

GLOBAL EDITION



Principles of Corporate Finance



Principles *of*
Corporate Finance



THE MCGRAW-HILL/IRWIN SERIES IN FINANCE, INSURANCE, AND REAL ESTATE

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Principles of
Corporate Finance

ELEVENTH GLOBAL EDITION

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ISBN-13 9780077151560

ISBN-10 0077151569



Published by McGraw-Hill Education

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Maidenhead

Berkshire

SL6 2QL

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Fax: 44 (0) 1628 770 224

Website: www.mcgraw-hill.co.uk

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

Library of Congress Cataloguing in Publication Data

The Library of Congress data for this book has been applied for from the Library of Congress

Commissioning Editor: Tom Hill

Marketing Manager: Vanessa Boddington

Production Editor: James Bishop

Design of book: The images in the design of this book are based on elements of the architecture of Frank Lloyd Wright, specifically from the leaded glass windows seen in many of his houses. Wright's design was rooted in nature and based on simplicity and harmony. His windows use elemental geometry to abstract natural forms, complementing and framing the natural world outside. This concept of seeing the world through an elegantly structured framework ties in nicely to the idea of framing one's view of the world through the window of economics.

The typeface used for some of the elements was taken from the Arts and Crafts movement. The typeface, as well as the color palette, bring in the feeling of that movement in a way that complements the geometric elements of Wright's windows. The Economic Naturalist icon is visually set apart from the more geometric elements but is a representation of the inspirational force behind all of Wright's work.

Printed and bound in Spain by Grafo Industrias Gráficas

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ISBN-13 9780077151560

ISBN-10 0077151569

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This book describes the theory and practice of corporate finance. We hardly need to explain why financial managers have to master the practical aspects of their job, but we should spell out why down-to-earth managers need to bother with theory.

Managers learn from experience how to cope with routine problems. But the best managers are also able to respond to change. To do so you need more than time-honored rules of thumb; you must understand *why* companies and financial markets behave the way they do. In other words, you need a *theory* of finance.

Does that sound intimidating? It shouldn't. Good theory helps you to grasp what is going on in the world around you. It helps you to ask the right questions when times change and new problems need to be analyzed. It also tells you which things you do *not* need to worry about. Throughout this book we show how managers use financial theory to solve practical problems.

Of course, the theory presented in this book is not perfect and complete—no theory is. There are some famous controversies where financial economists cannot agree. We have not glossed over these disagreements. We set out the arguments for each side and tell you where we stand.

Much of this book is concerned with understanding what financial managers do and why. But we also say what financial managers *should* do to increase company value. Where theory suggests that financial managers are making mistakes, we say so, while admitting that there may be hidden reasons for their actions. In brief, we have tried to be fair but to pull no punches.

This book may be your first view of the world of modern finance theory. If so, you will read first for new ideas, for an understanding of how finance theory translates into practice, and occasionally, we hope, for entertainment. But eventually you will be in a position to make financial decisions, not just study them. At that point you can turn to this book as a reference and guide.

Changes in the Eleventh Edition

We are proud of the success of previous editions of *Principles*, and we have done our best to make the eleventh global edition even better.

What is new in the eleventh global edition? Of course, a large part of the changes in any edition consist of adding some updated data here and a new example there. However, we have rewritten and refreshed several basic chapters. Content remains much the same, but we think that the revised chapters are simpler and flow better.

- **Chapter 1** has grown over the years as major new developments in the financial world seem to demand some reference and comment. In this edition we have sought to make the chapter a more focused introduction to corporate finance. It concentrates on the decisions that corporations need to make and the financial objectives that govern these decisions. It also introduces five basic themes that return again and again throughout the book.
- **Chapter 3** introduces bond valuation. We rewrote and simplified some of the material, such as the discussion of duration. The last section of the chapter includes an introduction to default risk. The tribulations of the eurozone and the default by the Greek government on its bonds are reminders that default is not just a concern for holders of corporate debt. So we discuss briefly the risk of default for both corporate and sovereign borrowers. (We discuss corporate debt and default risk in more detail in **Chapter 23**.)
- **Chapter 4** is concerned with the valuation of common stocks. We start by explaining how individual stocks are valued and go on to look at the problem of valuing the entire company. These days many firms do not pay dividends and use excess cash to repurchase stock. In this edition we provide more guidance on valuing these companies.
- **Chapter 6** explains how to calculate the present value of new investments. We cover the same material in this chapter as in previous editions, but we include a longer discussion of the differences between cash flows and accounting profits. We think that this will provide readers with a clearer understanding of how to derive cash-flow forecasts.
- The financial manager spends a large part of his time interacting with financial institutions and markets. In **Chapter 14** we expand our discussion of these institutions. We describe the main forms of institutions, we look at their economic role, and we use the crisis of 2007–2009 to review what happens when financial institutions and markets cease to function well.
- We substantially rewrote **Chapter 16**, which looks at payout policy. We review both how much companies should pay out and whether they should do so by means of a dividend payment or stock repurchase. We also return to an issue that we introduced in **Chapter 4** and look in more detail at how to value a company when repurchases are important.
- **Chapter 24**, which previously looked at the different kinds of long-term debt, now also looks at short-term debt such as bank loans. Many of the issues about debt design such as the role of covenants apply to both short- and

