and comfortable with the material.

Third, we have streamlined the treatment of most topics. Whereas *Principles* has 35 chapters, *Fundamentals* has only 26. The relative brevity of *Fundamentals* necessitates a broader-brush coverage of some topics, but we feel that this is an advantage for a beginning audience.

Fourth, we assume little in the way of background knowledge. While most users will have had an introductory accounting course, we review the concepts of accounting that are important to the financial manager in Chapter 2.

Principles is known for its relaxed and informal writing style, and we continue this tradition in *Fundamentals*. In addition, we use as little mathematical notation as possible. Even when we present an equation, we usually write it in words rather than symbols. This approach has two advantages. It is less intimidating, and it focuses attention on the underlying concept rather than the formula.

ORGANIZATIONAL DESIGN

Fundamentals is organized in nine parts.

Part I (Introduction) provides essential background material. In the first chapter we discuss how businesses are organized, the role of the financial manager and the financial markets in which the manager operates. We explain how shareholders want managers to take actions that increase the value of their investment and we describe some of the mechanisms that help to align the interests of managers and shareholders. Of course the task of increasing shareholder value does not justify corrupt and unscrupulous behavior. We therefore discuss some of the ethical issues that confront managers.

A large corporation is a team effort, and so companies produce financial statements to help the players monitor their progress. Chapter 2 provides a brief overview of these financial statements and introduces two key distinctions—between market and book values and between cash flows and profits. The chapter concludes with a summary of federal taxes.

Part II (Value) is concerned with valuation. In Chapter 3 we introduce the concept of the time value of money, and, since most readers will be more familiar with their own financial affairs than with the big leagues of finance, we motivate our discussion by looking first at some personal financial decisions. We show how to value long-lived streams of cash flows and work through the valuation of perpetuities and annuities. Chapter 3 also contains a short concluding section on inflation and the distinction between real and nominal returns.

Chapters 4 and 5 introduce the basic features of bonds and stocks and give students a chance to apply the ideas of Chapter 3 to the valuation of these securities. We show how to find the value of a bond given its yield and we show how prices of bonds fluctuate as interest rates change. We look at what determines stock prices and how stock valuation formulas can be used to infer the return that investors expect. Finally, we see how investment opportunities are reflected in the stock price and why analysts focus on the price-earnings multiple.

The remaining chapters of Part II are concerned with the company's investment decision. In Chapter 6 we introduce the concept of net present value and show how to calculate the NPV of a simple investment project. We also look at other measures of an investment's attractiveness—the internal rate of return rule, payback, and the return on book. We then turn to more complex investment proposals, including choices between alternative projects, machine replacement decisions, and decisions of when to invest. Finally, we show how the profitability index can be used to choose between investment projects when capital is scarce.

The first step in any NPV calculation is to decide what to discount. Therefore, in Chapter 7 we work through a realistic example of a capital budgeting analysis, showing how the manager needs to recognize the investment in working capital and how taxes and depreciation affect cash flows.

We start Chapter 8 by looking at how companies organize the investment process and ensure everyone works toward a common goal. We then go on to look at various techniques to help managers identify the key assumptions in their estimates, such as sensitivity analysis, scenario analysis, and break-even analysis. We conclude the chapter by describing how managers try to build future flexibility into projects so that they can capitalize on good luck and mitigate the consequences of bad luck.

Part III (Risk) is concerned with the cost of capital. Chapter 9 starts with a historical survey of returns on bonds and stocks and goes on to distinguish between the unique risk and market risk of individual stocks. Chapter 10 shows how to measure market risk and discusses the relationship between risk and expected return. Chapter 11 introduces the weighted-average cost of capital and provides a practical illustration of how to estimate it.

Part IV (Financing) begins our discussion of the financing decision. In Chapter 12 we introduce the notion of market efficiency. Few other introductory texts include a chapter on this topic. We believe that without a solid understanding of market efficiency it is difficult to think through the issues that arise when firms issue securities or make capital structure and dividend decisions. Chapter 13 looks at the role of shareholders in large corporations and compares corporate governance in the USA and elsewhere. It also provides an overview of the securities that firms issue and their relative importance as sources of finance. In Chapter 14 we look at how firms issue securities and we follow a firm from its first need for venture capital, through its initial public offering to its continuing need to raise debt or equity.

