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(第九版)

FINANCE

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EDGAR A. NORTON



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世界财经与管理教材大系



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金 融 学

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Finance

Introduction to Institutions, Investments, and Management

Ninth Edition

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出版者的话

但凡成事，均缘于势。得势则事成，失势则事不顺。顺势而行，如顺水行舟；借势而动，如假梯登高；造势而为，如太空揽月。治学、从政、经商、置业，均不可一日失势。势者，长处、趋势也。

今日中国，是开放的中国；当今世界，是开放的世界。改革开放，大势所趋，势不可挡。经济开放、文化开放、政治开放，世界需要一个开放的中国，中国更要融入开放的世界。借鉴国际惯例，学习他人之长，已经到了不可不为之时。

借鉴国际惯例，学习他人之长，已属老生常谈，但学什么、如何学、以何为蓝本为众多志士仁人所关注。可喜的是，由赤诚图文信息有限公司精心策划，ITP、McGraw-Hill及Simon & Schuster等国际出版公司特别授权，东北财经大学出版社荣誉出版的“世界财经与管理教材大系”现已隆重面世！她以“紧扣三个面向，精选五大系列，奉献百部名著，造就亿万英才”的博大胸襟和恢弘气势，囊括经济学、管理学、财务与会计学、市场营销学、商务与法律等财经、管理类主干学科，并根据大学教育、研究生教育、工商管理硕士（MBA）和经理人员培训项目（ETP）等不同层次的需要，相应遴选了具有针对性的教材，可谓体系完整，蔚为大观。所选图书多为哈佛、斯坦福、麻省理工、伦敦商学院、埃维商学院等世界一流名校的顶尖教授、权威学者的经典之作，在西方发达国家备受推崇，被广为采用，经久不衰，大有“洛阳纸贵”之势。

借鉴国际惯例，毕竟只是因势而动；推出国粹精品，才是造势而为。在借鉴与学习的同时，更重要的是弘扬民族精神，创建民族文化。“民族的，才是国际的”。我们提倡学他人之长，但更希望立自己之势。

势缘何物，势乃人为。识人、用人、育人、成人，乃人本之真谛。育人才、成能人，则可造大势。育人、成人之根本在教育，教育之要件在教材，教材之基础在出版。换言之，人本之基础在书本。

凡事均需讲效益，所谓成事，亦即有效。高效可造宏基，无效难以为继，此乃事物发展之规律。基于此，我们崇尚出好书、出人才、出效益！

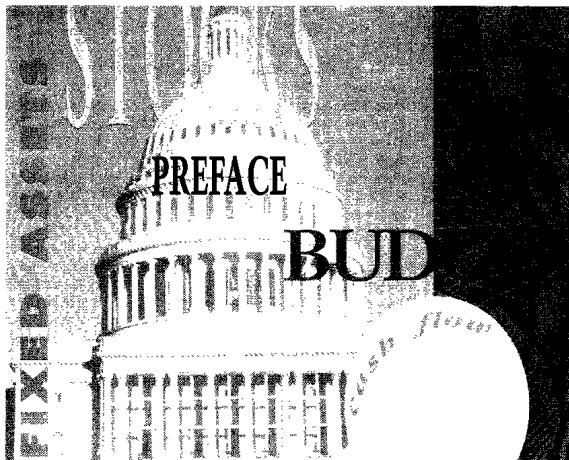
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1998年4月

*To my wife, Sharon, and our children,
Michelle, Sean, and Thor
Ronald W. Melicher*

*To the memory of my mother and father
Merle T. Welshans*

*To my best friend and wife, Becky,
and our gifts from God, Matthew and Amy
Edgar A. Norton*



This ninth edition of *Finance: Introduction to Institutions, Investments, and Management* builds upon the successes of its earlier editions while maintaining a fresh and up-to-date coverage of the field of finance. A movement is growing across the United States to offer a more "balanced" first course in finance. The ninth edition was developed for this "new" first course. Its eighteen chapters cover the three major financial areas involving the financial system, investments, and business finance in three six-chapter parts. For the student who does not plan to take any more courses in finance, this book provides a valuable overview of the major concepts of the discipline. For the student who wants to take additional courses in finance, the overview presented in this text provides a solid foundation upon which future courses can build.

Finance is meant to be used in a course whose purpose is to survey the foundations of the finance discipline. As such, it is designed to meet the needs of students in a variety of programs. Specifically, *Finance* can be used in the following types of courses:

1. As the first and only course in finance for non-finance business students.
2. As the first course in finance at a college or university where the department wants to expose students to a broad foundational survey of the discipline.

3. With supplemental readings and articles, *Finance* can be used for a capstone finance course.
4. *Finance* is an appropriate text to use at a school which seeks to provide liberal arts majors with a business minor or business concentration. The writing level is appropriate to provide students with a good foundation in the basics of our discipline.
5. *Finance* can be used in a "lower division" service course whose goal is to attract freshmen and sophomores to business and to even attract them to become finance majors.

