



世界工商管理名典系列 (影印版)

Financial Management and Policy

Eleventh Edition

财务管理与政策

(第十一版)

James C. Van Horne



清华大学出版社

<http://www.tup.tsinghua.edu.cn>



Prentice Hall



(京)新登字 158 号

Financial Management and Policy, 11th ed./James C. Van Horne

© 1998 by Prentice-Hall International, Inc.

Original English Language Edition Published by Prentice Hall, Inc., A Simon & Schuster Company.

本书英文影印版由 Prentice Hall 出版公司授权清华大学出版社独家出版、发行。

未经出版者书面许可,不得以任何方式复制或抄袭本书的任何部分。

本书封面贴有 Prentice Hall 激光防伪标签,无标签者不得销售。

北京市版权局著作权合同登记号: 01-98-0949

书 名: 财务管理与政策

作 者: James C. Van Horne

出版者: 清华大学出版社(北京清华大学校内,邮编 100084)

[http:// www. tup. tsinghua. edu. cn](http://www.tup.tsinghua.edu.cn)

印刷者: 清华大学印刷厂

发行者: 新华书店总店北京科技发行所

开 本: 850×1168 1/16 印张: 50.5

版 次: 1998 年 10 月第 1 版 1998 年 10 月第 1 次印刷

书 号: ISBN 7-302-03162-2/F·200

印 数: 0001~5000

定 价: 62.00 元

出版说明

为了适应我国社会主义市场经济的建设和发展,满足国内广大读者了解、学习和借鉴国外先进的管理经验和掌握经济理论的前沿动态,清华大学出版社与 Prentice Hall 国际出版公司合作影印出版一系列英文版经济管理方面的图书。我们所选择的图书,基本上是已再版多次、在国外深受欢迎、并被广泛采用的优秀教材,绝大部分是该领域中较具权威性的经典之作。在选书的过程中,我们得到了很多专家、学者的支持、帮助与鼓励,在此深表谢意!本书由对外经济贸易大学国际工商管理学院张建平先生审阅,在此一并致谢!

由于原作者所处国家的政治、经济和文化背景等与我国不同,对书中所持观点,敬请广大读者在阅读过程中注意加以分析和鉴别。

我们期望这套影印书的出版对我国经济科学的发展能有所帮助,对我国经济管理专业的教学能有所促进。

欢迎广大读者给我们提出宝贵的意见和建议;同时也欢迎有关的专业人士向我们推荐您所接触到的国外优秀图书。

清华大学出版社第三编辑室

1998.8



Preface

Financial theory and practice continue to change rapidly. Not only have advances been made in valuation and in the theory of finance, but the environment has changed as well. Finance has taken on even a greater strategic focus as managers cope with how to create value within a corporate setting. Proper utilization of resources, balancing various stakeholder claims, information effects and financial signaling, the globalization of finance, regulatory and tax law changes, and a host of other considerations now permeate the landscape of financial decision making.

In this edition I have tried to capture many of the things that have happened as well as to better express previous ideas, thereby enhancing the learning experience. The purpose of *Financial Management and Policy* remains one of providing three things. First, by developing an understanding of the rapidly evolving and exciting theory of finance, it enables one to evaluate how close the firm's investment, financing, and dividend decisions come to an objective of maximizing shareholder wealth. Second, it familiarizes readers with the ways in which analytical techniques are brought to bear on financial decision making. Third, the book supplies the institutional material necessary for a solid understanding of the environment in which financial decisions are made.

The book has been thoroughly reviewed and updated throughout in materials. In this edition, the entire book has been carefully edited so that the exposition is easier to follow. The discussion is better integrated, a number of new headings have been added, and key words now are shown in bold type. Attention was given to deleting materials that no longer were relevant or that belabored a point. New vignettes have been written to give practical color. More specific changes include the following.

There are three new cases, which deal with: setting up cash flows for capital budgeting along with payback, IRR, and NPV calculations; comprehensive long-term financing; and financial ratios. This brings to six the number of cases in the book, part of an applied focus.

The time-value, present-value, and internal-rate-of-return sections of Chapter 2 have been revised to capture the use of the calculator and spreadsheet program-

ming in setting up problems. In addition, there is a new appendix to the chapter entitled, "Using a Calculator to Solve Equations."

