Contents

| Preface Problems In Problems | IIIX Why Bother about the Pootports? |
|---|--|
| | |
| CHAPTER 1 | |
| What Is Finance? | IttSolutions to Try let Problems |
| Capital Markets and Capital Ma | |
| Financial Management | 4 |
| Investment Management | 6 |
| Organization of This Book | 000003 88800 7 |
| The Bottom Line | 8 Forms of Business Emergine |
| | 8 The Objective of Financial Manny |
| 401 | The Bottom Line |
| | |
| PART ONE | |
| The Financial System | |
| CHAPTER 2 | |
| | Strategy and Value |
| Financial Instruments, Markets, and Int | |
| The Financial System | particular 13 |
| The Role of Financial Markets | |
| The Role of Financial Intermedia | THE PERSON OF TH |
| Types of Financial Markets | sh Flows |
| The Bottom Line | St. Ouesdons |
| Questions | 33 |
| CHAPTER 3 | |
| The Financial System's Cast of Characte | one 07 |
| Domestic Nonfinancial Sectors | |
| Nonfinancial Businesses | amoundmarG stant 39 |
| Domestic Financial Sectors | |
| Foreign Investors | escadorugos) kust 43 |
| The Bottom Line | anilmonth ad 160 |
| | 06 Solutions to Try Itt Problems |
| Questions | anoneous 61 |

| PART TWO | | CHAPTER 8 | |
|--|--------------------|--|---|
| | | The Corporate Financing Decision | 2010/17/19/19/19 |
| Financial Management | | Debt vs. Equity | agarava Haraman 156 |
| QUADTER 4 | | Financial Leverage and Risk | 164 |
| CHAPTER 4 | 65 | Financial Distress | 168 |
| Financial Statements | 66 | The Cost of Capital | alayina A saiz-nommo 171 |
| Accounting Principles: What Are They? | 67 | Optimal Capital Structure: Theory and P | ractice 175 |
| The Basic Financial Statements | 81 | The Bottom Line | 180 |
| How Are the Statements Related? | 82 | Solutions to Try It! Problems | 182 |
| Why Bother about the Footnotes? | 83 | Questions | 183 |
| Accounting Flexibility | 83 | Schumans to Try let Problems | |
| U.S. Accounting vs. Outside of the U.S. | 84 | CHAPTER 9 | |
| The Bottom Line | 85 | Financial Risk Management | 185 |
| Solutions to Try It! Problems | 86 | The Definition of Risk | 185 |
| Questions | MANAGEM MANAGEM 86 | Enterprise Risk Management | 188 |
| QUADTED E | | Managing Risks | 193 |
| CHAPTER 5 Business Finance | 89 | The Bottom Line | 197 |
| | 90 | Ouestions | 198 |
| Forms of Business Enterprise The Objective of Financial Management | 97 | The state of the s | THE RESERVE AND ADDRESS OF THE PARTY OF THE |
| | 104 | Schoolsens a Portfolio of Rusice Assets | |
| The Bottom Line | 105 | PART THREE | |
| Solutions to Try It! Problems | 105 | Valuation and Analytical Tools | |
| Questions | | Valuation and Analytical 10018 | |
| CHAPTER 6 | | CHAPTER 10 | |
| Financial Strategy and Financial Planning | 109 | The Math of Finance | 201 |
| Strategy and Value | 110 | Why the Time Value of Money? | 201 201 and State of |
| The Budgeting Process | 115 | Calculating the Future Value | 203 |
| Budgeting | 119 | Calculating the Future Value | 213 |
| Performance Evaluation | and to slow at 120 | Determining the Unknown Interest Rate | 216 |
| Strategy and Value Creation | 124 | | |
| The Bottom Line | 128 | The Time Value of a Series of Cash Flow Annuities | |
| Questions | 129 | Loan Amortization | 221 |
| Questions | | | 230 |
| CHAPTER 7 | | Interest Rates and Yields | 232 |
| Dividend and Dividend Policies | 133 | The Bottom Line | 238 |
| Dividends and the Dividends | 134 | | mo) baswio I box esture 239 |
| Stock Distributions | mmo// 500000 137 | Questions | 240 |
| Dividend Policies | and laismanine 141 | And the charge of informal States | |
| Stock Repurchases | 147 | CHAPTER 11 | |
| The Bottom Line | 150 | Financial Ratio Analysis | 243 |
| Solutions to Try It! Problems | maid morned at 151 | Classifying Financial Ratios | 244 |
| Questions | 151 | Liquidity | 247 |