Part V (Capital Structure and Dividend Policy) focuses on the two classic long-term financing decisions. How much the firm should borrow is addressed in Chapter 15, and how it should set its dividend policy is addressed in Chapter 16. In each case we start with Modigliani and Miller's (MM's) observation that in well-functioning markets the decision should not matter, but we use this observation to help the reader understand why financial managers in practice do pay attention to these decisions.

Part VI (Financial Planning) starts with financial statement analysis in Chapter 17 and shows how analysts summarize the large volume of accounting information by calculating some key financial ratios. Long-term financial planning is discussed in Chapter 18, where we look at how the financial manager considers the combined effects of investment and financing decisions on the firm as a whole. We also show how measures of internal and sustainable growth help managers check that the firm's planned growth is consistent with its financing plans. Chapter 19 is an introduction to working capital management. It also shows how managers ensure that the firm will have enough cash to pay its bills over the coming year and describes the principal sources of short-term borrowing.

Part VII (Short-Term Financial Decisions) is concerned with two important short-term problems. Chapter 20 explains the mechanics of cash collection and disbursement and shows how firms invest idle cash. It also looks at the general problem of managing inventories and shows how the decision to stock up on cash is similar to the decision to stock up on inventories of raw materials or finished goods. The parallel between the task of inventory management and cash management enables us to cover these topics with less repetition than in most other texts. In Chapter 21 we describe the basic steps of credit management and we summarize bankruptcy procedures when customers cannot pay their bills.

Part VIII (Special Topics) covers several important but somewhat more advanced topics—mergers (Chapter 22), international financial management (Chapter 23), options (Chapter 24), and risk management (Chapter 25). Some of these topics are touched on in earlier chapters. For example, we introduce the idea of options in Chapter 8, when we show how companies build flexibility into capital projects. However, Chapter 24 generalizes this material, explains at an elementary level how options are valued, and provides some examples of why the financial manager needs to be concerned about options. International finance is also not confined to Chapter 23. As one might expect from a book that is written by an international group of authors, examples from different countries and financial systems are scattered throughout the book. However, Chapter 23 tackles the specific problems that arise when a corporation is confronted by different currencies.

Part IX (Conclusion) contains a concluding chapter (Chapter 26), in which we review the most important ideas covered in the text. We also introduce some interesting questions that either were unanswered in the text or are still puzzles to the finance profession. Thus the last chapter is an introduction to future finance courses as well as a conclusion to this one.

ROUTES THROUGH THE BOOK

There are about as many effective ways to organize a course in corporate finance as there are teachers. For this reason, we have ensured that the text is modular, so that topics can be introduced in different sequences.

We like to discuss the principles of valuation before plunging into detailed financial statement analysis or issues of financial planning. Nevertheless, we recognize that many instructors will prefer to move directly from Chapter 2 (Accounting and Finance) to Chapter 17 (Financial Statement Analysis) in order to provide a gentler transition from the typical prerequisite accounting course. We have made sure that Part VI (Financial Planning) can easily follow Part I.

Similarly, we like to discuss working capital after the student is familiar with the

basic principles of valuation and financing, but we recognize that here also many instructors prefer to reverse our order. There should be no difficulty in taking Part VII out of order.

When we discuss project valuation in Part II, we stress that the opportunity cost of capital depends on project risk. But we do not discuss how to measure risk or how return and risk are linked until Part III. This ordering can easily be modified. For example, the chapters on risk and return can be introduced before, after, or midway through the material on project valuation.

Changes in the Third Edition

This third edition of *Fundamentals* includes many changes. After thoroughly researching the market, we have rewritten and rearranged material to improve readability, and we have expanded the treatment of some topics and introduced others for the first time. Here are some examples of the changes that we have made.

Chapter 1 includes a wholly new section on careers in finance. The overview of the finance profession introduces students to different possible career paths and also conveys a richer sense of the various roles of financial managers. The chapter also has an expanded discussion of financial markets and institutions.

In response to user requests, we have slightly reorganized Chapter 3, placing the material on effective annual rates and compounding periods at the end of the chapter.