Chapter 3, "Market Risk and Returns," has a better treatment of the equity risk premium, and improvements have been made to the presentation of the CAPM. In Chapter 5, "Option Valuation," materials on factors influencing option valuation and option deltas have been revised significantly. There is a more effective presentation of capital budgeting in the face of inflation in Chapter 6. Chapter 8, "Creating Value through Required Returns," has been streamlined and the treatment of valuation has been improved. There is a new section on economic value added (EVA). Chapter 10, "Making Capital Structure Decisions," was rewritten with more focus on debt ratios and security ratings. There is improved treatment of taxes and dividends and a more extensive review of the empirical evidence in Chapter 11, "Dividend Policy."

Chapter 12, "Liquidity, Cash, and Marketable Securities," has been completely rewritten and consolidates two previous chapters. In Chapter 14, "Short-Term Financing," liability structure management is consolidated. Agency and signaling issues are discussed as well. Some improvements occur in the term loan section of Chapter 15, "Secured Loans and Term Financing." The section on inflation and expected returns in Chapter 16, "Foundations for Longer-Term Financing," was restructured. In Chapter 18, "Issuing Securities," there is a revised treatment of rights issues and the section on venture capital has been rewritten completely. In Chapter 19, "Fixed-Income Financing and Pension Liability," significant improvements have been made to sections dealing with bond refundings and with private placements.

A major revision of Chapter 20, "Option Financing," occurs in the use and valuation of convertible securities. The empirical section of Chapter 22, "Mergers and the Market for Corporate Control," has been revised extensively. Chapter 23, "Corporate and Distress Restructuring," has undergone a major revision. The use and the value implications of various methods of divestiture have been substantially rewritten, as have the empirical testing sections. Finally, Chapter 24, "International Financial Management," has been revised significantly with respect to exposure management, currency market hedges, and interest-rate parity. Translation exposure now appears in the Appendix to that chapter.

The intended audience for this book is an introductory MBA course in finance or an intermediate to advanced undergraduate course. It can be used in a variety of formats. The order of the chapters reflects my preference for teaching the course, but the instructor may approach them in whatever order seems appropriate. The tools of financial analysis and planning appear at the end of the book because many students have encountered them in courses in accounting. For those readers, Part 7 can serve as a review. If the class does not have this background, the professor may wish to take up the material at an early juncture. Extensive selected references at the ends of the chapters give the reader direct access to literature on which the chapter is partly based. The appendices at the ends of some chapters invite the reader to go into certain topics in greater depth, but the book's continuity is maintained if this material is not covered.

ANCILLARY MATERIALS

A number of materials are available to supplement the book. For the instructor there is a comprehensive *Instructor's Manual*, which contains suggestions for organizing the course, solutions to all the problems that appear at the end of the chap-

ters, and teaching notes for the cases. Also available are transparency masters of most of the figures in the text. Finally, there is a test item file of extensive questions and problems, both in hard copy in the form of a book and on computer disk. These materials can be obtained from your Prentice Hall sales representative.

In revising the book, I was helped considerably by careful reviews from: Delvin D. Hawley, The University of Mississippi; Jennifer Lynch Koski, The University of Washington; Scott Smart, Indiana University; and from Joe Walker, The University of Alabama-Birmingham. I am indebted to them for their efforts, and feel the book is better as a result.

The finance area is constantly undergoing change. It is both stimulating and rather awesome. I hope that *Financial Management and Policy* imparts some of this excitement and contributes to a better understanding of corporate finance. You, the reader, are the final judge and I welcome your suggestions.

