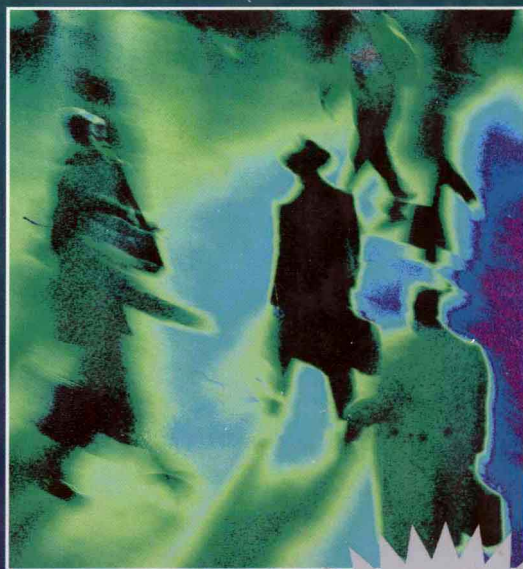


PRINCIPLES OF

MANAGERIAL FINANCE BRIEF

Second Edition



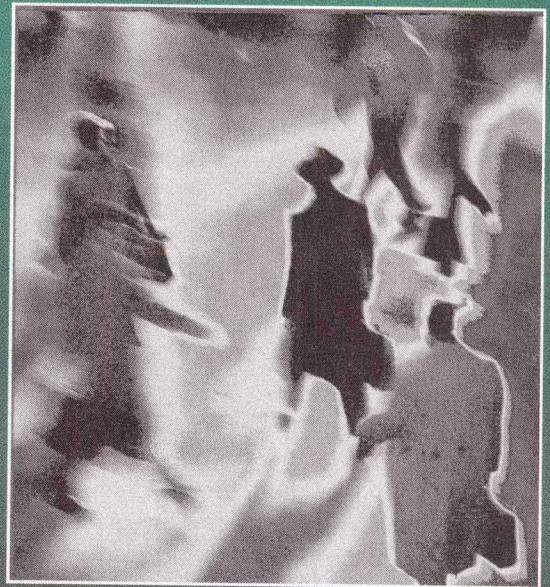
Lawrence J. Gitman

Congratulations!
Your purchase includes
Addison-Wesley's
PMF Brief CD-ROM
Student Software
(see inside for details)

PRINCIPLES OF

MANAGERIAL FINANCE BRIEF

Second Edition



Lawrence J. Gitman
San Diego State University

Executive Editor: Denise Clinton
Sponsoring Editor: Julie Lindstrom
Development Editor: Ann Torbert
Managing Editor: Jim Rigney
Production Supervisor: Nancy Fenton
Marketing Manager: Amy Cronin
Supplements Editor: Deb Kiernan
Associate Media Producer: Jennifer Pelland
Editorial Assistant: Greta Brogna
Project Coordination, Text Design, Art Studio,
and Electronic Page Makeup: Thompson Steele, Inc.
Design Manager: Rehina Hagen
Cover Designer: Leslie Haimes and Regina Hagen
Cover Photograph: Image ©1999 PhotoDisc Inc.
Manufacturing Coordinator: Tim McDonald
Printer and Binder: RR Donnelley & Sons Company
Cover Printer: The Lehigh Press

For permission to use copyrighted material, grateful acknowledgment is made to the copyright holders on p. S-1, which are hereby made part of this copyright page.

Library of Congress Cataloging-in-Publication Data

Gitman, Lawrence J.

Principles of managerial finance : brief / Lawrence J. Gitman. —
2nd ed.

p. cm.

ISBN 0-321-06081-4 (alk. paper)

1. Corporations—Finance. 2. Business enterprises—Finance.

I. Title.

HG4011.G52 2000

658.15—dc21

99-29543
CIP

Copyright © 2000 by Lawrence J. Gitman

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States.

ISBN 0-321-06081-4

12345678910—DOW—0302010099

TO THE INSTRUCTOR

Principles of Managerial Finance has consistently met the needs of the introductory finance course at the undergraduate level. This second Brief Edition continues to satisfy these market needs—and more—with a focused concentration on the fundamental concepts, techniques, and practices of managerial finance. It provides both instructors and students an introduction to managerial finance that is firmly grounded in the theory and practice of finance and at the same time is user-friendly.