The previous chapter on stocks and bonds has been split into two stand-alone chapters. Chapter 4 is now devoted solely to bonds, and includes the discussion of credit risk that formerly was part of a later chapter. Chapter 5 covers the stock market and stock valuation. This division into two chapters allows a clearer focus on each topic, and somewhat expanded coverage.

Chapter 7 on Discounted Cash Flow Analysis has been extensively rewritten with careful attention to improving and clarifying the computation of project cash flows. This material has been expanded and enhanced with several worked examples. We also provide a simple spreadsheet model that shows students how spreadsheets can enhance and simplify cash flow analysis and capital budgeting decisions.

The material on Risk and Return in Part III has been revised. Chapter 10 on the capital asset pricing model contains new material on firms' use of the CAPM in capital budgeting. The treatment of taxes in measuring cost of capital (Chapter 11) has been simplified.

Part IV on Financing also has been revised. Chapter 13 (An Overview of Corporate Financing) has been updated with new material on asset-backed and index bonds as well as more recent data on trends in corporate financing. Chapter 14 contains additional material on IPOs. The material on capital structure in Chapter 15 has been considerably rewritten and simplified.

Part VI on Financial Planning contains significant new material. Chapter 17 on Financial Statement Analysis now discusses the measurement and interpretation of economic value added. An Excel spreadsheet with a long-term financial plan has been integrated into Chapter 18. Chapter 19 on Working Capital Management and Short-Term Planning similarly contains a cash management spreadsheet.

Part VIII has been updated. In Chapter 22, we illustrate the issues surrounding mergers with new examples. Chapter 23 on International Financial Management reflects European Monetary Union and the creation of the euro. Chapter 24 on Options contains actual applications of real options analysis.

Walk-Through

New and Enhanced Pedagogy

A great deal of effort has gone into expanding and enhancing the features in *Fundamentals*.

3.4

Level Cash Flows: Perpetuities and Annuities

ANNUITY Equally spaced level stream of cash flows.

PERPETUITY Stream of level cash payments that never ends.



Frequently, you may need to value a stream of equal cash flows. For example, a mortgage might require the homeowner to make equal monthly payments for the term of the loan. For a 30-year loan, this would result in 360 equal payments. A 4-year loan might require 48 equal monthly payments. Any such sequence of equally spaced level cash flows is called an **annuity**. If the payment stream lasts forever, it is called a **perpetuity**.

HOW TO VALUE PERPETUITIES

Some time ago the British government borrowed by issuing perpetuities. Instead of repaying these loans, the British government pays the investors holding these securities a fixed annual payment in perpetuity (forever).

The rate of interest on a perpetuity is equal to the promised annual payment divided by the present value. For example, if a perpetuity pays \$10 per year and you can buy it for \$100, you will earn 10 percent interest each year on your investment in general.

$$\text{Interest rate on a perpetuity} = \frac{\text{cash payment}}{\text{present value}}$$

$$r = \frac{C}{PV}$$

INTERNATIONAL ICON

An international icon now appears where the authors discuss global issues.

SELF-TEST 3.5

In order to avoid estate taxes, your rich aunt Frederica will pay you \$10,000 per year for 4 years, starting 1 year from now. What is the present value of your benefactor's gifts? The interest rate is 7 percent. How much will you have 4 years from now if you invest each gift at 7 percent?

SELF-TEST QUESTION

Self-Test Questions provided in each chapter, which enable students to check their understanding as they read. Answers are worked out at the end of each chapter.

QUIZ

- Trade Credit Rates.** Company X sells on a 1/20, net 60, basis. Customer Y buys goods with an invoice of \$1,000.
 - How much can Company Y deduct from the bill if it pays on Day 20?
 - How many extra days of credit can Company Y receive if it passes up the cash discount?

PRACTICE PROBLEMS

- Compensating Balances.** Suppose that Dynamic Sofa (a subsidiary of Dynamic Matt) has a line of credit with a stated interest rate of 10 percent and a compensating balance requirement of 25 percent. The compensating balance earns no interest.
 - If the firm needs \$10,000, how much will it need to borrow?
 - Suppose that Dynamic's bank offers to forget about the compensating balance requirement if the firm pays interest at a rate of 12 percent. Should the firm accept this offer? Why or why not?