long-term debt.

- In earlier editions we discussed bank debt in the chapter on working capital management. One advantage of moving this discussion to **Chapter 24** is that we have the luxury in **Chapter 30** of being able to look more broadly at working capital. For example, we now include a discussion of the cash conversion cycle and show how it is affected by management decisions.

The first edition of this book appeared in 1981. Basic principles are the same now as then, but the last three decades have also generated important changes in theory and practice. Research in finance has focused less on what financial managers should do, and more on understanding and interpreting what they do in practice. In other words, finance has become more positive and less normative. For example, we now have careful surveys of firms' capital investment practices and payout and financing policies. We review these surveys and look at how they cast light on competing theories.

Many financial decisions seem less clear-cut than they were 20 or 30 years ago. It no longer makes sense to ask whether high payouts are always good or always bad, or whether companies should always borrow less or more. The right answer is, "It depends." Therefore we set out pros and cons of different policies. We ask, "What questions should the financial manager ask when setting financial policy?" You will, for example, see this shift in emphasis when we discuss payout decisions in **Chapter 16**.

This edition builds on other changes from earlier editions. We recognize that financial managers work more than ever in an international environment and therefore need to be familiar with international differences in financial management and in financial markets and institutions. **Chapters 27** (Managing International Risks) and **33** (Governance and Corporate Control around the World) are exclusively devoted to international issues. We have also found more and more opportunities in other chapters to draw cross-border comparisons or use non-U.S. examples. We hope that this material will both provide a better understanding of the wider financial environment and be useful to our many readers around the world.

As every first-grader knows, it is easier to add than to subtract. To make way for new topics we needed to make some judicious pruning. We will not tell you where we cut out material, because we hope that the deletions will be invisible.

The biggest change in this edition is not to the printed text but to the **Beyond the Page** digital extensions and applications (see Pedagogical Features, below). These pieces are an integral part of the e-versions of the book, but they are also easily accessible via the Web using the QR codes and shortcut URLs provided. They provide additional examples, applications, spreadsheet programs, and opportunities to explore topics in more depth.



The QR codes are easy to use. First, use your smartphone to download any QR-enabled barcode reader from your provider's marketplace. Focus your smartphone's camera on any code in the book, and you'll be able to access the online chapter content instantly. Try the code above now!

Additional examples include:

- **Chapter 2** Do you need to learn how to use a financial calculator? The "Beyond the Page" financial calculator application shows how to do so.
- **Chapter 3** Would you like to calculate a bond's duration, see how it predicts the effect of small interest rate changes on bond price, calculate the duration of a common stock, or learn how to adjust for convexity? The duration application for Figure 3.2 allows you to do so.
- **Chapter 9** How about measuring the betas of the Fama-French three-factor model for U.S. stocks? The "Beyond the Page" beta estimation application does this.
- **Chapter 15** There was not space in the chapter to include a real IPO prospectus, but you can go "Beyond the Page" to learn more.
- **Chapter 19** The book briefly describes the flow-to-equity method for valuing businesses, but using the method can be tricky. We provide an application that guides you through the procedure.
- **Chapter 20** The Black-Scholes "Beyond the Page" application provides an option calculator. It also shows how to estimate the option's sensitivity to changes in the inputs.

- **Chapter 28** Would you like to view the most recent financial statements for different U.S. companies and calculate their financial ratios? There is an application that will do this for you.

We believe that the opportunity to add additional content and applications such as these will increasingly widen the type of material that can be made available and help the reader to decide how deeply he or she wishes to explore a topic.