476 484

| Profitability Ratios Activity Ratios Section 1 | | 253 |
|--|------------------------------------|--|
| Activity Ratios Financial Leverage Return on Investment The DuPont System Common-Size Analysis Using Financial Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions HAPTER 12 Cash How Analysis Difficulties with Measuring Cash Flow Lusefulness of Cash Flows Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions HAPTER 12 Cash Flow Usefulness of Cash Flows Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Schimers Try It! Problems Assignment Analysis Assi | Profitability Ratios | |
| Return on Investment The DuPont System Common-Size Analysis Using Financial Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions HAPTER 12 Cash How Analysis Difficulties with Measuring Cash Flow Free Cash Flow Usefulness of Cash Flows Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model States Analysis 268 275 275 275 275 275 275 275 275 275 275 | Activity Ratios | 258 |
| Return on Investment The DuPont System Common-Size Analysis Using Financial Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions HAPTER 12 Cash Flow Analysis Difficulties with Measuring Cash Flow Free Cash Flow Usefulness of Cash Flows Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Stripped Stri | Financial Leverage | 262 |
| The DuPont System Common-Size Analysis Using Financial Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions HAPTER 12 Cash Flow Analysis Difficulties with Measuring Cash Flow Free Cash Flow Usefulness of Cash Flows Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Assistance Try It! Problems Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Assistance Try It! Problems Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Assistance Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Appendix: Black-Scholes Option Pricing Model | | |
| Common-Size Analysis Using Financial Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions HAPTER 12 Cash Flow Analysis Difficulties with Measuring Cash Flow Free Cash Flow Usefulness of Cash Flows Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Selections Try It! Problems Appendix: Black-Scholes Option Pricing Model Selections Try It! Problems Appendix: Black-Scholes Option Pricing Model | The DuPont System | |
| Using Financial Ratio Anlaysis The Bottom Line Solutions to Try It! Problems Questions HAPTER 12 Cash Flow Analysis Difficulties with Measuring Cash Flow Free Cash Flow Usefulness of Cash Flows Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Appendix App | Common-Size Analysis | |
| The Bottom Line Solutions to Try It! Problems Questions HAPTER 12 Cash How Analysis Difficulties with Measuring Cash Flow Free Cash Flow Usefulness of Cash Flows Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions CAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chierce to Try It! Problems Assignment | Using Financial Ratio Analysis | |
| AAPTER 12 Cash Flow Analysis Difficulties with Measuring Cash Flow Pree Cash Flow Usefulness of Cash Flows Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Stationers Try It! Problems Assignment Appendix: Black-Scholes Option Pricing Model Stationers Try It! Problems Assignment Assign | The Bottom Line | |
| Questions HAPTER 12 Cash Flow Analysis Difficulties with Measuring Cash Flow Free Cash Flow Usefulness of Cash Flows Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Process As | Solutions to Try It! Problems | |
| Cash Flow Analysis Difficulties with Measuring Cash Flow Pree Cash Flow Usefulness of Cash Flows Analysis Ratio Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chierce to Try It! Problems Assignment Assignmen | Questions | |
| Cash Flow Analysis Difficulties with Measuring Cash Flow Free Cash Flow Usefulness of Cash Flows Analysis Ratio Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chickers to Try It! Problems Assignment Assignment Assignment Assignment Solution Solution Solution Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chickers to Try It! Problems Assignment State Ass | | |
| Cash Flow Analysis Difficulties with Measuring Cash Flow Free Cash Flow Usefulness of Cash Flows Analysis Ratio Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chickers to Try It! Problems Assignment Assignment Assignment Assignment Solution Solution Solution Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chickers to Try It! Problems Assignment State Ass | HADTER 12 | G-921 CONTRACTOR AND ADDRESS OF THE CONTRACTOR AND ADDRESS OF THE CONTRACTOR AND ADDRESS OF THE CONTRACTOR ADRESS OF THE CONTRACTOR ADDRESS OF THE CONTRACTOR ADDRESS OF THE C |
| Difficulties with Measuring Cash Flow Free Cash Flow Usefulness of Cash Flows Analysis Ratio Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chicago Try It! Problems Assignment Assignment Assignment Assignment Selack-Scholes Option Pricing Model Selacioner of Try It! Problems Assignment Assignment Assignment Selack-Scholes Option Pricing Model Selacioner of Try It! Problems Assignment Assignment Assignment Selack-Scholes Option Pricing Model Assignment Assignmen | | |