CHALLENGE PROBLEMS

- Credit Analysis.** This is a bit harder. Use the data in Example 21.3. Now suppose, however, that 10 percent of Cast Iron's customers are slow payers, and that slow payers have a probability of 30 percent of defaulting on their bills. If it costs \$5 to determine whether a customer has been a prompt or slow payer in the past, should Cast Iron undertake such a check? How much is the expected savings from the credit check? It will depend on both the probability of uncovering a slow payer and the savings from denying these payers credit.

QUIZ, CHALLENGE, AND PRACTICE PROBLEMS

New end-of-chapter problems are included for even more hands-on practice. Each question is labeled by topic and is separated by level of difficulty.

RELATED WEB LINKS

Web citations listed at the end of each chapter immediately direct students to the best sources of financial information on the Internet. While the authors have listed only relatively stable websites, some change in Web addresses is inevitable. Therefore, a current list is maintained at the text's Online Learning Center (www.mhhe.com/bmm3e).

RELATED WEB LINKS

www.nacm.org/ National Association of Credit Management
www.dnb.com/ Dun & Bradstreet's site; the premier guide to corporate credit decisions
www.ny.frb.org/pihome/addpub/credit.html The Federal Reserve Bank of New York credit management
www.creditworthy.com/ Useful tips and online resources for credit management
www.ftc.gov/bep/online/pubs/credit/scoring.htm A discussion of the credit scoring
<http://bankrupt.com/> Resources for firms that have made some bad decisions

KEY TERMS

terms of sale
 open account
 credit analysis
 credit policy
 collection policy
 aging schedule
 bankruptcy
 workout
 liquidation
 reorganization

KEY TERMS

Throughout each chapter, key terms appear in bold type with margin definitions and are listed in the end of chapter material for easy reference.

DISK ICON

To better understand important spreadsheet based problems, disk icons indicate problems specially linked to Excel based software for further practice.

16. **Credit Policy.** A firm currently makes only cash sales. It estimates that all on terms of net 30 would increase monthly sales from 200 to 220 units per unit is \$101 and the cost (in present value terms) is \$80. The interest rate is 12 percent per month.

a. Should the firm change its credit policy?
 b. Would your answer to (a) change if 5 percent of all customers will fail to pay under the new credit policy?

EXCEL SPREADSHEET

	A	B	C	D	E
1	Quarter:	First	Second	Third	Fourth
2					
3	Accounts Receivable (Table 19.6)				
4	Receivables (beginning period)	30.0	32.5	30.7	38.2
5	Sales	87.5	78.5	116.0	131.0
6	Collections	85.0	80.3	108.5	128.0
7	Receivables (end period)	32.5	30.7	38.2	41.2
8					
9	Cash Budget (Table 19.7)				
10	Sources of cash				
11	Collections of Acct Receiv	85.0	80.3	108.5	128.0
12	Other	1.5	0.0	12.5	0.0
13	Total	86.5	80.3	121.0	128.0

EXCEL SPREADSHEET

New Excel spreadsheet boxes provide the student with detailed examples of how to use spreadsheets when applying financial concepts.

\$5,000,000 = \$190,728
15.73

You can spend this much each year in dollars of constant purchasing power. The purchasing power of each dollar will decline at 2 percent per year so you'll need to spend more in nominal dollars: $\$190,728 \times 1.05 = \$200,264$ in the second year, $\$190,728 \times 1.05^2 = \$210,278$ in the third year, and so on.
3.17 The quarterly rate is $8.4 = 2$ percent. The effective annual rate is $(1.02)^4 - 1 = .0824$, or 8.24 percent.

MINICASE

Old Alfred Road, who is well-known as driver on the Maine Turnpike, has reached his seventeenth birthday and is ready to retire. Mr. Road has no formal training in finance but has saved his money and invested carefully.

Mr. Road owns his home—the mortgage is paid off—and does not want to move. He is a widower, and he wants to bequeath the house and any remaining assets to his daughter.

He has accumulated savings of \$180,000, conservatively invested. The investments are yielding 9 percent interest. Mr. Road also has \$12,000 in a savings account at 5 percent interest. He wants to keep the savings account intact for unexpected expenses or emergencies.