Making Learning Easier

Each chapter of the book includes an introductory preview, a summary, and an annotated list of suggested further reading. The list of possible candidates for further reading is now voluminous. Rather than trying to list every important article, we largely listed survey articles or general books. We give more specific references in footnotes.

Each chapter is followed by a set of basic problems, intermediate problems on both numerical and conceptual topics, and a few challenge problems. Answers to the odd-numbered basic problems appear in the Appendix at the end of the book.

We included a “Finance on the Web” section in chapters where it makes sense to do so. This section now houses a number of Web Projects, along with new Data Analysis problems. These exercises seek to familiarize the reader with some useful websites and to explain how to download and process data from the Web.

The book also contains 12 end-of-chapter Mini-Cases. These include specific questions to guide the case analyses. Answers to the mini-cases are available to instructors on the book’s website.

Spreadsheet programs such as Excel are tailor-made for many financial calculations. Several chapters include boxes that introduce the most useful financial functions and provide some short practice questions. We show how to use the Excel function key to locate the function and then enter the data. We think that this approach is much simpler than trying to remember the formula for each function.

We conclude the book with a glossary of financial terms.

The 34 chapters in this book are divided into 11 parts. Parts 1 to 3 cover valuation and capital investment decisions, including portfolio theory, asset pricing models, and the cost of capital. Parts 4 to 8 cover payout policy, capital structure, options (including real options), corporate debt, and risk management. Part 9 covers financial analysis, planning, and working-capital management. Part 10 covers mergers and acquisitions, corporate restructuring, and corporate governance around the world. Part 11 concludes.

We realize that instructors will wish to select topics and may prefer a different sequence. We have therefore written chapters so that topics can be introduced in several logical orders. For example, there should be no difficulty in reading the chapters on financial analysis and planning before the chapters on valuation and capital investment.

Acknowledgments

We have a long list of people to thank for their helpful criticism of earlier editions and for assistance in preparing this one. They include Faiza Arshad, Alejda de Cazenove Balsan, Kedran Garrison, Robert Pindyck, Sara Salem, and Gretchen Slemmons at MIT; Elroy Dimson, Paul Marsh, Mike Staunton, and Stefania Uccheddu at London Business School; Lynda Borucki, Michael Barhum, Marjorie Fischer, Larry Kolbe, Michael Vilbert, Bente Villadsen, and Fiona Wang at The Brattle Group, Inc.; Alex Triantis at the University of Maryland; Adam Kolasinski at the University of Washington; Simon Gervais at Duke University; Michael Chui at China International Capital Corporation; Pedro Matos at the University of Southern California; Yupana Wiwattanakantang at Hitotsubashi University; Nickolay Gantchev, Tina Horowitz, and Chenying Zhang at the University of Pennsylvania; Julie Wulf at Harvard University; Jinghua Yan at Tykhe Capital; Roger Stein at Moody’s Investor Service; Bennett Stewart at EVA Dimensions; and James Matthews at Towers Perrin.

We want to express our appreciation to those instructors whose insightful comments and suggestions were invaluable to us during the revision process:

Ibrahim Affaneh *Indiana University of Pennsylvania*

Neyaz Ahmed *University of Maryland*

Alexander Amati *Rutgers University, New Brunswick*

Anne Anderson *Lehigh University*

Noyan Arsen *Koc University*

Anders Axvarn *Gothenburg University*

John Banko *University of Florida, Gainesville*

Michael Barry *Boston College*

Jan Bartholdy *ASB, Denmark*

Penny Belk *Loughborough University*

Omar Benkato *Ball State University*
Eric Benrud *University of Baltimore*
Ronald Benson *University of Maryland, University College*
Peter Berman *University of New Haven*
Tom Boulton *Miami University of Ohio*
Edward Boyer *Temple University*
Alon Brav *Duke University*
Jean Canil *University of Adelaide*
Robert Carlson *Bethany College*
Chuck Chahyadi *Eastern Illinois University*
Fan Chen *University of Mississippi*
Celtin Ciner *University of North Carolina, Wilmington*
John Cooney *Texas Tech University*
Charles Cuny *Washington University, St. Louis*
John Davenport *Regent University*
Ray DeGennaro *University of Tennessee, Knoxville*
Adri DeRidder *Gotland University*
William Dimovski *Deakin University, Melbourne*
David Ding *Nanyang Technological University*
Robert Duvic *University of Texas at Austin*
Alex Edmans *University of Pennsylvania*
Susan Edwards *Grand Valley State University*
Riza Emekter *Robert Morris University*
Robert Everett *Johns Hopkins University*
Dave Fehr *Southern New Hampshire University*
Donald Flagg *University of Tampa*
Frank Flanegin *Robert Morris University*
Zsuzanna Fluck *Michigan State University*
Connel Fullenkamp *Duke University*
Mark Garmaise *University of California, Los Angeles*
Sharon Garrison *University of Arizona*
Christopher Geczy *University of Pennsylvania*
George Geis *University of Virginia*
Stuart Gillan *University of Delaware*
Felix Goltz *Edhec Business School*
Ning Gong *Melbourne Business School*
Levon Goukasian *Pepperdine University*
Gary Gray *Pennsylvania State University*
C. J. Green *Loughborough University*
Mark Griffiths *Thunderbird, American School of International Management*
Re-Jin Guo *University of Illinois, Chicago*
Ann Hackert *Idaho State University*
Winfried Hallerbach *Erasmus University, Rotterdam*
Milton Harris *University of Chicago*
Mary Hartman *Bentley College*
Glenn Henderson *University of Cincinnati*
Donna Hitscherich *Columbia University*
Ronald Hoffmeister *Arizona State University*
James Howard *University of Maryland, College Park*
George Jabbour *George Washington University*
Ravi Jagannathan *Northwestern University*
Abu Jalal *Suffolk University*
Nancy Jay *Mercer University*
Thadavillil (Nathan) Jithendranathan *University of Saint Thomas*
Kathleen Kahle *University of Arizona*
Jarl Kallberg *NYU, Stern School of Business*
Ron Kaniel *Duke University*
Steve Kaplan *University of Chicago*
Eric Kelley *University of Arizona*

Arif Khurshed *Manchester Business School*
Ken Kim *University of Wisconsin, Milwaukee*
Jiro Eduoard Kondo *Northwestern University Kellogg School of Management*
C. R. Krishnaswamy *Western Michigan University*
George Kutner *Marquette University*
Dirk Laschanzky *University of Iowa*
Scott Lee *Texas A&M University*
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Debbie Lucas *Northwestern University*
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Suren Mansinghka *University of California, Irvine*
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Joe Messina *San Francisco State University*
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Franklin Michello *Middle Tennessee State University*
Peter Moles *University of Edinburgh*
Katherine Morgan *Columbia University*
James Nelson *East Carolina University*
James Owens *West Texas A&M University*
Darshana Palkar *Minnesota State University, Mankato*
Claus Parum *Copenhagen Business School*
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John Wald *Rutgers University*
Chong Wang *Naval Postgraduate School*
Faye Wang *University of Illinois, Chicago*
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Patrick Wilkie *University of Virginia*
Matt Will *University of Indianapolis*
David Williams *Texas A&M University, Commerce*
Art Wilson *George Washington University*
Shee Wong *University of Minnesota, Duluth*
Bob Wood *Tennessee Tech University*
Fei Xie *George Mason University*
Minhua Yang *University of Central Florida*
David Zalewski *Providence College*
Chenyang Zhang *University of Pennsylvania*

This list is surely incomplete. We know how much we owe to our colleagues at the London Business School, MIT's Sloan School of Management, and the University of Pennsylvania's Wharton School. In many cases, the ideas that appear in this book are as much their ideas as ours.

We would also like to thank all those at McGraw-Hill/Irwin who worked on the book, including Michele Janicek and Chuck Synovec, Executive Brand Managers; Noelle Bathurst, Development Editor; Melissa Caughlin, Executive Marketing Manager; Jennifer Jelinski, Marketing Specialist; Rachel Townsend, Content Project Manager; Laurie Entringer, Designer; and Michael McCormick, Senior Buyer.

Finally, we record the continuing thanks due to our wives, Diana, Maureen, and Sally, who were unaware when they married us that they were also marrying the *Principles of Corporate Finance*.

Richard A. Brealey
Stewart C. Myers
Franklin Allen

Pedagogical Features

Part 1 Value

CHAPTER

1

Introduction to Corporate Finance

This book is about how corporations make financial decisions. We start by explaining what these decisions are and what they are seeking to accomplish.

Corporations invest in real assets, which generate income. Some of these assets, such as plant and machinery, are tangible; others, such as brand names and patents, are intangible. Corporations finance their investments by borrowing, by retaining and reinvesting cash flow, and by selling

This chapter begins with specific examples of recent investment and financing decisions made by well-known corporations. The chapter ends by stating the financial goal of the corporation, which is to increase, and ideally to maximize, its market value. We explain why this goal makes sense. The middle of the chapter covers what a corporation is and what its financial managers do.