| Free Cash Flow Usefulness of Cash Flows Analysis 298 Ratio Analysis 290 Ratio Analysis 292 The Bottom Line 293 Solutions to Try It! Problems 293 Questions 293 Capital Budgeting 295 Investment Decisions and Owners' Wealth 296 The Capital Budgeting Process 298 Determining Cash Flows from Investments 303 Capital Budgeting Techniques 344 Capital Budgeting Techniques 344 The Bottom Line 344 Solutions to Try It! Problems 345 CHAPTER 14 349 Derivatives for Controlling Risk 349 Futures and Forward Contracts 350 Chapter 14 363 Chapter 15 363 Chapter 16 365 Chapter 17 365 Chapter 17 365 Chapter 18 365 Chapter 19 365 Chapter 20 365 Chapter 30 365 Cha | Difficulties with Measuring Cash F | IOW |
| Usefulness of Cash Flows Analysis Ratio Analysis Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chierce to Try It! Problems Assignment Ass | Free Cash Flow | 203 |
| Ratio Analysis The Bottom Line Solutions to Try It! Problems Questions 293 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Solutions to Try It! Problems Appendix: Black-Scholes Option Pricing Model Solutions to Try It! Problems Associated Appendix: Black-Scholes Option Pricing Model Solutions to Try It! Problems Associated Appendix: Black-Scholes Option Pricing Model Solutions to Try It! Problems Associated Appendix: Black-Scholes Option Pricing Model Solutions to Try It! Problems Associated Appendix: Black-Scholes Option Pricing Model Solutions to Try It! Problems Associated Appendix: Black-Scholes Option Pricing Model | Heefulness of Cash Flows Analysis | |
| The Bottom Line Solutions to Try It! Problems Questions CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chapter Try It! Problems Associated as Assoc | Pario Analysis | 270 |
| Solutions to Try It! Problems Questions CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chapter 14 Derivative to Try It! Problems Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Associated Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Associated Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Associated Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Associated Appendix: Black-Scholes Option Pricing Model Stationary Try It! Problems Associated Appendix: Black-Scholes Option Pricing Model | The Pottom Line | |
| CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chapter 14 Derivatives to Try It! Problems 3363 3763 379 379 379 379 379 379 379 379 379 37 | C-lutions to Try It! Problems | |
| CHAPTER 13 Capital Budgeting Investment Decisions and Owners' Wealth The Capital Budgeting Process Determining Cash Flows from Investments Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Stripped Stripp | | 293 |
| Determining Cash Flows from Investments 321 | Investment Decisions and Owners' | Wealth 296 298 |
| Capital Budgeting Techniques The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Chapter Stry It! Problems 383 | The Capital Budgeting Freess | estilicitis |
| The Bottom Line Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model States of Try It! Problems Appendix: Try It! Problems Appendix: Black-Scholes Option Pricing Model Appendix: Try It! Problems 383 | Conital Pudgeting Techniques | 321 |
| Solutions to Try It! Problems Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model String Try It! Problems Solutions to Try It! Problems 383 | The Postsom Line | |
| Questions CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Options Try Let Problems 383 Appendix: Black-Scholes Option Pricing Model Options Try Let Problems 383 | Calusians to Try It! Problems | |
| CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model String to Try Itl Problems 383 | | 345 |
| CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model | Questions | |
| CHAPTER 14 Derivatives for Controlling Risk Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Appendix: Black-Scholes Option Pricing Model 383 | | |
| Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model Strict Try It Problems Strict Try It Problems Strict Try It Problems | CHAPTER 14 | 349 |
| Futures and Forward Contracts Options Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model String to Try It! Problems 383 | Derivatives for Controlling MSK | 350 |
| Options 376 Swaps 379 The Bottom Line 380 Appendix: Black-Scholes Option Pricing Model 380 Chairman to Trutt Problems 383 | | 그 그 그 그 그 그 그 그 그 그 그 그 그 그 그 그 그 그 그 |
| Swaps The Bottom Line Appendix: Black-Scholes Option Pricing Model 380 Appendix: Try It! Problems 383 | Options | |
| The Bottom Line Appendix: Black-Scholes Option Pricing Model Appendix: Black-Scholes Option Pricing Model 383 | | |
| Appendix: Black-Scholes Option Pricing Woder S. Lectors to Try It! Problems 383 | The Bottom Line | |
| C. L. diama to Tey It! Problems | Appendix: Black-Scholes Option | Pricing Model |
| | Solutions to Try It! Problems | 385 |