Mr. Road's basic living expenses now average about \$1,500 per month, and he plans to spend \$500 per month on travel and hobbies. To maintain this planned standard of living, he will have to rely on his investment portfolio. The interest from the portfolio is \$16,200 per year (9 percent of \$180,000), or \$1,350 per month. Mr. Road will also have to spend \$500 per month on social security payments and taxes.

Inflation. That is, they will be automatically increased in proportion to changes in the Consumer Price Index.

Mr. Road's main concern is with inflation. The inflation rate has been below 3 percent recently, but a 3 percent rate is unusually low by historical standards. His social security payments will increase with inflation, but the interest on his investment portfolio will not.

What advice do you have for Mr. Road? Can he safely spend all the interest from his investment portfolio? How much could he withdraw at year-end from that portfolio if he wants to keep its real value intact?

Suppose Mr. Road will live for 20 more years and is willing to use up all of his investment portfolio over that period. He also wants his monthly spending to increase along with inflation over that period. In other words, he wants his monthly spending to stay the same in real terms. How much can be afforded to spend per month?

Assume that the investment portfolio continues to earn a 9 percent interest rate in real terms.

MINICASES

Integrative minicases allow students to apply their knowledge to relatively complex, practical situations.

FINANCE IN ACTION

From Here to Eternity

Politicians, you may be aware, are fond of urging people to invest in the future. It would appear that some investors are taking them a bit too literally of late. The latest fad among emerging-market bond investors, eager to get a piece of the action, is to queue up for bonds with 100-year maturities, such as those issued by the Chinese government and Tenaga Nasional, a Malaysian electrical utility.

Not to be outdone by these century bonds, Eurotunnel, the beleaguered company that operates the railway beneath the English Channel, is trying to tempt investors with a millennium's worth of profits. Last week, in a bid to sweeten the pot for its shareholders and creditors, who must agree on an unpalatable financial restructuring, it asked the British and French governments to extend its operating franchise from a mere 65 years to 999 years. By offering investors some windfall profits, the firm hopes they will be more likely to ratify its plan. Has the distant future of Eurotunnel really been sold?

Live for today

Present value of \$1,000 discounted at 10% received in year

1	909
2	826
3	751
4	683
5	621
6	564
7	513
8	467
9	425
10	386
11	351
12	319
13	290
14	263
15	239
16	217
17	197
18	179
19	163
20	149

Under the relentless pressures of compound interest, the value of future profits is ground to nothing as time goes by. Suppose, for example, that you had a choice between making the following two gifts to a university: you could write a cheque for \$10,000 today, or give \$1,000 a year for the next century. The latter donation might seem the more generous one, but at a 10% interest rate, they are worth the same amount. By the time compound discounting had finished with it, that first \$1,000 payment would be worth only 7 cents today (see chart).

What does this mean for Eurotunnel's investors? Extending its franchise by 999 years should increase its value to today's investors by only 10-15%, at best.

FINANCE IN ACTION BOXES

Almost every chapter includes at least one "Finance in Action" box. These are excerpts, usually from the financial press, providing real-life illustrations of the chapter's topics, such as ethical choices in finance, new views about stock valuation, Internet IPOs, and corporate takeover battles abroad.

FINANCIAL CALCULATOR

An Introduction to Financial Calculators

Financial calculators are designed with present value and future value formulas already programmed. Therefore, you can readily solve many problems simply by entering the inputs for the problem and punching a key for the solution.

The basic financial calculator uses five keys that correspond to the inputs for common problems involving the time value of money.

n

i

PV

FV

PMT

Each key represents the following input:

- n is the number of periods. (We have been using t to denote the length of time or number of periods. Most calculators use n for the same concept.)
- i is the interest rate per period, expressed as a percentage. (We have been using r to denote the interest rate.)

Hewlett-Packard

HP-10B

24 [PV]

Sharpe

EL-733A

24 [PV]

Texas Instruments

BA II Plus

24 [PV]

CALCULATOR BOXES AND EXERCISES

In a continued effort to help students grasp the critical concept of Time Value of Money, many pedagogical tools have been added throughout the first section of the text. Financial Calculator boxes provide examples for solving a variety of problems with directions for the three most popular financial calculators.