Financial managers add value whenever the corporation

Chapter Overview

Each chapter begins with a brief narrative and outline to explain the concepts that will be covered in more depth. Useful websites related to material for each Part are provided on the book's website at www.mcgraw-hill.co.uk/textbooks/brealey

FINANCE IN PRACTICE

Russian Roulette

In 1997 Russia enjoyed its first year of positive economic growth since the fall of the Soviet Union. The country ran a trade surplus and inflation fell to 1% from 131% two years earlier. A significant inflow of foreign capital into the country reflected investors' increased optimism, but it also left Russia and its banks vulnerable to any reversal of views.

Russia's fragile economy was then hit by a double whammy. Starting in December 1997 the price of oil started to fall, and by the summer of 2008 it had halved. In addition, the currency crisis in Asia in 1997 led speculators to worry that the rouble might also need to be devalued.

As the political and economic situation deteriorated, President Yeltsin abruptly fired his entire government. Investor confidence in the economy and the government's ability to manage the situation collapsed. By August, Russia's central bank had spent an estimated \$27 billion of reserves to counter speculative attacks on the currency. The yield on rouble bonds had soared to 200%, stock prices had fallen by more than 75% since the start of the year, and inflation had reached over 80%. It was no longer feasible for the government both to defend the rouble and service its domestic debt. Either it had to devalue or default or both. It chose the third option, floating the rouble and defaulting on a massive \$39 billion of domestic debt.

Finance in Practice Boxes

Relevant news articles from financial publications appear in various chapters throughout the text. Aimed at bringing real-world flavor into the classroom, these boxes provide insight into the business world today.

EXAMPLE 2.1 • Present Values with Multiple Cash Flows

Your real estate adviser has come back with some revised forecasts. He suggests that you rent out the building for two years at \$30,000 a year, and predicts that at the end of that time you will be able to sell the building for \$840,000. Thus there are now two future cash flows—a cash flow of $C_1 = \$30,000$ at the end of one year and a further cash flow of $C_2 = (\$30,000 + \$840,000) = \$870,000$ at the end of the second year.

The present value of your property development is equal to the present value of C_1 plus the present value of C_2 . Figure 2.5 shows that the value of the first year's cash flow is $C_1 / (1 + r) = 30,000 / 1.12 = \$26,786$ and the value of the second year's flow is $C_2 / (1 + r)^2 = 870,000 / 1.12^2 = \$693,559$. Therefore our rule for adding present values tells us that the total present value of your investment is:

$$PV = \frac{C_1}{1+r} + \frac{C_2}{(1+r)^2} = \frac{30,000}{1.12} + \frac{870,000}{1.12^2} = 26,786 + 693,559 = \$720,344$$

Numbered Examples

Numbered and titled examples are called out within chapters to further illustrate concepts. Students can learn how to solve specific problems step-by-step and apply key principles to answer concrete questions and scenarios.



“Beyond the Page” Interactive Content and Applications

New to this edition! Additional resources and hands-on applications are just a click away. Students can scan the in-text QR codes or use the direct Web address to learn more about key concepts and try out calculations, tables, and figures when they go “Beyond the Page.”

Excel Treatment

USEFUL SPREADSHEET FUNCTIONS

Valuing Bonds

Spreadsheet programs such as Excel provide built-in functions to solve for a variety of bond valuation problems. You can find these functions by pressing *fx* on the Excel toolbar. If you then click on the function that you wish to use, Excel will ask you for the inputs that it needs. At the bottom left of the function box there is a Help facility with an example of how the function is used.

Here is a list of useful functions for valuing bonds, together with some points to remember when entering data:

- **PRICE:** The price of a bond given its yield to maturity.
- **YLD:** The yield to maturity of a bond given its price.
- **DURATION:** The duration of a bond.
- **MDURATION:** The modified duration (or volatility) of a bond.

Note:

- You can enter all the inputs in these functions directly as numbers or as the addresses of cells that contain the numbers.



- You must enter the yield and coupon as decimal values, for example, for 3% you would enter .03.
- Settlement is the date that payment for the security is made. Maturity is the maturity date. You can enter these dates directly using the Excel date function; for example, you would enter 15 Feb 2009 as DATE(2009,02,15). Alternatively, you can enter these dates in a cell and then enter the cell address in the function.
- In the functions for PRICE and YLD you need to scroll down in the function box to enter the frequency of coupon payments. Enter 1 for annual payments or 2 for semiannual.
- The functions for PRICE and YLD ask for an entry for "basis." We suggest you leave this blank. (See the Help facility for an explanation.)