The philosophy behind this book is three-fold. First, we believe that a basic understanding of the complex world of finance should begin with a survey course that covers an introduction to financial institutions, financial markets (or, more broadly, "investments"), financial management, or business finance. Students can immediately gain an integrated perspective of the interrelationships between financial markets, financial institutions, and management. They will appreciate how businesses and individuals are affected by markets and institutions as well as how markets and institutions can be used to help meet individual or firm goals.

Second, as an introductory survey to the field of finance, we wrote the book with a readable and "user friendly" focus in mind. We seek to convey basic knowledge, concepts, and terms that will serve the non-finance major well into the future and that will form a foundation upon which the finance major can build. Finer points, discussions of theory, and complicated topics are best reserved for more advanced course work. We aim to make students using our text financially literate and cognizant of the richness of the field of finance.

Third, we focus on the practice of finance in the settings of institutions, investments, and financial management. We focus on the descriptive in each of these fields. We don't want students to be unable to see the forest of finance because the trees of quantitative methods obscure their view or scare them away. When we do introduce equations and mathematical concepts that are applicable to finance, we show step-by-step solutions.

This ninth edition of *Finance* represents a major revision. The prior edition's twenty-five chapters have been slimmed down to eighteen. This occurred by consolidating, streamlining, and integrating material as well as deleting some material that did not fit with this edition's mission of providing a foundational overview to the field of finance.

The first part of the book contains six chapters on The Financial System. Here we introduce the topic of finance and the role of the financial system to a nation's economy. Financial intermediaries are introduced as well as the functions of financial systems. Special attention is given to the U.S. monetary system, definitions of money, and the international monetary system. Different depository institutions are introduced and their functions in the U.S. economy explained. This part also introduces and reviews the

role of the Federal Reserve System and the effects of monetary and fiscal policy on the economy. This part closes by discussing the international financial system, including exchange rates and the financing of international transactions.

Following this introduction of the financial system, Part 2 of the text focuses on investments and financial markets. We review the role of savings in an economy and how funds flow to and from different sectors. Interest rates are introduced and the discussion centers on making the student aware of the different influences on the level of interest rates and why they change over time. As interest rates measure the cost of moving money across time, this section reviews basic time value of money concepts with many worked out examples, including the keystrokes that students can use with financial calculators. The basic characteristics of bonds and stocks are reviewed. Students learn to apply time value of money concepts to find the prices of these securities. The fundamentals of investing risks and returns are discussed, as are the basics of investment banking and the operations of securities markets. Advanced classes may want to review the basics of financial derivatives which are explained in an appendix to Chapter 11's securities markets discussion.

Businesses raise funds in the institutional and market environment covered in Parts 1 and 2. In Part 3, the final six chapters of the text introduce students to business finance. Different ways in which to organize businesses are reviewed and the financial implications of each organizational form are highlighted. Accounting concepts such as the balance sheet, income statement, and statement of cash flows are introduced with simple examples. Financial ratios assist in the process of analyzing a firm's strengths and weaknesses. We also review their use as a means to help managers plan ahead for future asset and financing needs. Strategies for managing a firm's current assets and current liabilities are examined, as are the funding sources firms use to tap the financial markets for short-term financing. We introduce students to the basics of capital budgeting and to capital structure concepts.

By exposing students to institutions, markets, and management as the three major strands of finance, students will finish their course with a greater understanding of how these three fields interrelate. Financial institutions will be seen as facilitating the work of the financial markets by meeting the needs of different sets of borrowers and savers. Financial markets will be seen as the arena to which businesses and financial institutions go to raise funds and the mechanism through which individuals can invest their savings to meet their future goals. Financial management uses information it obtains from the financial markets and institutions to efficiently and profitably manage assets and to raise needed funds in a cost-efficient manner. This broad exposure to the discipline of finance will meet the needs of the non-major who needs to know the basics of finance so they can read *The Wall Street Journal* and other business periodicals

intelligently. It will also help the non-finance major work effectively as a member of a cross-functional team at work, a team that will include finance professionals. This overview of the field of finance will also get the finance major started on the right foot. Rather than receiving a compartmentalized view of finance, probably viewed through the corporate finance lens that many texts use, the finance major will receive a practical introduction to the different disciplines of finance and will better appreciate their relationships to one another.

TEACHING AND LEARNING AIDS

The ninth edition of *Finance* has been reviewed and edited to improve readability and understanding. Each chapter begins with a list of learning objectives which the instructor can use to form the basis for in-class lecture or discussion. The student can use them to review each chapter's main points. Margin definitions of key terms are provided to assist students in learning the language of finance.

Each chapter provides end-of-chapter discussion questions that review chapter material. Each chapter contains problems for students to gather data for or to solve. Each chapter also ends with self-test questions and problems, as well as answers to reinforce learning.

Throughout the book boxes are used to focus on current topics or applications of interest. They are designed to demonstrate and illustrate concepts and practices in the dynamic field of finance.

A feature which is new to this edition are Career Profiles. These feature eighteen men and women (one per chapter) who, in an interview format, discuss their jobs and the skills needed to obtain positions in different areas of finance. Some of the positions reviewed are trust officer, business valuation analyst, money manager, collections manager, treasurer, and venture capitalist. Our hope is the Career Profile boxes will stimulate discussion and interest so students will consider pursuing a career in the finance area.

