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Principles of Managerial Finance—Brief Edition*

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Principles of Managerial Finance

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Dedicated to our good friend and mentor,
Dr. Lawrence J. Gitman,
who trusted us as coauthors and successors
of Principles of Managerial Finance.

CJZ
SBS
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Scott B. Smart is a finance professor and the Whirlpool Finance Faculty Fellow at the Kelley School of Business at Indiana University. Dr. Smart received his B.B.A. from Baylor University and his M.A. and Ph.D. from Stanford University. His research focuses primarily on applied corporate finance topics and has been published in journals such as the Journal of Finance, the Journal of Financial Economics, the Journal of Corporate Finance, Financial Management, and others. His articles have been cited by business publications including The Wall Street Journal, The Economist, and Business Week. Winner of more than a dozen teaching awards, Dr. Smart has been listed multiple times as a top business school teacher by Business Week. He has held Visiting Professor positions at the University of Otago and Stanford University, and he worked as a Visiting Scholar for Intel Corporation, focusing on that company’s mergers and acquisitions activity during the “Dot-com” boom in the late 1990s. As a volunteer, Dr. Smart currently serves on the boards of the Indiana University Credit Union and Habitat for Humanity. In his spare time he enjoys outdoor pursuits such as hiking and fly fishing.
NEW TO THIS EDITION

Finance is a dynamic discipline, as illustrated on this book’s cover by the evolution of payment methods from coins and paper currency to bitcoin. Technology is rapidly reshaping finance, just as it has other industries. For example, in September 2017 Google introduced a new payment technology in India. Tez, a method of transferring money using sounds to connect two devices, was downloaded by millions of consumers in a matter of days. As we made plans to publish the fifteenth edition, we were mindful of changes in managerial finance practices that have taken hold in recent years. We carefully assessed feedback from users of the fourteenth edition as well as instructors not currently using our text about content changes that would improve this teaching and learning tool.

In every chapter, our changes were designed to make the material more up to date and more relevant for students. A number of new topics have been added at appropriate places, and new features appear in each chapter:

• We replaced nearly all of the chapter-opening vignettes with stories gathered from the business press in recent years that illustrate key ideas in each chapter. Many of the chapter openers feature companies such as Airbnb, Kroger, Netflix, Apple, Tesla, General Motors, Whirlpool, and Dell that are familiar to students. We designed these opening vignettes to impress upon students that the material they will see in each chapter is relevant for business in the “real world.”

• At the end of each chapter we return to the opening vignette with an Opener-In-Review question that asks students to apply a concept that they have learned in the chapter to the business situation described in the chapter opener.

• We have rewritten all of the Focus on Ethics boxes, using new examples to highlight situations in which businesses or individuals have engaged in unethical behavior. The boxes explore the consequences of ethical lapses and the ways in which markets and governments play a role in enforcing ethical standards.

• New in this edition are Chapter Introduction Videos and animations. In the introduction videos the authors explain the importance of the chapter content within the context of managerial finance. The animations for select in-chapter figures and examples allow students to manipulate inputs to determine outputs in order to illustrate concepts and reinforce learning. MyLab Finance also offers new and updated Solution Videos that allow students to watch a video of the author discussing or solving in-chapter examples. We have also updated the financial calculator images that appear in the book to better match the financial calculator available on MyLab Finance.

• The chapter-ending Spreadsheet Exercises as well as select end-of-chapter problems in the text are now offered in MyLab Finance as auto-graded Excel Projects. Using proven, field-tested technology, auto-graded Excel Projects allow instructors to seamlessly integrate Microsoft Excel content into their course without having to manually grade spreadsheets. Students have the opportunity to practice important finance skills in Excel, helping them to master key concepts and gain proficiency with the program.
• We added new problems to each chapter, many of which require students to use real-world data to reach a solution.

The chapter sequence is essentially unchanged from the prior edition, but there are some noteworthy changes within each chapter. This edition contains nineteen chapters divided into eight parts. Each part is introduced by a brief overview, which is intended to give students an advance sense for the collective value of the chapters included in the part.