The Brief Edition evolved from years of work on both *Principles of Managerial Finance* and *Foundations of Managerial Finance*. It incorporates the proven learning system from *Principles of Managerial Finance* with a more focused approach as to content, based on significant market feedback. Integrating pedagogy with the concepts and practical applications necessary for a solid understanding of managerial finance, this edition equips instructors and their students to concentrate on the concepts, techniques, and practices for keen financial decision making in an increasingly competitive business environment. The strong pedagogy and generous use of examples also make the text an easily accessible resource for long-distance learning and self-study programs. From classroom to boardroom, the second Brief Edition of *Principles of Managerial Finance* can help users get to where they want to be, efficiently and effectively.

DISTINGUISHING FEATURES OF THE SECOND BRIEF EDITION

Numerous features distinguish the second Brief Edition of *Principles of Managerial Finance* from its many excellent competitors. Among them are the book's length, its flexible organization, proven teaching/learning system, strong ties to practice, and important content improvements.

STREAMLINED PRESENTATION

This second Brief Edition has been sized to fit the one-term financial management course. It is intended for those professors who want to provide students with a thorough introduction to corporate finance that focuses on fundamental concepts, techniques, and practices of financial management. I've right-sized this book for the one-term course by eliminating from my longer book, *Principles of Managerial Finance*, ninth edition, topics that will be covered in subsequent courses. Specifically, I've eliminated the chapter on corporate mergers and the separate chapter on international managerial finance—although the integrated discussions and examples of international finance have been retained in appropriate chapter discussions throughout. In addition, the chapter in *Principles of*

Managerial Finance, ninth edition, that contains detailed discussions of leasing, convertibles, warrants, and options has been omitted from this Brief Edition. Also, coverage of capital budgeting in the Brief Edition continues to be presented in two chapters, whereas it has been expanded to three chapters in the longer book.

In the Brief Edition, a separate chapter on basic corporate securities (Chapter 3) describes the general features of corporate bonds of various types, contrasts the differences between debt and equity capital, and describes the rights and features associated with preferred and common stocks. This chapter sets the stage for subsequent discussion of the use of these financing sources in capital budgeting and capital structure decisions.

Finally, presentation of many topics has been streamlined throughout. The resulting book includes thorough coverage of all basic topics, yet is three chapters and about 300 pages shorter than *Principles of Managerial Finance*, ninth edition, on which it is based.

FLEXIBLE ORGANIZATION

The text's organization conceptually links the firm's actions and its value as determined in the securities markets. Each major decision area is presented in terms of both risk and return factors and their potential impact on the owners' wealth, as reflected by share value.

In organizing each chapter, I have adhered to a managerial decision-making perspective. That is, I have described a concept such as present value or operating leverage and have also related it to the financial manager's overall goal of wealth maximization. Once a particular concept has been developed, its application is illustrated by an example. The student is not left with just an abstract definition or discussion, but truly senses the related decision-making considerations and consequences.

The second Brief Edition of *Principles of Managerial Finance* contains 17 chapters, in 5 parts. Although the text is sequential, instructors can assign almost any chapter as a self-contained unit. This flexibility enables instructors to customize the text to various teaching strategies.

PROVEN TEACHING/LEARNING SYSTEM

The book's teaching/learning system is state-of-the-art. It is driven by a set of carefully developed learning goals that help guide and organize student reading and study. In addition, numerous other features reinforce student learning to promote achievement of the learning goals. Each of the system's key elements is described in what follows.



Learning Goals The *PMF* Teaching/Learning System is anchored in a set of six proven Learning Goals (LGs) per chapter. Marked by a special icon, shown here in the margin, the learning goals are listed at the start of each chapter, tied to first-level headings, reviewed point by point at the chapter's end, and noted in assignment material and supplements such as the Test Bank and Study Guide.

These goals focus student attention on what material they need to learn, where they can find it in the chapter, and whether they've mastered it by the end of the chapter. In addition, instructors can easily build lectures and assignments around the LGs.