Several other features, new to this edition of *Finance*, are available to adopters. Videos from CNBC on financial topics can be used to initiate class discussion and facilitate learning by illustrating the relevance and practical use of the topics discussed in the textbook.

A set of Lotus- and Excel-compatible templates, developed by Robert Ritchey of Texas Tech University, are available with the text. Students can use the templates to help solve some of the end-of-chapter problems.

An interactive CD-ROM developed by Steve Wyatt of the University of Cincinnati is available at a discount to students using this text. This CD-ROM is an instructional and applications multimedia tool. It can also serve as an in-class presentation tool for the instructor.

An *Instructor's Manual* is available to those who adopt this text. It features detailed chapter outlines, lecture tips, and answers to end-of-chapter

questions and problems. Transparency masters of many of the figures from the text are also provided in the manual. The manual includes an extensive test bank of over 1,500 true-false and multiple-choice examination questions with answers.

The test bank is also available for use with MicroSWAT III test generation software, which is available to instructors who adopt *Finance*. This easy-to-use, menu-driven software package allows an instructor to quickly and efficiently produce quality tests. It includes a word processor for entering, editing, and scrambling questions, and a grade book.

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We wish to thank the South-Western *Finance* team of Christopher Will, acquisitions editor; Sharon Smith, production editor; and Lachina Publishing Services for helping to publish this ninth edition of *Finance*. We are especially grateful to the reviewers of prior drafts of the ninth edition for their comments and constructive criticisms:

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Likewise, comments from students and teachers who have used prior editions of this book also are greatly appreciated, as is the assistance from the dozens of reviewers who have commented about the prior editions of *Finance*.

Finally, and perhaps most importantly, we wish to thank our families for their understanding and support during the writing of the ninth edition.

Ronald W. Melicher
Merle T. Welshans
Edgar A. Norton

FINANCE

INTRODUCTION TO
INSTITUTIONS, INVESTMENTS,
AND MANAGEMENT



PART 1

INTRODUCTION

Ask someone what they **think** about finance. You'll probably get a variety of responses: "It deals with money." "It is what my bank does." "The New York Stock Exchange has something to do with it." "It's how businesses and people get the money they need—you know, borrowing and stuff like that." And they'll all be correct!

Finance is a broad field. It involves national and international systems of banking and financing business. It also deals with the process you go through to get a car loan and what a business does when planning for its future needs.

Within the general field of finance, there are several areas of study. First is the area of financial institutions. **Financial institutions** collect funds from savers and lend them to or invest them in businesses or people that need cash. Examples of financial institutions are commercial banks, investment banks, insurance companies, and mutual funds. **Financial institutions** operate as part of the financial system. The financial system is the environment of finance. It includes the laws and regulations that affect financial transactions. The financial system encompasses the Federal Reserve System, which controls the supply of money in the U.S. economy. It also consists of the mechanisms that have been constructed to facilitate the flow of money and financial securities between countries. Part 1 of this book examines the financial system and the role of financial institutions in it.

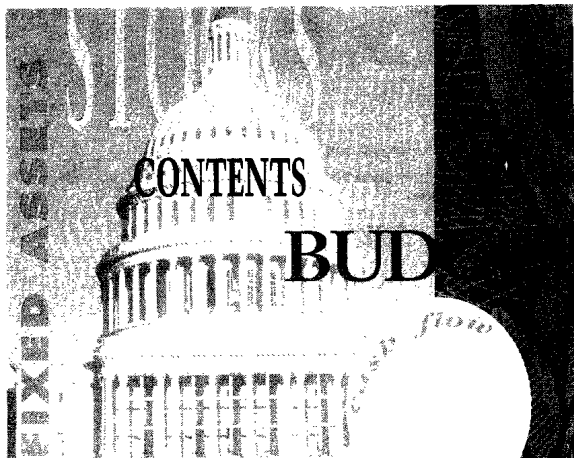
A second area of study is the financial markets and investments. **Financial markets** are a framework or mechanism for bringing together those that have money to invest with those that need funds. A financial market can be a central location for the trading of financial claims, such as the New York Stock Exchange. It may also take the form of a communications network, as with the over-the-counter market, which is another means by which stocks and bonds can be traded. When people invest funds, lend or borrow money, or buy or sell shares of a company's stock, they are participating in the financial markets. Part 2 of this book examines the role of financial markets and the process of investing in bonds and stocks.

The third area of the field of finance is financial management. **Financial management** studies how a business should manage its assets, liabilities, and equity to produce a good or service. Whether or not a firm offers a new product or expands production, or how it invests excess cash are examples of decisions that financial managers are involved with. Part 3 discusses how financial concepts can help managers better manage their firms. Financial managers are constantly working with financial institutions and watching financial market trends as they make investment and financing decisions.

There are few clear distinctions or separations between the three areas of finance, as seen in the diagram on the following page. There is an overlap between each of three fields: institutions, markets, and financial management. Financial institutions operate in the environment of the financial markets and work to meet

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