Part 1 contains two chapters. Chapter 1 provides an overview of the role of managerial finance in a business enterprise. It contains new, expanded content focusing on the goal of the firm and the broad principles that financial managers use in their pursuit of that goal. Chapter 2 describes the financial market context in which firms operate, with new coverage focusing on the transactions costs investors face when trading in secondary markets.

Part 2 contains three chapters focused on basic financial skills such as financial statement analysis, cash flow analysis, and time-value-of-money calculations. Chapter 3 provides an in-depth ratio analysis using real data from Whole Foods just prior to its acquisition by Amazon. The ratios provide opportunities for interesting discussion about some of the possible motives for that acquisition. We reorganized the flow of material in Chapter 4 to emphasize first the broad goals of strategic and operational financial planning and then the importance of cash flow within any financial plan. In Chapter 5, we rewrote much of the discussion to make time-value-of-money concepts simpler and more intuitive. We also added new coverage of growing perpetuities.

Part 3 focuses on bond and stock valuation. We placed these two chapters just ahead of the risk and return chapter to provide students with exposure to basic material on bonds and stocks that is easier to grasp than some of the more theoretical concepts in the next part. New in Chapter 6 is a discussion of the negative interest rates prevailing on government bonds in Japan and some European countries, as well as an expanded discussion of the tendency of the yield curve to invert prior to a recession. Chapter 7 offers new coverage of the use of price-to-earnings multiples to value stocks.

Part 4 contains the risk and return chapter as well as the chapter on the cost of capital. We believe that following the risk and return chapter with the cost of capital material helps students understand the important principle that the expectations of a firm’s investors shape how the firm should approach major investment decisions (which are covered in Part 5). In other words, Part 4 is designed to help students understand where a project “hurdle rate” comes from before they start using hurdle rates in capital budgeting problems. Updates to Chapter 8 include new historical data on stocks, bonds, and Treasury bills, as well as examples and problems featuring real data on companies such as Apple, Google, Coca-Cola, and Wal-Mart. Chapter 9 contains new material on the use of market-value-based weights in the cost of capital calculation featuring actual data on the capital structure of Netflix. Throughout the chapter we have revised examples and problems to reflect today’s low interest rate environment and the correspondingly low after-tax cost of debt faced by most public companies.

Part 5 contains three chapters on various capital budgeting topics. The first chapter focuses on capital budgeting methods such as payback and net present value analysis. A new feature of this chapter is an updated discussion of economic value added using data from Exxon Mobil Corp. The second chapter in this part explains how financial analysts construct cash flow projections, which
are a required component of net present value analysis. The final chapter in this section describes how firms analyze the risks associated with capital investments.

Parts 6 deals with the topics of capital structure and payout policy. These two chapters contain updated material on trends in firms’ use of leverage and their payout practices. Chapter 13 provides a new Focus on Practice box discussing how Qualcomm’s highly skilled labor force turns what often is thought of as a variable cost into a fixed cost and thereby creates operating leverage. The chapter also contains new expanded coverage of the role that expected bankruptcy costs play in capital structure decisions. A new discussion in Chapter 14 highlights how and why companies have shifted their payout policies away from dividends and toward share repurchases over time.

Part 7 contains two chapters centered on working capital issues. A major development in business has been the extent to which firms have found new ways to economize on working capital investments. The first chapter in Part 7 explains why and how firms work hard to squeeze resources from their investments in current assets such as cash and inventory. The second chapter in this part focuses more on management of current liabilities.

Finally, Part 8 has three chapters covering a variety of topics, including hybrid securities, mergers and other forms of restructurings, and international finance. These subjects are some of the most dynamic areas in financial practice, and we have made a number of changes here to reflect current practices. Chapter 17 contains new examples of convertible securities issued by firms such as STMicroelectronics and Tesla. Chapter 18 covers important merger concepts with examples featuring recent transactions involving Anthem-Cigna, Fiat-Chrysler, Dow-DuPont, Berkshire Hathaway-Oncor, and Broadcom Ltd.-Maxlinear.