PMF Toolbox A key visual aid in the *PMF Teaching/Learning System* is the *PMF Toolbox*, a cluster of icons at the beginning of every major chapter section. Inside the Toolbox, students will find learning tools and resources that are available to them as they attempt to master each learning goal. These tools and resources consist of learning goals, software tutorials, problem-solving disk routines, and spreadsheet templates, where these apply to the topic at hand. An example of the Toolbox appears in Chapter 9 on capital budgeting and cash flow principles, next to the heading "Finding the Initial Investment" (page 278).

PMF Example Method The *PMF Example Method* is an important component of the *PMF Teaching/Learning System* because it infuses practical demonstrations into the learning process. Seeing a financial concept or technique applied in a realistic example provides students with immediate reinforcement that helps cement their understanding of that concept or technique. Where applicable, the solution of each example shows the use of time lines, tables, and financial calculators. Calculator keystrokes of inputs, functions, and outputs are highlighted in discussions and examples of time value techniques in Chapter 6 and in the application of those techniques in subsequent chapters. Appendix A and the laminated table card included in all new books contain financial tables and note the basic calculator keystrokes for the most popular financial calculators.

Key Equations Key equations are printed in green throughout the text to help students identify the most important mathematical relationships. The variables used in these equations are for convenience printed on the front endpapers of the book.

Marginal Glossary Throughout the text, key terms and their definitions appear in the text margin when they are first introduced. In addition, these terms are **boldfaced** in the index for easy access to the glossary entry.

International Coverage Discussions of international dimensions of chapter topics are integrated throughout the book. For example, Chapter 7 discusses the risks and returns associated with international diversification. Similarly, Chapter 9 addresses the international aspects of capital budgeting and long-term investments. In each chapter in which international coverage is included, the international material is integrated into chapter learning goals and the end-of-chapter summary and problem material.

Review Questions *Review Questions* appear at the end of each section of the chapter (positioned before the next first-level heading) and are marked with a special design element. As students progress through the chapter, they can test their understanding of each key concept, technique, and practice before moving on to the next section.

Summary End-of-chapter summaries are keyed to the learning goals, which are restated for reinforcement at the beginning of each *Summary* paragraph. The learning-goal-driven summary facilitates the student's review of the key material that was presented to support mastery of the given goal.

Self-Test Problems At the end of most chapters, one or more *Self-Test Problems* are included. Each problem is keyed to the appropriate learning goal and the *PMF-Brief* CD-ROM Software icons from the Toolbox. Appendix B contains all worked-out solutions to Self-Test Problems in one location, marked with an easy-to-spot green stripe on the outside of the pages. These demonstration problems with solutions help to strengthen students' understanding of the topics and the techniques presented.

Chapter Problems A comprehensive set of *Problems*, containing more than one problem for each concept or technique, provides students with multiple self-testing opportunities and give professors a wide choice of assignable material. A short descriptor at the beginning of every problem identifies the concept or technique that the problem has been designed to test. New in this edition, the problems are graded by difficulty level—warm-up, intermediate, and challenge—to indicate the amount of work that should be involved in solving each problem. Some of the end-of-chapter problems are graded “integrative” because they tie together related topics. All problems are keyed to the learning goals and the *PMF-Brief* CD-ROM Software using icons from the Toolbox. Guideline answers to selected end-of-chapter problems appear as in Appendix C.

Chapter Cases Chapter *Cases* enable students to apply in realistic contexts what they've learned in the chapter. In Chapter 4, for example, students are asked to evaluate a firm's cash flows. In Chapter 8, students assess the impact of a proposed risky investment on a firm's bond and stock values. These end-of-chapter cases help strengthen practical understanding of financial tools and techniques without the added expense of a separate casebook.

Web Exercises New in this second Brief Edition, a *Web Exercise* at the end of each chapter links the chapter topic to a related site on the Internet and asks students to use information located there to answer various questions. These exercises will capture student interest in using the Internet while educating them about finance-related sites.

Contemporary Design A vibrant, contemporary design draws readers' attention to features of the learning system. Bars of data are shaded in tables and then graphed in the same shade so that visual learners can immediately see relationships among data.

STRONG TIES TO PRACTICE

A variety of features are used in the ninth edition to anchor student understanding in the operational aspects of topics presented. Many textual discussions present practical insights and applications of concepts and techniques. In addition, a number of special features are used both to ensure realism and to stimulate student interest.