KEY POINTS

Located every few pages throughout the text, these points underscore and summarize the importance of the immediately preceding material, at the same time helping students focus on the most relevant topics critical to their understanding.

... does not change. How much would you need to invest today to have \$1 million in 50 years if the inflation rate is 5 percent (roughly its average over the past 25 years)? What if inflation is 10 percent?

Economists sometimes talk about current or nominal dollars versus constant or real dollars. Current or nominal dollars refer to the actual number of dollars of the day; constant or real dollars refer to the amount of purchasing power.

Some expenditures are fixed in nominal terms, and therefore decline in real terms. Suppose you took out a 30-year house mortgage in 1988. The monthly payment was \$800. It was still \$800 in 1998, even though the CPI increased by a factor of 1.36 over those years.

What's the monthly payment for 1998 expressed in real 1988 dollars? The answer is \$595.40.

Supplements

In addition to the overall refinement and improvement of the text material, considerable effort was put into developing a stellar supplement package to provide students and instructors with an abundance of teaching and learning resources.

THE WALL STREET JOURNAL EDITION (ISBN 0072380519)

Through a unique arrangement with Dow Jones, McGraw-Hill/Irwin is able to offer your students a 10-week subscription to *The Wall Street Journal* as part of the purchase price of the WSJ Edition text. The WSJ will keep students up to date on the world of finance.

INSTRUCTOR'S MANUAL (ISBN 0072380632)

Updated and enhanced by David Durst of the University of Akron, this supplement includes a descriptive preface containing alternative course formats and case teaching methods, a chapter overview and outline, key terms and concepts, a description of the PowerPoint slides, video teaching notes, related weblinks, and pedagogical ideas.

POWERPOINT PRESENTATION SYSTEM

Prepared by Matthew Will of Johns Hopkins University, these visually stimulating slides have been fully updated with colorful graphs, charts, and lists. Found only on the student and instructor CD-ROMs and the Online Learning Center, the slides can be edited or manipulated to fit the needs of a particular course.

SOLUTIONS MANUAL (ISBN 0072380659)

For easy reference, the authors have prepared this resource containing solutions to all end of chapter problems.

TEST BANK (ISBN 0072318333)

William Sackley of the University of North Carolina, Wilmington, has added over 50% new questions and problems to the Test Bank. Over 2,000 true/false, multiple-choice, and discussion questions and problems are available to the instructor at varying levels of difficulty and comprehension. Complete answers are provided for all test questions and problems, along with a reference to their location in the text.

BROWNSTONE DIPLOMA TESTING SYSTEM FOR WINDOWS (ISBN 0072395575)

Our *Brownstone Diploma Testing System* offers test items for *Fundamentals of Corporate Finance* on computer disk. This program makes it possible to create tests based on chapter, type of questions, and difficulty level. It allows instructors to combine their own questions with test items created by the Test Bank author. This system can be used to edit existing questions and create several different versions of each test. The program accepts graphics, allows password protection of saved tests, and may be used on a computer network.

F.A.S.T. (FINANCIAL ANALYSIS SPREADSHEET TEMPLATES)

These templates allow students to work with Excel spreadsheets and are tied to over 100 problems in the text. This supplement is available only on the student and instructor CD-ROMs and as a resource on the Online Learning Center.

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Packaged free with every new book, this valuable learning tool contains Financial Steps Software—developed by FinQuest—an advanced financial tutorial software that generates an unlimited number of questions to test financial concepts. In addition, videos, F.A.S.T. templates, PowerPoint slides, weblinks, and practice quizzes are included to give the student ample study aids.

STUDY GUIDE (ISBN 0072337818)

Prepared by Matthew Will of Johns Hopkins University, the Study Guide contains a thorough list of activities for the student, including an introduction to the chapter, sources of business information, key concepts and terms, sample problems with solutions, integrated PowerPoint slides, and related weblinks.

VIDEOS (ISBN 0072380667)

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ON-LINE LEARNING CENTER (WWW.MHHE.COM/BMM3E)

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For students, the OLC will feature our new e-Learning Sessions, a fully interactive study session. Also available are video clips, downloadable supplements, articles on current topics in finance, and an Online Tutor who will help with concepts of particular difficulty to students.

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