Although the text content is sequential, instructors can assign almost any chapter as a self-contained unit, enabling instructors to customize the text to various teaching strategies and course lengths.

Like the previous editions, the fifteenth edition incorporates a proven learning system, which integrates pedagogy with concepts and practical applications. It concentrates on the knowledge that is needed to make keen financial decisions in an increasingly competitive business environment. The strong pedagogy and generous use of examples—many of which use real data from markets or companies—make the text an easily accessible resource for in-class learning or out-of-class learning, such as online courses and self-study programs.

**SOLVING TEACHING AND LEARNING CHALLENGES**

The desire to write *Principles of Managerial Finance* came from the experience of teaching the introductory managerial finance course. Those who have taught the introductory course many times can appreciate the difficulties that some students have absorbing and applying financial concepts. Students want a book that speaks to them in plain English and explains how to apply financial concepts to solve real-world problems. These students want more than just description; they also want demonstration of concepts, tools, and techniques. This book is written with the needs of students in mind, and it effectively delivers the resources that students need to succeed in the introductory finance course.

Courses and students have changed since the first edition of this book, but the goals of the text have not changed. The conversational tone and wide use of examples set off in the text still characterize *Principles of Managerial Finance*. 
Building on those strengths, fifteen editions, numerous translations, and well over half a million U.S. users, *Principles* has evolved based on feedback from both instructors and students, from adopters, nonadopters, and practitioners. In this edition, we have worked to ensure that the book reflects contemporary thinking and pedagogy to further strengthen the delivery of the classic topics that our users have come to expect. Below are descriptions of the most important resources in *Principles* that help meet teaching and learning challenges.

Users of *Principles of Managerial Finance* have praised the effectiveness of the book’s Teaching and Learning System, which they hail as one of its hallmarks. The system, driven by a set of carefully developed learning goals, has been retained and polished in this fifteenth edition. The “walkthrough” on the pages that follow illustrates and describes the key elements of the Teaching and Learning System. We encourage both students and instructors to acquaint themselves at the start of the semester with the many useful features the book offers.

Six Learning Goals at the start of the chapter highlight the most important concepts and techniques in the chapter. Students are reminded to think about the learning goals while working through the chapter by strategically placed learning goal icons.

To help students understand the relevance of a chapter within the overarching framework of managerial finance, every chapter has available in MyLab Finance a short chapter introduction video by an author.

Every chapter opens with a feature, titled Why This Chapter Matters to You, that helps motivate student interest by highlighting both professional and personal benefits from achieving the chapter learning goals.

Its first part, In Your Professional Life, discusses the intersection of the finance topics covered in the chapter with the concerns of other major business disciplines. It encourages students majoring in accounting, information systems, management, marketing, and operations to appreciate how financial acumen will help them achieve their professional goals.

The second part, In Your Personal Life, identifies topics in the chapter that will have particular application to personal finance. This feature also helps students appreciate the tasks performed in a business setting by pointing out that the tasks are not necessarily different from those that are relevant in their personal lives.
Each chapter begins with a short opening vignette that describes a recent real-company event related to the chapter topic. These stories raise interest in the chapter by demonstrating its relevance in the business world. Most of these opening vignettes are entirely new to this edition. New! In MyLab Finance, users will find a brief video providing an overview of each chapter's content.

Learning goal icons tie chapter content to the learning goals and appear next to related text sections and again in the chapter-end summary, end-of-chapter problems and exercises, and supplements such as the Test Bank and MyLab.

For help in study and review, boldfaced key terms and their definitions appear in the margin where they are first introduced. These terms are also boldfaced in the book’s index and appear in the end-of-book glossary.

Matter of Fact boxes provide interesting empirical facts, usually featuring recent data, that add background and depth to the material covered in the chapter.

1.1 Finance and the Firm

The field of finance is broad and dynamic. Finance influences everything that firms do, from being prepared to launching marketing campaigns. Because almost any aspect of business has important financial dimensions, many students encounter career opportunities where they need to understand the principles of finance described in this textbook. Even if you’re not considering a career in another discipline such as marketing, operations, accounting, supply chain, or human resources, you’ll find that understanding a few crucial ideas in finance will enhance your professional success.