SPREADSHEET QUESTIONS

The following questions provide an opportunity to practice each of these functions.

1. (PRICE) In February 2009, Treasury 8.5s of 2020 yielded 3.2976%. What was their price? If the yield rose to 4%, what would happen to the price?
2. (YLD) On the same day Treasury 3.5s of 2018 were priced at 107.46875%. What was their yield to maturity? Suppose that the price was 110.0%. What would happen to the yield?
3. (DURATION) What was the duration of the Treasury 8.5s? How would duration change if the yield rose to 4%? Can you explain why?
4. (MDURATION) What was the modified duration of the Treasury 8.5s? How would modified duration differ if the coupon were only 7.5%?

Spreadsheet Functions Boxes

These boxes provide detailed examples of how to use Excel spreadsheets when applying financial concepts. Questions that apply to the spreadsheet follow for additional practice.

1	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2							Product of
3				Deviation	Deviation	Squared	deviations
4				from	from average	deviation	from average
5		Market	Anchovy Q	average	Anchovy Q	from average	returns
6	Month	return	return	market return	return	market return	(cols 4 × 5)
7	1	- 8%	- 11%	- 10	- 13	100	130
8	2	4	8	2	6	4	12
9	3	12	19	10	17	100	170
10	4	- 6	- 13	- 8	- 15	64	120
11	5	2	3	0	1	0	0
12	6	8	6	6	4	36	24
13	Average	2	2		Total	304	456
14				Variance = $\sigma_m^2 = 304/6 = 50.67$			
15				Covariance = $\sigma_{im} = 456/6 = 76$			
16				Beta (β) = $\sigma_{im}/\sigma_m^2 = 76/50.67 = 1.5$			

TABLE 7.7 Calculating the variance of the market returns and the covariance between the returns on the market and those of Anchovy Queen. Beta is the ratio of the variance to the covariance (i.e., $\beta = \sigma_{im}/\sigma_m^2$).

Excel Exhibits

Select tables are set as spreadsheets, and the corresponding Excel files are also available on the book's website at www.mcgraw-hill.co.uk/textbooks/brealey

End-of-Chapter Features

BASIC

1. **Future values** At an interest rate of 12%, the six-year discount factor is .507. How many dollars is \$.507 worth in six years if invested at 12%?
2. **Discount factors** If the PV of \$139 is \$125, what is the discount factor?
3. **Present values** If the cost of capital is 9%, what is the PV of \$374 paid in year 9?
4. **Present values** A project produces a cash flow of \$432 in year 1, \$137 in year 2, and \$797 in year 3. If the cost of capital is 15%, what is the project's PV?
5. **Futures values** If you invest \$100 at an interest rate of 15%, how much will you have at the end of eight years?
6. **Perpetuities** An investment costs \$1,548 and pays \$138 in perpetuity. If the interest rate is 9%, what is the NPV?

INTERMEDIATE

15. **Prices and yields** A 10-year German government bond (bund) has a face value of €100 and a coupon rate of 5% paid annually. Assume that the interest rate (in euros) is equal to 6% per year. What is the bond's PV?
16. **Prices and yields** A 10-year Japanese government bond (JGB) with a face value of ¥50,000 pays a coupon of 5.5% (2.75% of face value every six months). The semiannually compounded interest rate is 5.2% (a six-month discount rate of $5.2/2 = 2.6\%$).
 - a. What is the present value of the bond?
 - b. Generate a graph or table showing how the bond's present value changes for semiannually compounded interest rates between 1% and 15%.
17. **Prices and yields** A six-year French government bond (OAT) makes annual coupon payments of 5% and offers a yield of 3% annually compounded. Suppose that one year later the bond still yields 3%. What return has the bondholder earned over the 12-month period? Now suppose that the bond yields 2% at the end of the year. What return would the bondholder earn in this case?

CHALLENGE


31. **Prices and yields** Write a spreadsheet program to construct a series of bond tables that show the present value of a bond given the coupon rate, maturity, and yield to maturity. Assume that coupon payments are semiannual and yields are compounded semiannually.
32. **Price and spot interest rates** Find the arbitrage opportunity (opportunities?). Assume for simplicity that coupons are paid annually. In each case the face value of the bond is \$1,000.