Cross-Disciplinary Focus Every chapter opens with an element that encourages students to understand the overall importance of the chapter material as well as its relationship to other major business disciplines. “Across the Disciplines” indicates the key benefits or interactions that those in accounting, information systems, management, marketing, and operations would likely have with regard to the financial management material covered in the chapter. This feature allows students, regardless of their chosen business major, to understand the importance of the finance topics to that major and to that department within a company. In addition, it gives students a better appreciation for the numerous cross-disciplinary interactions that routinely occur in business.

Personal Finance Feature To help students appreciate the pervasive nature of finance, a Personal Finance Perspective is included in each chapter. This example applies some aspect of the chapter material to the personal financial decisions of individuals. Chapter 2, for example, explains why it might be useful to look at the shape of the yield curve before making various personal finance decisions. Chapter 4 discusses how an understanding of depreciation can help the student make an informed decision when purchasing a car. Studying these examples should provide students with a solid understanding of the relationships between corporate and personal financial decisions.

IMPORTANT CONTENT IMPROVEMENTS

The publication of each new edition of a textbook offers the opportunity to update material in terms of important current and emerging issues, instruments, and techniques affecting the practice of financial management. Consistent exposure to current practical applications throughout the text enables students to walk away from the book and onto the job well-prepared with forward-looking, practical insight, rather than merely a conceptual grasp of the finance function. Each new edition also offers the opportunity to fine-tune material based on the considered comments of the book’s users and potential users.

Because users and potential users often like to know where new material appears, here are the significant changes made in the second Brief Edition.

Chapter 1, which provides a newly streamlined overview of managerial finance, now includes the agency issue in a major text section of its own and a revised discussion of incentive and performance plans (in the compensation discussion).

Chapter 2 has been retitled “Institutions, Markets, and Interest Rates.” The discussion of business taxation has been moved from this chapter into Chapter 4. In its place have been added sections on the basic corporate securities—bonds and stocks—and the difference between debt and equity capital. This new organization will give students a better understanding of these important securities from early in the course. In addition, the chapter now features streamlined coverage of investment banking, a new Personal Finance Perspective on what the yield curve might predict for personal financial decisions, and a new Self-Test Problem.

Chapter 3 presents the basic corporate securities. The discussion of common stock now precedes the discussion of preferred stock.

Chapter 4 now covers financial statements, taxes, depreciation, and cash flow. Taxes were moved from Chapter 2 in order to bring them closer to the

related discussions of depreciation and cash flow. Chapter 4 now contains an updated Intel letter to stockholders, a new explanation of (and glossary entry for) double taxation, and a second Self-Test Problem on corporate taxes.

Chapter 5's coverage of financial statement analysis has a new Personal Finance Perspective on applying ratio analysis to personal finances.

Chapter 6 on time value of money has a revised discussion of nominal annual rate and effective annual rate (EAR) and simplified headings to improve understanding of chapter structure.

Chapter 7 on risk and return now contains a revised Personal Finance Perspective that better explains how to select from among the universe of mutual funds.

Chapter 8 on bond and stock valuation now includes a definition of interest-rate risk in the section on changing required returns.

Chapter 9 on capital budgeting and cash flow principles has been thoroughly updated.

Chapter 10 on capital budgeting techniques under certainty and risk includes a new format for decision criteria under the various capital budgeting techniques, and a new Personal Finance Perspective that demonstrates the application of capital budgeting analysis to a personal investment situation.

Chapter 11 on the cost of capital leads off a three-chapter part on long-term financing decisions. The primary change in Chapter 11 is a clearer explanation of the cost of retained earnings.

Chapter 12 on leverage and capital structure now includes a new, clearer illustration showing capital costs and the optimal capital structure.

Chapter 13 on dividend policy has a new Personal Finance Perspective on investors' reactions to stock splits.

Chapter 14 on financial planning is the first of four chapters on short-term financial decisions. It has been thoroughly updated, as has *Chapter 15* on working capital and short-term financing.

Chapter 16 on cash and marketable securities features a new Personal Finance Perspective that discusses online banking.

Chapter 17 on accounts receivable and inventory now includes a revised Personal Finance Perspective on managing personal credit.