Finance teaches that the primary goal of managers should be to maximize the firm’s wealth. This goal acknowledges that managers must act within ethical and legal boundaries. A survey found that at least one group of investors did not fall prey to trend speculators that it—along with other unicorns, such as the ride-sharing service Uber—would soon become a public company. The venture capital firm, Cowboy Ventures, invested $1.6 million in Airbnb in 2008. Aileen Lee, the daughter of Chinese immigrants who was once a venture capitalist, used the word unicorn to describe a privately held tech startup worth more than $1 billion. Prior to 2010, private companies valued at $1 billion were viewed as being at the threshold of an initial public offering (IPO). To emphasize that a company’s valuation at an IPO is based entirely on market speculation, Lee coined the term unicorn. She noted that most companies raising money at an IPO do so because they need the money to finance new investments, not to create a more valuable firm, such as those aiming to increase their share prices relative to other firms in their industry. Simply stated, the value of a unicorn is based entirely on market speculation. For a company to be considered a unicorn, its stock must be trading at a valuation that is three times greater than its most recent equity fundraising round.

Matter of Fact

Billions of VC Funding Gives Airbnb Plenty of Room

The daughter of Chinese immigrants and founder of the venture capital firm, Cowboy Ventures, Aileen Lee added a new term to the business lexicon in her 2013 blog post on Tech Crunch. Lee coined the word unicorn to describe a privately held tech startup worth more than $1 billion. Prior to 2010, private companies valued at $1 billion were viewed as being at the threshold of an initial public offering (IPO). To emphasize that a company’s valuation at an IPO is based entirely on market speculation, Lee coined the term unicorn. She noted that most companies raising money at an IPO do so because they need the money to finance new investments, not to create a more valuable firm, such as those aiming to increase their share prices relative to other firms in their industry. Simply stated, the value of a unicorn is based entirely on market speculation. For a company to be considered a unicorn, its stock must be trading at a valuation that is three times greater than its most recent equity fundraising round.

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Matter of Fact boxes provide interesting empirical facts, usually featuring recent data, that add background and depth to the material covered in the chapter.
Examples are an important component of the book’s learning system. Numbered and clearly set off from the text, they provide an immediate and concrete demonstration of how to apply financial concepts, tools, and techniques. Many of these feature real-world data.

Examples illustrating time-value-of-money techniques often show the use of time lines, equations, financial calculators, and spreadsheets (with cell formulas). For instructors who prefer to use tables with interest rate factors, an IRF icon appearing with some examples indicates that the example can be solved using the interest rate factors. The reader can access the Interest Rate Factor Supplement in MyLab Finance. The Interest Rate Factor Supplement is a self-contained supplement that explains how the reader should use the interest rate factors and documents how the in-chapter examples can be solved by using them.

MyLab Finance contains additional resources to demonstrate the examples. The MyLab Financial Calculator reference indicates that the reader can use the finance calculator tool in MyLab Finance to find the solution for an example by inputting the keystrokes shown in the calculator screenshot. The MyLab Finance Solution Video reference indicates that the reader can go to MyLab Finance to watch a video of the author discussing or solving the example. The MyLab Finance Video reference indicates that the reader can watch a video on related core topical areas.

**Personal Finance Examples** demonstrate how students can apply managerial finance concepts, tools, and techniques to their personal financial decisions.
PERSONAL FINANCE EXAMPLE 5.11

Ross Clark wishes to endow a chair in finance at his alma mater. Suppose, after consulting with his alma mater, Ross Clark learns that the university requires the endowment to provide a 5% annual cash flow in perpetuity. Ross wants to give money today so that the university will begin to generate $400,000 every year for an indefinite period. To support the endowed chair, how much must Ross give today, assuming a 5% return? If Ross wants to give money today so that the university will begin to generate $400,000 every year for an indefinite period, how much must Ross give today, assuming a 5% return?