Bond	Maturity (years)	Coupon, \$	Price, \$
A	3	0	751.30
B	4	50	842.30
C	4	120	1,065.28
D	4	100	980.57
E	3	140	1,120.12
F	3	70	1,001.62
G	2	0	834.00

Problem Sets

For the eleventh edition, topic labels have been added to each end-of-chapter problem to enable easy assignment creation for instructors and reinforcement for students. These end-of-chapter problems give students hands-on practice with the key concepts. The content is organized by level of difficulty: Basic, Intermediate, and Challenge.

Answers to the odd-numbered basic problems are included at the back of the book.




Visit us at
www.mcgraw-hill.co.uk/textbooks/brealey

21. **Duration** Calculate durations and modified durations for the 3% bonds in Table 3.2. You can follow the procedure set out in Table 3.4 for the 9% coupon bonds. Confirm that modified duration predicts the impact of a 1% change in interest rates on the bond prices.

22. **Duration** Find the spreadsheet for Table 3.4. on this book's website, www.mcgraw-hill.co.uk/textbooks/brealey. Show how duration and volatility change if (a) the bond's coupon is 8% of face value and (b) the bond's yield is 6%. Explain your finding.

Excel Problems

Most chapters contain problems, denoted by an icon, specifically linked to Excel spreadsheets that are available on the book's website at www.mcgraw-hill.co.uk/textbooks/brealey



FINANCE ON THE WEB

The websites of *The Wall Street Journal* (www.wsj.com) and the *Financial Times* (www.ft.com) are wonderful sources of market data. You should become familiar with them.

1. Use www.wsj.com to answer the following questions:
 - a. Find the prices of coupon strips. Use these prices to plot the term structure. If the expectations theory is correct, what is the expected one-year interest rate three years hence?
 - b. Find a three- or four-year bond and construct a package of coupon and principal strips that provides the same cash flows. The law of one price predicts that the cost of the package should be very close to that of the bond. Is it?
 - c. Find a long-term Treasury bond with a low coupon and calculate its duration. Now find another bond with a similar maturity and a higher coupon. Which has the longer duration?
 - d. Look up the yields on 10-year nominal Treasury bonds and on TIPS. If you are confident that inflation will average 2% a year, which bond will provide the higher real return?
2. Bond transactions are reported on FINRA's TRACE service, which was the source of the data for Table 3.6. Use the Advanced Search facility in TRACE to find bond prices for Johnson & Johnson (JNJ), Walmart (WMT), Disney (DIS), SunTrust Banks (STI), and U.S. Steel (X). If possible, exclude callable issues that the company can buy back. Have the bond ratings changed? What has happened to the yields of these companies' bonds? (You will find that bonds issued by the same company may have very different yields, so you will need to use your best judgment to answer this second question.)

Finance on the Web Section

Featured in select chapters, this section includes Web exercises that give students the opportunity to explore financial websites on their own to gain familiarity and apply chapter concepts. These problems provide an easy method of including current, real-world data into the classroom.

Bok Sports

Ten years ago, in Johannesburg, Joost van Hees founded a small mail-order company selling high-quality sports equipment. Since those early days Bok Sports has grown steadily and been consistently profitable. The company has issued 2 million shares, all of which are owned by Joost van Hees and his five children.

For some months Joost has been wondering whether the time has come to take the company public. This would allow him to cash in on part of his investment and would make it easier for the firm to raise capital should it wish to expand in the future.

But how much are the shares worth? Joost's first instinct is to look at the firm's balance sheet, which shows that the book value of the equity is R26.34 million, or R13.17 per share. A share price of R13.17 would put the stock on a P/E ratio of 6.6. That is quite a bit lower than the 13.1 P/E ratio of Bok's larger rival, Wenner Corporation.

Joost suspects that book value is not necessarily a good guide to a share's market value. He thinks of his daughter Jenny, who works in an investment bank. She would undoubtedly know what the shares are worth.

Speaking to her, Joost jots down some basic data on the company's profitability. After recovering from its early losses, the company has earned a return that is higher than its estimated 10% cost of capital. Joost is fairly confident that the company could continue to grow fairly steadily for the next six to eight years. In fact he feels that the company's growth has been somewhat held back in the last few years by the demands from two of the children for the company to make large dividend payments. Perhaps, if the company went public, it could hold back on dividends and plow more money back into the business.

There are some clouds on the horizon. Competition is increasing and only that morning Wenner announced plans to form a mail-order division. Joost is worried that beyond the next six or so years it might become difficult to find worthwhile investment opportunities.