SUPPLEMENTS TO THE *PMF* TEACHING/LEARNING SYSTEM

The *PMF* Teaching/Learning System includes a variety of useful supplements for teachers and for students.

TEACHING TOOLS FOR INSTRUCTORS

The key teaching tools available to instructors are the *Instructor's Manual*, Testing Materials, and PowerPoint Lecture Presentations.

Instructor's Manual *Compiled by Frederick P. Schadler, East Carolina University.* This comprehensive resource pulls together the teaching tools so that instructors can use the text easily and effectively in the classroom. Each chapter

provides an overview of key topics and detailed answers and solutions to all Review Questions, end-of-chapter problems, and chapter cases. At the end of the manual are practice quizzes and solutions.

Testing Materials *Created by Hadi Salavitarbar, SUNY–New Paltz.* Thoroughly revised to accommodate changes in the text, the Test Bank contains 2,500 questions made up of a mix of true/false, multiple-choice, and essay questions. For quick test selection and construction, each chapter features a handy chart for identifying type of question, skill tested by learning goal, and level of difficulty. Because the Test Bank is available in both printed and electronic formats—word processing files, and Windows or Macintosh *TestGen EQ* files— instructors should contact their Addison Wesley Longman sales representative to determine which format best meets their testing needs.

Instructors can download the *TestGen EQ* version of the Test Bank into *QuizMaster*, an on-line testing program for Windows and Macintosh that enables users to conduct timed or untimed exams at computer workstations. After completing tests, students can see their scores and view or print a diagnostic report of those topics or objectives requiring more attention. When installed on a local area network, *QuizMaster* allows instructors to save the scores on disk, print study diagnoses, and monitor progress of students individually or by class section and by all sections of the course.

PowerPoint Lecture Presentation *Created by Daniel Borgia, Florida Gulf Coast University.* Available for Windows or Macintosh on the Instructor's Resource CD-ROM, this presentation combines lecture notes with art from the textbook. The lecture presentations for each chapter can be viewed electronically in the classroom or can be printed as black-and-white transparency masters.

Instructor's Resource CD-ROM Electronic files of the Instructor's Manual, Test Bank, and PowerPoint Lecture Presentation are available on one convenient CD-ROM, compatible with both Windows and Macintosh computers. The electronic versions allow instructors to customize the support materials to their individual classroom needs.

LEARNING TOOLS FOR STUDENTS

Beyond the book itself, students have access to several resources for success in this course: the *PMF–Brief* CD-ROM, *Study Guide*, and the *Principles of Managerial Finance: Brief Second Edition Web Site*.

PMF Brief Second Edition CD-ROM Software Packaged with new copies of the text at no additional cost, the *PMF Brief Second Edition* CD-ROM Software, created by KMT Software, contains three state-of-the-art software tools: the *PMF Tutor*, the *PMF Problem Solver*, and the *PMF Excel Spreadsheet Templates*. Documentation and practical advice for using the *PMF Brief Second Edition* CD-ROM appears in Appendix D at the back of the textbook.



PMF Tutor The *PMF Tutor* extends self-testing opportunities beyond those of the printed page. The Tutor helps students to identify and solve various types of managerial finance problems. Part of the *PMF Toolbox*, the Tutor icon flags all the Tutor applications in the text. Through user-friendly menus, stu-

dents can access over 55 different problem types, constructed by random-number generation for an inexhaustible supply of problems with little chance of repetition. Routines include financial ratios, time value of money, valuation, capital budgeting, and cost of capital.



PMF Problem-Solver The *PMF Problem-Solver* contains seven short menu-driven programs to accelerate learning by providing an efficient way to perform financial computations. The Problem-Solver icon points out all related applications throughout the text of this popular provision of the *PMF Toolbox*. Referenced to specific text pages for quick review of techniques, the routines include financial ratios, time value of money, bond and stock valuation, capital budgeting cash flows and techniques, cost of capital, and cash budgets.



PMF Excel Spreadsheet Templates The *PMF Excel Spreadsheet Templates* provide users with preprogrammed spreadsheet templates for inputting data and solving problems using perhaps the most popular and widely accepted practical software application. The template files correspond to selected end-of-chapter problems. The Excel Spreadsheet Template icon appears in the *PMF Toolbox* to note related applications throughout the text.