**FINDING THE PRESENT VALUE OF A PERPETUITY**

The present value of a perpetuity is found by dividing the cash flow by the interest rate, or $P_{\text{V0}} = \frac{CF_1}{r}$. Using this formula, the present value of a perpetuity is $P_{\text{V0}} = \frac{400,000}{0.05} = $8,000,000.

**Key Equations** appear in green boxes throughout the text to help readers identify the most important mathematical relationships.

**Review Questions** appear at the end of each major text section. These questions challenge readers to stop and test their understanding of key concepts, tools, techniques, and practices before moving on to the next section.

**NEW!** Some sections have dedicated Excel Review Questions that ask students to demonstrate their ability to solve a financial problem using Excel.

**In Practice** boxes offer insights into important topics in managerial finance through the experiences of real companies, both large and small. There are three categories of In Practice boxes:

- **Focus on Ethics** boxes in every chapter help readers understand and appreciate important ethical issues and problems related to managerial finance. Nearly all of these boxes are brand new in this edition, and those that are not brand new have been substantially revised.

- **Focus on Practice** boxes take a corporate focus that relates a business event or situation to a specific financial concept or technique.

- **Global Focus** boxes look specifically at the managerial finance experiences of international companies.

All three types of In Practice boxes end with one or more critical thinking questions to help readers broaden the lesson from the content of the box.
The time value of money is an important tool that financial managers and investors use to compare the costs of investments they make today to the cash flows they expect to receive in the future. This technique is based on the idea that money has a time value, which means that a dollar today is worth more than a dollar tomorrow because it can be invested and earn interest. Financing managers and investors use time-value techniques when assessing the value of expected cash flows and determining the appropriate investments to make. The time value of money is based on several concepts, including the time value of a lump sum, the time value of annuities, and the time value of a mixed stream. Financial managers and investors use time-value techniques when assessing the value of expected cash flows and determining the appropriate investments to make.

**Review of Learning Goals**

**LG 1** Discuss the role of time value in finance, the use of computational tools, and the basic patterns of cash flow. Financial managers and investors use time-value-of-money techniques when assessing the value of expected cash flow streams. Alternatives can be assessed by either compounding to find future value or discounting to find present value. Financial managers rely primarily on present-value techniques. Financial calculators and electronic spreadsheets can be used to facilitate calculations.

**Opener-In-Review**

The chapter opener described a lottery prize that could be taken as a $480 million lump sum payment or a mixed stream of 30 payments, with the first payment of $11.42 million coming immediately, followed by 29 additional payments growing at 5% per year. If the lottery winner could earn 2% on cash invested today, should she take the lump sum or the mixed stream? What if the rate of return is 3%? What general principle do those calculations illustrate?

**Self-Test Problems**

The end-of-chapter Summary consists of two sections. The first section, Focus on Value, explains how the chapter’s content relates to the firm’s goal of maximizing owner wealth. This feature helps reinforce understanding of the link between the financial manager’s actions and share value.

The second part of the Summary, the Review of Learning Goals, restates each learning goal and summarizes the key material that was presented to support mastery of the goal. This review provides students with an opportunity to reconcile what they have learned with the learning goal and to confirm their understanding before moving forward.

**Opener-In-Review** questions at the end of each chapter revisit the opening vignette and ask students to apply lessons from the chapter to that business situation.

**Self-Test Problems**, keyed to the learning goals, give readers an opportunity to strengthen their understanding of topics by doing a sample problem. For reinforcement, solutions to the Self-Test Problems appear in the appendix at the back of the book. An IRF icon indicates that the Self-Test Problem can be solved using the interest rate factors. The reader can access the Interest Rate Factor Supplement in MyLab Finance.

**WARM-UP EXERCISES**

All problems are available in MyLab Finance.

**ES-1** Assume that a firm makes a $2,500 deposit into a short-term investment account. If this account is currently paying 0.7% (yes, that’s right, less than 1%), what will the account balance be after 1 year?