JAMES C. VAN HORNE
Palo Alto, California



Brief Contents

PART I

FOUNDATIONS OF FINANCE 1

- Vignette: Coca-Cola, The Most Admired Corporation 1

CHAPTER 1 *Goals and Functions of Finance* 3

CHAPTER 2 *Concepts in Valuation* 9

CHAPTER 3 *Market Risk and Returns* 49

CHAPTER 4 *Multivariable and Factor Valuation* 85

CHAPTER 5 *Option Valuation* 103

PART II

INVESTMENT IN ASSETS AND REQUIRED RETURNS 129

- Case: Fazio Pump Corporation 129

CHAPTER 6 *Principles of Capital Investment* 133

CHAPTER 7 *Risk and Real Options in Capital Budgeting* 165

CHAPTER 8 *Creating Value through Required Returns* 199

PART III

FINANCING AND DIVIDEND POLICIES 249

- Vignette: Boeing Company 249

CHAPTER 9 *Theory of Capital Structure* 251

CHAPTER 10 *Making Capital Structure Decisions* 285

CHAPTER 11 *Dividend Policy: Theory and Practice* 305

PART IV

LIQUIDITY AND WORKING CAPITAL MANAGEMENT 339

- Case: Flores Distributors, Inc. 339

CHAPTER 12 *Liquidity, Cash, and Marketable Securities* 343

CHAPTER 13 *Management of Accounts Receivable and Inventories* 361

CHAPTER 14 *Short-Term Financing* 395

CHAPTER 15 *Secured Loans and Term Financing* 417

PART V

CAPITAL MARKET FINANCING AND RISK MANAGEMENT 439

- Case: Dougall & Gilligan Global Agency 439

CHAPTER 16 *Foundations for Longer-Term Financing* 447

CHAPTER 17 *Lease Financing* 467

CHAPTER 18 *Issuing Securities* 489

CHAPTER 19 *Fixed-Income Financing and Pension Liability* 509

**CHAPTER 20 *Option Financing: Warrants, Convertibles,
and Exchangeables* 537**

CHAPTER 21 *Managing Financial Risk* 561

PART VI

EXPANSION AND RESTRUCTURING 587

- Case: Marriott Restructuring 587

CHAPTER 22 *Mergers and the Market for Corporate Control* 591

CHAPTER 23 *Corporate and Distress Restructuring* 621

CHAPTER 24 *International Financial Management* 649

PART VII

TOOLS OF FINANCIAL ANALYSIS AND CONTROL 689

- Vignette: New York Times Company's New CFO 689

CHAPTER 25 *Financial Ratio Analysis* 691

CHAPTER 26 *Financial Planning* 727

APPENDIX: *Present-Value Tables and Normal Probability Distribution Table* 761



Contents

Preface xvii

PART I

FOUNDATIONS OF FINANCE 1

■ Vignette: Coca-Cola, The Most Admired Corporation 1

1 *Goals and Functions of Finance* 3

Creation of Value 3

Investment Decision 6

Financing Decision 6

Dividend Decision 7

Financial Management 7

Questions 8

Selected References 8

2 *Concepts in Valuation* 9

The Time Value of Money 9

Present Values 14

Internal Rate of Return or Yield 19

Bond Returns 21

Return from a Stock Investment 25

Dividend Discount Models 28

Measuring Risk: Standard Deviation 35

Summary 38

Appendix: Using a Calculator to Solve Equations 39

Self-Correction Problems 40

Problems 41

Solutions to Self-Correction Problems 44

Selected References 47

3 *Market Risk and Returns* 49

- Efficient Financial Markets 49
- Security Portfolios 51
- Multiple Security Portfolio Analysis and Selection 57
- Capital Asset Pricing Model 62
- Expected Return for Individual Security 68
- Certain Issues with the CAPM 72
- Summary 76
- Self-Correction Problems 77
- Problems 77
- Solutions to Self-Correction Problems 82
- Selected References 82

4 *Multivariable and Factor Valuation* 85

- Extended CAPM 85
- Factor Models in General 91
- Arbitrage Pricing Theory 93
- Summary 97
- Self-Correction Problems 97
- Problems 98
- Solutions to Self-Correction Problems 100
- Selected References 101

5 *Option Valuation* 103

- Expiration Date Value of an Option 103
- Valuation with One Period to Expiration:
 - General Consideration 104
- Binomial Option Pricing of a Hedged Position 109
- The Black–Scholes Option Model 112
- American Options 118
- Debt and Other Options 121
- Summary 121
- Appendix: Put–Call Parity 122
- Self-Correction Problems 123
- Problems 124
- Appendix Problem 126
- Solutions to Self-Correction Problems 126
- Selected References 128

PART II

INVESTMENT IN ASSETS AND REQUIRED RETURNS 129

- Case: Fazio Pump Corporation 129

6 *Principles of Capital Investment* 133

- Administrative Framework 133
- Methods for Evaluation 138
- NPV Versus IRR 143
- Depreciation and Other Refinements in
Cash-Flow Information 146
- What Happens when Capital is Rationed? 148
- Inflation and Capital Budgeting 150
- Information to Analyze an Acquisition 152
- Summary 154
- Appendix: Multiple Internal Rates of Return 155
- Self-Correction Problems 157
- Problems 158
- Solutions to Self-Correction Problems 161
- Selected References 163