Study Guide Prepared by Gayle Russell of Eastern Connecticut State University. The Study Guide is an integral component of the *PMF Learning System*. It offers many tools for studying finance. Each chapter contains the following features: chapter summary enumerated by learning goals; topical chapter outline, also broken down by learning goals for quick review; sample problem solutions; study tips; a full sample exam with the answers at the end of the chapter; and thumbnail printouts of the PowerPoint Lecture Presentations to facilitate classroom note taking.

Principles of Managerial Finance: Brief Second Edition Web Site The Web site to accompany this textbook, located at <http://www.awlonline/gitman>, contains valuable links, self-assessment quizzes, threaded discussion boards, and much more. The site will be updated on a regular basis, so check frequently for new features.

TO MY COLLEAGUES, FRIENDS, AND FAMILY

No textbook can consistently meet market needs without continual feedback from colleagues, students, practitioners, and members of the publishing team. Once again, I invite colleagues to relate their classroom experiences using this book and its package to me at San Diego State University, or in care of the Acquisitions Editor in Finance, Addison Wesley Longman, One Jacob Way, Reading, Massachusetts 01867-3999. Your constructive criticism will help me to continue to improve the textbook and its Teaching/Learning System still further.

Addison Wesley Longman and former publisher HarperCollins sought the advice of a great many excellent reviewers, all of whom strongly influenced various aspects of both this book and the longer one on which it is based. Individuals

who analyzed all or part of the manuscript of previous editions of *Principles of Managerial Finance* will find themselves thanked by name in the ninth edition of that book. My special thanks go to the following individuals who provided useful commentary on the development of the Brief Edition and its package:

Felix Ayadi <i>Fayetteville State University</i>	Theodore T. Latz <i>Lakeland Community College</i>
Stephen Beckenholdt <i>College of Notre Dame of Maryland</i>	Martin Laurence <i>William Patterson College of New Jersey</i>
Omar Benkato <i>Ball State University</i>	Chan H. Lee <i>Mankato State University</i>
Jack Bower <i>Eastern College</i>	Pu Liu <i>University of Arkansas</i>
Janice Buddensick <i>Wagner College</i>	Narendar V. Rao <i>Northeastern Illinois University</i>
Samir P. Dagher <i>Marywood College</i>	David L. Rayome <i>Northern Michigan University</i>
Greg Filbeck <i>University of Toledo</i>	Marjorie A. Rubash <i>Bradley University</i>
Wafica Ghoul <i>Detroit College of Business</i>	George W. Trivoli <i>Jacksonville State University</i>
John Houston <i>DePaul University</i>	Paul Trogen <i>East Tennessee State University</i>
Joel Jankowski <i>University of Tampa</i>	Theodore N. Wood <i>Gordon College</i>
Steve Johnson <i>University of Texas at El Paso</i>	

Thanks, too, to reviewers whose input helped shape this edition of both texts:

Lewell F. Gunter, *University of Georgia*
 Rick LeCompte, *Wichita State University*
 John B. Mitchell, *Central Michigan University*
 Lance Nail, *University of Alabama–Birmingham*
 Prasad Padmanabahn, *San Diego State University*
 Mary L. Piotrowski, *Northern Arizona University*
 Gayle A. Russell, *Eastern Connecticut State University*
 Patricia A. Ryan, *Drake University*
 Richard W. Taylor, *Arkansas State University*
 Emery A. Trahan, *Northeastern University*

My special thanks goes to all members of my book team whose vision, creativity, and ongoing support helped me to engineer all elements of the Teaching/Learning System: to Marlene G. Bellamy for the new Personal Finance Perspectives; to Daniel Borgia, Florida Gulf Coast University for preparation of the *PowerPoint Presentation* software; to Jim Kinlan, KMT Software for developing the *PMF Brief* CD-ROM Software; to Gayle Russell of Eastern

Connecticut State University for updating and revising the *Study Guide*; to Hadi Salavitarbar of SUNY–New Paltz for cultivating the now-huge and reliable database of test items; to Fred Schadler of East Carolina University for updating the *Instructor's Manual*; and to Bernard W. Weinrich of St. Louis Community College, Forest Park Campus, for preparing the Web exercises. I'm pleased by and proud of all their efforts, and I'm confident that those who use the book—both instructors and students—will appreciate everything they've done to add new features of interest and to ensure accuracy, consistency, and accessibility throughout the package.