**ES-2** If Bob and Judy combine their savings of $1,260 and $975, respectively, and deposit this amount into an account that pays 2% annual interest, compounded monthly, what will the account balance be after 4 years?
**Problems**

All problems are available in MyLab Finance. The icon indicates problems in Excel format available in MyLab Finance.

P4–1 Depreciation On March 20, 2019, Norton Systems acquired two new assets. Asset A was research equipment costing $57,000 and having a 3-year recovery period. Asset B was duplicating equipment with an installed cost of $45,000 and a 5-year recovery period. Using the MACRS depreciation percentages in Table 4.2, prepare a depreciation schedule for each of these assets.

P4–2 Depreciation In early 2019, Sosa Enterprises purchased a new machine for $10,000 to make cork stoppers for wine bottles. The machine has a 3-year recovery period and is expected to have a salvage value of $2,000. Develop a depreciation schedule for this asset using the MACRS depreciation percentages in Table 4.2.

P4–20 Integrative: Pro forma statements Red Queen Restaurants wishes to prepare financial plans. Use the financial statements and the other information provided below to prepare the financial plans.

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**Spreadsheet Exercise**

You have been assigned the task of putting together a statement for the ACME Company that shows its expected inflows and outflows of cash over the months of July 2020 through December 2020.

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**Integrative Case 2**

Track Software Inc.

Seven years ago, after 15 years in public accounting, Stanley Bloomer, CPA, joined his partners in the management of their software products company. The firm, Track Software Inc., designs and sells software products that are used by medium- to large-sized manufacturers. Stanley had spent eight years developing new software products and updating existing programs at a local software company. He had recently acquired a small chain of retail computer stores and was produção of software products, all of which would contribute to streamlining the accounting processes of medium- to large-sized manufacturers. Stanley reasoned that his background would make him a valuable partner for many software companies. His firm sells one software product at a time, and its sales are highly dependent on the change in the market for that product. Stanley was particularly interested in the market for the transportation software product offered by his firm. He had identified potential customers for his software product and was interested in creating a new software product for the transportation market.

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**Comprehensive Problems**, keyed to the learning goals, are longer and more complex than the Warm-Up Exercises. In this section, instructors will find multiple problems that address the important concepts, tools, and techniques in the chapter.

New! Excel templates for many end-of-chapter problems are available in MyLab Finance. These templates do not solve problems for students, but rather help students reach a solution faster by inputting data for them or by organizing facts presented in problems in a logical way.

A short descriptor identifies the essential concept or technique of the problem. Problems labeled as Integrative tie together related topics.

**Personal Finance Problems** specifically relate to personal finance situations and Personal Finance Examples in each chapter. These problems will help students see how they can apply the tools and techniques of managerial finance in managing their own finances.

All exercises and problems are available in MyLab Finance.

Every chapter includes a Spreadsheet Exercise. This exercise gives students an opportunity to use Excel software to create one or more spreadsheets with which to analyze a financial problem. The spreadsheet to be created is often modeled on a table or Excel screenshot located in the chapter. Students can access working versions of the Excel screenshots in MyLab Finance.

An Integrative Case at the end of each part of the book challenges students to use what they have learned over the course of several chapters. Additional chapter resources, such as Chapter Cases, Group Exercises, and numerous online resources, intended to provide further means for student learning and assessment are available in MyLab Finance at www.pearson.com/mylab/finance.
MyLab FINANCE

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Deliver Trusted Content

You deserve teaching materials that meet your own high standards for your course. That’s why Pearson partners with highly respected authors to develop interactive content and course-specific resources that you can trust—and that keep your students engaged.

Empower Each Learner

Each student learns at a different pace. Personalized learning pinpoints the precise areas where each student needs practice, giving all students the support they need—when and where they need it—to be successful.

Teach Your Course Your Way

Your course is unique. So whether you’d like to build your own assignments, teach multiple sections, or set prerequisites, MyLab gives you the flexibility to easily create your course to fit your needs.

Improve Student Results

When you teach with MyLab, student performance improves. That’s why instructors have chosen MyLab for over 15 years, touching the lives of over 50 million students.