7 *Risk and Real Options in Capital Budgeting* 165

- Quantifying Risk and its Appraisal 165
- Total Risk for Multiple Investments 174
- Real Options in Capital Investments 177
- Summary 188
- Self-Correction Problems 188
- Problems 190
- Solutions to Self-Correction Problems 195
- Selected References 197

8 *Creating Value through Required Returns* 199

- Foundations of Value Creation 199
- Required Market-Based Return for a Single Project 201
- Modification for Leverage 205
- Weighted Average Required Return 207
- Adjusted Present Value 213
- Divisional Required Returns 216
- Company's Overall Cost of Capital 220
- Diversification of Assets and Total Risk Analysis 222
- Evaluation of Acquisitions 226
- Summary 230
- Self-Correction Problems 231
- Problems 232
- Solutions to Self-Correction Problems 237
- Selected References 240
- Case: National Foods Corporation 241

PART III

FINANCING AND DIVIDEND POLICIES 249

- Vignette: Boeing Company 249

9 *Theory of Capital Structure* 251

- Introduction to the Theory 251
- Modigliani–Miller Position 255
- Taxes and Capital Structure 259
- Effect of Bankruptcy Costs 266
- Other Imperfections 268
- Incentive Issues and Agency Costs 269
- Financial Signaling 275
- Summary 276
- Self-Correction Problems 277
- Problems 278
- Solutions to Self-Correction Problems 282
- Selected References 284

10 *Making Capital Structure Decisions* 285

- EBIT-EPS Analysis 285
- Cash-Flow Ability to Service Debt 288
- Effect on Debt Ratios 292
- Effect on Security Rating 292
- Timing and Flexibility 293
- A Pecking Order of Financing? 294
- Checklist when it Comes to Financing 295
- Summary 296
- Self-Correction Problems 297
- Problems 298
- Solutions to Self-Correction Problems 300
- Selected References 303

11 *Dividend Policy: Theory and Practice* 305

- Procedural Aspects of Paying Dividends 305
- Dividend Payout Irrelevance 306
- Arguments for Dividend Payout Mattering 309
- Financial Signaling 312
- Empirical Testing and Implications for Payout 313
- Share Repurchase 315
- Stock Dividends and Stock Splits 319
- Managerial Considerations as to Dividend Policy 323
- Summary 327

Self-Correction Problems	328
Problems	330
Solutions to Self-Correction Problems	333
Selected References	336

PART IV

LIQUIDITY AND WORKING CAPITAL MANAGEMENT 339

■ Case: Flores Distributors, Inc.	339
-----------------------------------	-----

12 *Liquidity, Cash, and Marketable Securities* 343

Liquidity and its Role	343
Cash Management and Collections	345
Investment in Marketable Securities	349
Summary	355
Self-Correction Problems	356
Problems	357
Solutions to Self-Correction Problems	359
Selected References	360

13 *Management of Accounts Receivable and Inventories* 361

Credit Policies	361
Collection Policy	367
Evaluating the Credit Applicant	371
Inventory Management and Control	376
Uncertainty and Safety Stock	379
Inventory and the Financial Manager	382
Summary	384
Appendix: Application of Discriminant Analysis to the Selection of Accounts	384
Self-Correction Problems	387
Problems	389
Solutions to Self-Correction Problems	392
Selected References	394

14 *Short-Term Financing* 395

Liability Structure of a Company	395
Trade Credit Financing	400
Accrual Accounts as Spontaneous Financing	404
Money Market Credit	405
Short-Term Loans	407
Summary	410

xii Contents

Self-Correction Problems	411
Problems	412
Solutions to Self-Correction Problems	414
Selected References	415

15 *Secured Loans and Term Financing* 417

Secured Lending Arrangements	417
Intermediate-Term Debt	424
Protective Covenants and Loan Agreements	428
Summary	432
Self-Correction Problems	432
Problems	433
Solutions to Self-Correction Problems	436
Selected References	437