| _ | - | DT | FO | ш |
|---|---|----|----|---|
| | | | | |
| | | | | |

| Investment Management | |
|--|-------------------------------|
| | |
| CHAPTER 15 | Questions |
| Investment Management | 389 |
| Setting Investment Objectives | 391 |
| Establishing an Investment Policy | 393 |
| Constructing and Monitoring a Portfolio | 400 |
| Measuring and Evaluating Performance | adiable mainsplay surpris 401 |
| The Bottom Line | and monod ad 410 |
| Solutions to Try It! Problems | 411 Problem |
| Questions Questions | duction to family 412 |
| CHAPTER 16 | |
| The Theory of Portfolio Selection | 415 |
| Some Basic Concepts | 416 |
| Estimating a Portfolio's Expected Return | |
| Measuring Portfolio Risk | 421 |
| Portfolio Diversification | 426 |
| Choosing a Portfolio of Risky Assets | 428 |
| Issues in the Theory of Portfolio Selectio | n 434 |
| Behavioral Finance and Portfolio Theory | 438 |
| The Bottom Line | 441 |
| Solutions to Try It! Problems | 442 |
| Questions | 443 |
| CHAPTER 17 | |
| Asset Pricing Theory | 445 |
| Characteristics of an Asset Pricing Mode | 446 |
| The Capital Asset Pricing Model | 447 |
| The Arbitrage Pricing Theory Model | 461 |
| Some Principles to Take Away | 465 |
| The Bottom Line | 466 |
| Solutions to Try It! Problems | 467 |
| Questions | 467 |
| CHAPTER 18 | |
| The Structure of Interest Rates | 469 |
| The Base Interest Rate | 470 |

The Term Structure of Interest Rates

Term Structure of Interest Rates Theories

| Swap Rate Yield Curve | 486 |
|--|-----|
| The Bottom Line | 487 |
| Solutions to Try It! problems | 488 |
| Questions | 489 |
| Questions Systems | |
| QUARTER 10 | |
| CHAPTER 19 | 491 |
| Valuing Common Stock Discounted Cash Flow Models | 491 |
| Relative Valuation Methods | 503 |
| The Bottom Line | 509 |
| | 510 |
| Solutions to Try It! Problems | 511 |
| Questions | |
| CHAPTER 20 | |
| Valuing Bonds | 513 |
| Valuing a Bond | 514 |
| Conventional Yield Measures | 524 |
| Valuing Ronds that Have Embedded Options | 00- |
| The Rottom Line | 330 |
| Solutions to Try It! Problems | 539 |
| 10 Countings (Bollowing Official Long Adda County | 540 |
| Associated to the property of the property into | |
| mom Line | 543 |
| Glossary | 040 |
| and the state of t | 571 |
| About the Authors | 0/1 |
| The sydney was a line of the literature of the system of t | 573 |
| Index | 0,0 |

Preface

An investment in knowledge pays the best interest.

-Benjamin Franklin

The purpose of this book is to provide an introduction to financial decision-making, and the framework in which these decisions are made. *The Basics of Finance* is an accessible book for those who want to gain a better understanding of this field, but lack a strong business background. In this book, we cover the essential concepts, tools, methods, and strategies in finance without delving too far into theory.

In *Basics of Finance*, we discuss financial instruments and markets, portfolio management techniques, understanding and analyzing financial statements, and corporate financial strategy, planning, and policy. We explain concepts in various areas of finance without getting too complicated.

We explore, in a basic way, topics such as cash flow analysis, asset valuation, capital budgeting, and derivatives. We also provide a solid foundation in the field of finance, which you can quickly build upon.

Along the way, we provide sample problems—Try it! problems—so that you can try out any math that we demonstrate in the chapter. We also provide end-of-chapter questions—with solutions easily accessible on our web site—that test your knowledge of the basic terms and concepts that we discuss in the chapter. Solutions to end-of-chapter problems can be downloaded by visiting www.wiley.com/go/petersonbasics. Please log in to the web site using this password: Petersonbasics123.

The Basics of Finance offers essential guidance on financial markets and institutions, business finance, portfolio management, risk management, and much more. If you're looking to learn more about finance, this is the place to start.

We thank Glen Larsen, Professor of Finance at the Kelley School of Business, Indiana University, for coauthoring with us the section on relative valuation in Chapter 19.

Pamela Peterson Drake Frank J. Fabozzi May 2010