A standing ovation and hearty round of applause also go to the publishing team assembled by Addison Wesley—including Greta Brogna, Amy Cronin, Nancy Fenton, Deb Kiernan, Julie Lindstrom, Jennifer Pelland, and others who worked on the book—for the inspiration and the perspiration that define teamwork. Elinor Stapleton and all the people at Thompson Steele Production Services deserve an equally resounding ovation. Applause is also due Ann Torbert, whose development skills, creativity, expertise, and hard work have contributed to the book's standard of excellence. Also, special thanks to the formidable sales force in finance, whose ongoing efforts keep the business fun!

Finally, and most important, many thanks to my wife, Robin, and to our children, Zachary and Jessica, for patiently providing support, understanding, and good humor throughout the revision process. To them, I will be forever grateful.

—Lawrence J. Gitman

TO THE STUDENT

Because you have a good many options for getting your assigned reading materials, I appreciate your choosing this textbook as the best means for learning. You won't be disappointed. To meet your increasingly diverse needs and time constraints, my product team and I have put together in this textbook an effective learning system. It integrates a variety of learning tools with the concepts, techniques, and practical applications you'll need to learn about managerial finance. We have carefully listened to the compliments and complaints of professors and of students who have used earlier editions of this textbook in their coursework, and we have worked hard to present the most important concepts and practices of managerial finance in a clear and lively way.

Each chapter begins with a short paragraph that will give you a useful preview of the chapter topic. Next to that preview paragraph is a feature called "Across the Disciplines" that will help you understand the importance of the chapter material to your major, if it's not finance. After all, managerial finance is an essential component not just in the business curriculum or in professional training programs, but also in your daily job activities, *regardless of major*. Finance matters, plain and simple.

Also at the beginning of the chapter you will find a list of six *Learning Goals*. Marked by a special icon, shown here in the margin, the learning goals are tied to first-level headings in the chapter and are reviewed point-by-point in the chapter-end summary. These goals will help you focus your attention on what material you need to learn, where you can find it in the chapter, and whether you've mastered it by the end of the chapter.

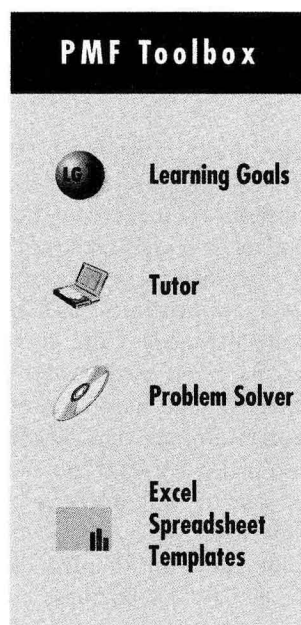
Other features are included to support your learning experience. At the end of each major text section are *Review Questions*. Although it may be tempting to rush past these questions, try to resist doing so. Pausing to test your understanding of the key concepts, techniques, and practices in the section you've just read will help you cement your understanding of that material.

Other features in the body of each chapter are intended to motivate and help organize your study. A *Personal Finance Perspective* is featured somewhere in each chapter. It provides an application of chapter concepts to typical personal financial situations, from the idea of depreciation on a used car purchase, to banking from home on a personal computer, to managing personal credit. In addition, key terms and their definitions appear in the margin when they are first introduced. Since these terms are the basic vocabulary of finance, you should be sure you know the key terms in any section of the text covered in your coursework. (They are boldfaced in the index for easy access to the glossary entry, in case you need to refer back to find a particular term.)

At the beginning of each major chapter section, you'll find a cluster of icons, which we call the *PMF Toolbox*. These icons represent learning tools and resources—learning goals, software tutorials, problem-solving disk routines, and



spreadsheet templates—that are available to you in conjunction with the text section. We've already discussed the Learning Goals and how they work. The other items are described below:

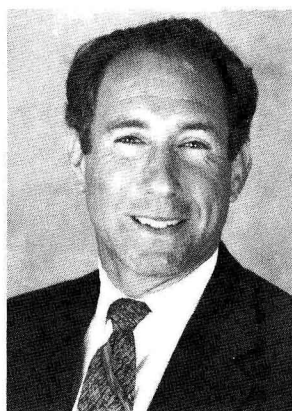


PMF Brief CD-ROM Software Packaged with new copies of the text at no additional cost, your CD-ROM contains three useful tools: the *PMF Tutor*, the *PMF Problem-Solver*, and the *PMF Excel Spreadsheet Templates*. Documentation and practical advice for using the *PMF Brief* CD-ROM appears at the end of the book in Appendix D.