PART V

CAPITAL MARKET FINANCING AND RISK MANAGEMENT 439

- Case: Dougall & Gilligan Global Agency 439

16 *Foundations for Longer-Term Financing* 447

Purpose of Financial Markets	447
Inflation and Expected Returns	451
Inflation and Nominal Contracting Effects	453
Yield Curves and Their Use	455
Pricing Default Risk Off Treasuries	459
Summary	462
Self-Correction Problems	462
Problems	463
Solutions to Self-Correction Problems	465
Selected References	465

17 *Lease Financing* 467

Features of a Lease	467
Accounting and Tax Treatments of Leases	469
Return to the Lessor	471
After-Tax Analysis of Lease Versus Buy/Borrow	473
Sources of Value in Leasing	479
Summary	482
Self-Correction Problems	483
Problems	484

Solutions to Self-Correction Problems	485
Selected References	487

18 *Issuing Securities* 489

Public Offering of Securities	489
Government Regulations	492
Selling Common Stock through a Rights Issue	493
Initial Financing	499
Information Effects	502
Summary	504
Self-Correction Problems	505
Problems	505
Solutions to Self-Correction Problems	507
Selected References	508

19 *Fixed-Income Financing and Pension Liability* 509

Features of Debt	509
Types of Debt Financing	512
Call Feature and Refunding	515
Private Placements	522
Preferred Stock	523
Pension Fund Liability	526
Summary	529
Self-Correction Problems	530
Problems	531
Solutions to Self-Correction Problems	533
Selected References	534

20 *Option Financing: Warrants, Convertibles, and Exchangeables* 537

Use of Warrants	537
Convertible Securities	540
Valuation of Convertible Securities	545
Exchangeable Debt	549
Summary	550
Appendix: Valuing Convertible Bonds in the Face of Firm Volatility, Default Risks, and Fluctuating Interest Rates	551
Self-Correction Problems	554
Problems	555
Solutions to Self-Correction Problems	558
Selected References	559

21 *Managing Financial Risk* 561

- Derivative Securities 561
- Hedging Risk 562
- Futures Markets 564
- Forward Contracts 568
- Option Contracts 570
- Interest-Rate Swaps 575
- Currency Contracts 580
- Commodity Contracts 580
- Summary 581
- Self-Correction Problems 582
- Problems 583
- Solutions to Self-Correction Problems 584
- Selected References 585

PART VI

EXPANSION AND RESTRUCTURING 587

- Case: Marriott Restructuring 587

22 *Mergers and the Market for Corporate Control* 591

- Features of a Merger 592
- Strategic Acquisitions Involving Stock 594
- Sources or Rearrangements of Value 599
- Corporate Voting and Control 602
- Tender Offers and Company Resistance 605
- Empirical Evidence on Mergers and Takeovers 608
- Summary 611
- Self-Correction Problems 612
- Problems 613
- Solutions to Self-Correction Problems 616
- Selected References 618

23 *Corporate and Distress Restructuring* 621

- Divestitures in General 621
- Voluntary Liquidation and Sell-Offs 623
- Spin-Offs 623
- Equity Carve-Outs 624
- Going Private and Leveraged Buyouts 626
- Leveraged Recapitalizations 630
- Distress Restructuring 631

Gaming with the Rule of Absolute Priority	636
Summary	638
Self-Correction Problems	639
Problems	641
Solutions to Self-Correction Problems	644
Selected References	645

24 *International Financial Management* 649

Some Background	649
Types of Exposure	654
Economic Exposure	655
Management of Exposure	657
Currency Market Hedges	662
Should Exposure be Managed?	667
Macro Factors Governing Exchange-Rate Behavior	668
Structuring International Trade Transactions	674
Summary	677
Appendix: Translation Exposure	678
Self-Correction Problems	681
Problems	683
Solutions to Self-Correction Problems	685
Selected References	687

PART VII TOOLS OF FINANCIAL ANALYSIS AND CONTROL 689

- Vignette: New York Times Company's New CFO 689

25 *Financial Ratio Analysis* 691

Introduction to Financial Analysis	691
Liquidity Ratios	693
Debt Ratios	699
Coverage Ratios	700
Profitability Ratios	702
Market-Value Ratios	705
Predictive Power of Financial Ratios	706
Common Size and Index Analyses	708
Summary	712
Self-Correction Problems	713
Problems	715
Solutions to Self-Correction Problems	721
Selected References	724
■ Case: Financial Ratios and Industries	724