Joost realizes that Jenny will need to know much more about the prospects for the business before she can put a final figure on Bok's value, but he hopes that the information is sufficient for her to give a preliminary indication of the value of the shares.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E
Earnings per share, R	-21.0	-7.0	2.3	8.1	11.0	13.0	15.2	16.4	20.0	20.3
Dividend, R	0.0	0.0	0.0	2.0	2.0	3.0	3.0	6.0	6.0	8.0
Book value per share, R	98.0	77.0	70.0	76.1	85.1	95.1	107.3	117.7	131.7	144.0
ROE, %	-27.10	-7.1	3.0	11.6	14.5	15.3	16.0	15.3	17.0	15.4

Mini-Cases

To enhance concepts discussed within a chapter, mini-cases are included in select chapters so students can apply their knowledge to real-world scenarios.

Supplements

In this edition, we have gone to great lengths to ensure that our supplements are equal in quality and authority to the text itself.

FOR THE INSTRUCTOR

The following supplements are available to you via the book's website at www.mcgraw-hill.co.uk/textbooks/brealey and are password protected for security. Print copies are available through your McGraw-Hill representative.

Instructor's Manual

The Instructor's Manual was extensively revised and updated by Catherine Teutsch of the University of Colorado. It contains an overview of each chapter, teaching tips, learning objectives, challenge areas, key terms, and an annotated outline that provides references to the PowerPoint slides.

Test Bank

The Test Bank, revised by Frank Ryan of San Diego State University, contains hundreds of multiple-choice and short answer/discussion questions, updated based on the revisions of the authors. The level of difficulty varies, as indicated by the easy, medium, or difficult labels.

Computerized Test Bank

McGraw-Hill's EZ Test is a flexible and easy-to-use electronic testing program. The program allows you to create tests from book-specific items. It accommodates a wide range of question types and you can add your own questions. Multiple versions of the test can be created and any test can be exported for use with course management systems such as WebCT, BlackBoard, or PageOut. EZ Test Online gives you a place to easily administer your EZ Test-created exams and quizzes online. The program is available for Windows and Macintosh environments.

PowerPoint Presentations

Catherine Teutsch also prepared the PowerPoint presentations, which contain exhibits, outlines, key points, and summaries in a visually stimulating collection of slides. You can edit, print, or rearrange the slides to fit the needs of your course.

Solutions Manual

ISBN 9780077502478; MHID 0077502477

The Solutions Manual, carefully revised by Peter Crabb of Northwest Nazarene University, contains solutions to all basic, intermediate, and challenge problems found at the end of each chapter. This supplement can be purchased by your students with your approval or can be packaged with this text at a discount. Please contact your McGraw-Hill representative for additional information.

Finance Video Series DVD

ISBN 9780073363653; MHID 0073363650

The McGraw-Hill Finance Video Series is a complete video library designed to be added points of discussion to your class. You will find examples of how real businesses face hot topics like mergers and acquisitions, going public, time value of money, and careers in finance.

Online Support

ONLINE LEARNING CENTER

www.mcgraw-hill.co.uk/textbooks/brealey


Find a wealth of information online! This site contains information about the book and the authors as well as teaching and learning materials for the instructor and student, including:

- **“Beyond the Page” content** A wealth of additional examples, explanations, and applications are available for quick access on the website. Each “Beyond the Page” feature is called out in the text with a QR code or icon that links directly to the OLC.

- **Excel templates** There are templates for select exhibits, as well as various end-of-chapter problems that have been set as Excel spreadsheets—all denoted by an icon. They correlate with specific concepts in the text and allow students to work through financial problems and gain experience using spreadsheets. Also refer to the valuable Useful Spreadsheet Functions Boxes that are sprinkled throughout the text for some helpful prompts on working in Excel.
- **Online quizzes** These multiple-choice questions are provided as an additional testing and reinforcement tool for students. Each quiz is organized by chapter to test the specific concepts presented in that particular chapter. Immediate scoring of the quiz occurs upon submission and the correct answers are provided.
- **Interactive FinSims** This valuable asset consists of multiple simulations of key financial topics. Ideal for students to reinforce concepts and gain additional practice to strengthen skills.


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- Streamline lesson planning, student progress reporting, and assignment grading to make classroom management more efficient than ever.
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To learn more about Tegrity, watch a two-minute Flash demo at <http://tegritycampus.mhhe.com>.

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