MyLab opens the door to a powerful Web-based tutorial, testing, and diagnostic learning system designed specifically for the Zutter/Smart, Principles of Managerial Finance. With MyLab, instructors can select an adaptable preconfigured course or create their own. Both options allow instructors to create, edit, and assign online homework, quizzes, and tests and track all student progress in the downloadable online gradebook. MyLab allows students to supplement and reinforce their in-class learning by taking advantage of a progress-driven Study Plan or self-selected practice problems, quizzes, and tests. For example, all end-of-chapter problems are assignable by instructors or selectable by students in MyLab, and because the problems have algorithmically generated values, no student will have the same homework as another or work the same problem twice; there is an unlimited opportunity for practice and testing. Students get the help they need, when they need it, from the robust tutorial options, including “View an Example” and “Help Me Solve This,” which breaks the problem into steps and links to the relevant textbook page.

This fully integrated online system gives students the hands-on tutorial, practice, and diagnostic help they need to ensure they are effectively learning finance in the most efficient manner. Utilization of the resources available in MyLab Finance saves instructors time by enabling students to more effectively learn on their own and providing instructors with a full account of student progress, auto grading, and an online gradebook that can seamlessly link with a Learning Management System (e.g., Blackboard Learn, Brightspace by D2L, Canvas, or Moodle) or be downloaded to Excel.

The Multimedia Library in MyLab Finance provides students with access to a variety of chapter resources all intended to reinforce their learning and
understanding of the textbook content. For example, students can access a Chapter Introduction Video for every chapter and dozens of Solution Videos for select in-chapter examples. Students can also access dynamic animations for select figures and examples throughout the book that provide them with the ability to control inputs and drive outputs to better understand the concepts.

The auto-graded Excel feature in MyLab Finance allows instructors to assign all Spreadsheet Exercises and select end-of-chapter problems without having to manually grade spreadsheets. Students have the opportunity to practice important finance skills in Excel and instructors have the ability to assess their learning without the hassle of time-consuming grading. Students simply download a spreadsheet, solve a finance problem in Excel, and then upload the file back to MyLab Finance. Students will receive personalized feedback on their work within minutes that allows them to pinpoint where they went wrong on any step of the problem.

Chapter Cases with automatically graded assessment are also provided in MyLab Finance. These cases have students apply the concepts they have learned to a more complex and realistic situation. These cases help strengthen practical application of financial tools and techniques.

MyLab also has Group Exercises that students can work together in the context of an ongoing company. Each group creates a company and follows it through the various managerial finance topics and business activities presented in the textbook.

MyLab Finance has an Interest Rate Factor Supplement that explains how to use the interest rate factors in time-value-of-money problems and works seamlessly with the textbook. The student can go directly to the IRF Supplement and see the in-chapter example solved using the interest rate factors. All examples that appear in the IRF Supplement are indicated in the text with an IRF icon.

Advanced reporting features in MyLab also allow you to easily report on AACSB accreditation and assessment in just a few clicks.

An online glossary, digital flashcards, financial calculator tutorials, videos, Spreadsheet Use examples from the text in Excel, and numerous other premium resources are available in MyLab.

DEVELOPING EMPLOYABILITY SKILLS

For students to succeed in a rapidly changing job market, they should be aware of their career options and how to go about developing a variety of skills. In this book and in MyLab Finance, we focus on developing these skills in a variety of ways.

**Excel modeling skills**—Each chapter contains a Spreadsheet Exercise that asks students to build an Excel model to help solve a business problem. Many