The *PMF Tutor* extends self-testing opportunities beyond those on the printed page. The Tutor helps you identify and solve various types of managerial finance problems. Part of the PMF Toolbox, the Tutor icon flags all Tutor applications in the text. Through user-friendly menus, you can access over fifty-five different problem types, constructed by random-number generation for an inexhaustible supply of problems with little chance of repetition. Taking the time to use the *PMF Tutor* should pay off for you in increased confidence when applying financial techniques.

The *PMF Problem-Solver* contains seven short menu-driven programs. These popular programs accelerate learning by providing an efficient way to perform financial computations. The Problem-Solver icon points out all related applications throughout the text of this popular provision of the *PMF Toolbox*. The routines are referenced to specific text pages for quick review of the technique.

The *PMF Excel Spreadsheet Templates* provide preprogrammed templates for inputting data and solving problems using Excel, one of the most popular and widely accepted practical applications. The template files correspond to selected end-of-chapter problems, and the template file names follow the chapter number and the problem number. Practice with this tool will increase your computer proficiency and add to your marketable business skills.



Lawrence Gitman

Study Guide (ISBN 0-321-06082-2) Created by Gayle Russell of Eastern Connecticut State University. The *Study Guide* to accompany *Principles of Managerial Finance, Brief 2nd Edition*, is an integral component of the Learning System. It offers many good tools for studying finance. Each chapter includes the following features: chapter summary enumerated by learning goals; topical chapter outline, also broken down by learning goals for quick review; sample problem solutions; and a full sample exam with the answers at the end of the chapter; and thumbnail printouts of the PowerPoint Lecture Presentations to facilitate classroom note taking.

Given today's rapidly changing technology, who knows what might be available next semester? If you'd prefer electronic versions of texts—on disk or CD-ROM or any other platform—please let this publisher know by writing to the attention of the Acquisitions Editor in Finance, Addison Wesley Longman, One Jacob Way, Reading, Massachusetts 01867-3999. We are striving daily to keep apace of your needs and interests, and are interested in your ideas for improving the teaching and learning of finance.

We wish you all the best in both your academic and professional careers.

—*Lawrence J. Gitman*

BRIEF CONTENTS

Detailed Contents	ix
To the Instructor	xxi
To the Student	xxxix

PART 1 INTRODUCTION TO MANAGERIAL FINANCE 1

- 1 Overview of Managerial Finance 2
- 2 Institutions, Markets, and Interest Rates 24
- 3 Basic Corporate Securities: Bonds and Stocks 52
- 4 Financial Statements, Taxes, Depreciation, and Cash Flow 75
- 5 Financial Statement Analysis 111

PART 2 IMPORTANT FINANCIAL CONCEPTS 149

- 6 Time Value of Money 150
- 7 Risk and Return 198
- 8 Bond and Stock Valuation 234

PART 3 LONG-TERM INVESTMENT DECISIONS 267

- 9 Capital Budgeting and Cash Flow Principles 268
- 10 Capital Budgeting Techniques: Certainty and Risk 306

PART 4 LONG-TERM FINANCIAL DECISIONS 353

- 11 The Cost of Capital 354
- 12 Leverage and Capital Structure 388
- 13 Dividend Policy 429

PART 5 SHORT-TERM FINANCIAL DECISIONS 459

- 14 Financial Planning 460
- 15 Working Capital and Short-Term Financing 490
- 16 Cash and Marketable Securities 531
- 17 Accounts Receivable and Inventory 560

APPENDIXES A-1

- A** Financial Tables A-3
- B** Solutions to Self-Test Problems B-1
- C** Answers to Selected End-of-Chapter Problems C-1
- D** Instructions for Using the PMF Brief CD-ROM Software D-1
- Personal Finance Perspective Sources S-1
- Index I-1