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<td>1</td>
<td>FUTURE VALUE OF AN ORDINARY ANNUITY</td>
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<td>2</td>
<td>Annual annuity payment</td>
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<td>3</td>
<td>Annual rate of interest</td>
</tr>
<tr>
<td>4</td>
<td>Number of years</td>
</tr>
<tr>
<td>5</td>
<td>Future value</td>
</tr>
</tbody>
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Entry in Cell B5 is =FV(B3,B4,B2,0,0). The minus sign appears before the $1,000 in B2 because the annuity’s payments are cash outflows.
chapters provide screenshots showing completed Excel models designed to solve in-chapter examples. Many chapters contain Excel Review Questions that prompt students to practice using Excel to solve specific types of problems. In addition, students can access the working Excel screenshots and solutions to the Excel Review Questions in MyLab Finance to further reenforce their learning and understanding. Also, in MyLab students will find dozens of Excel templates, marked in the text with a special icon, that help them model select end-of-chapter problems so they can reach a solution faster and with a deeper understanding of the underlying concepts. Finally, as mentioned above, every Excel Spreadsheet Exercise and select end-of-chapter problems can be assigned and auto graded.

**Ethical reasoning skills**—The *Focus on Ethics* boxes appearing in each chapter describe situations in which business professionals have violated ethical (and in some cases even legal) standards and have suffered consequences as a result. These boxes will help students recognize the ethical temptations they are likely to face while pursuing a finance career and the consequences that they may suffer if they behave unethically. Each chapter ends with an Ethics Problem that asks students to consider the ethical dimensions of some business decision.

**Critical thinking skills**—Nearly every significant financial decision requires critical thinking because making optimal decisions means weighing the marginal benefits and costs of alternative plans. To weigh those benefits and costs, one must first identify and quantify them. Nearly every chapter in this textbook discusses how financial analysts place a value on the net benefits associated with a particular decision. Students who master this material will be prepared to ask the tough questions necessary to assess whether a particular course of action creates value for shareholders.

**Data analysis skills**—Financial work is about data. Financial analysts have to identify the data that are relevant for a particular business problem, and they must know how to process that data in a way that leads to good decision making. In-chapter examples and end-of-chapter problems require students to sort out relevant from irrelevant data and to use the data that they have to make a clear recommendation about what course of action a firm should take.

**TABLE OF CONTENTS OVERVIEW**

The text’s organization conceptually links the firm’s actions and its value as determined in the financial market. We discuss every significant financial problem or decision in terms of both risk and return to assess the potential impact on owners’ wealth. A Focus on Value element in each chapter’s Summary helps reinforce the student’s understanding of the link between the financial manager’s actions and the firm’s share value.

In organizing each chapter, we have adhered to a managerial decision-making perspective, relating decisions to the firm’s overall goal of wealth maximization. Once a particular concept has been developed, its application is illustrated by an example, which is a hallmark feature of this book. These examples demonstrate, and solidify in the student’s thought, financial decision-making considerations and their consequences.
## INSTRUCTOR TEACHING RESOURCES

<table>
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<tr>
<th>Supplements available to instructors at <a href="http://www.pearsonhighered.com/irc">www.pearsonhighered.com/irc</a></th>
<th>Features of the Supplement</th>
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</thead>
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| **Instructor’s Manual** | • Overview of key topics  
• Detailed answers and solutions to all Opener-In-Review Questions, Warm-Up Exercises, end-of-chapter Problems, and Chapter Cases  
• Suggested answers to all critical thinking questions in chapter boxes, Ethics Problems, and Group Exercises  
• Spreadsheet Exercises  
• Group Exercises  
• Integrative Cases |
| **Test Bank** | More than 3,000 multiple-choice, true/false, short-answer, and graphing questions with these annotations:  
• Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis)  
• Type (Multiple-choice, true/false, short-answer, essay)  
• Topic (The term or concept the question supports)  
• Learning outcome  
• AACSB learning standard (Ethical Understanding and Reasoning; Analytical Thinking Skills; Information Technology; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge) |
| **Computerized TestGen** | TestGen allows instructors to:  
• Customize, save, and generate classroom tests  
• Edit, add, or delete questions from the Test Item Files  
• Analyze test results  
• Organize a database of tests and student results |
| **PowerPoints** | Slides include all the figures and tables from the textbook.  
PowerPoints meet accessibility standards for students with disabilities. Features include, but are not limited to:  
• Keyboard and Screen Reader access  
• Alternative text for images  
• High color contrast between background and foreground colors |
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