



Preface

Fundamentals of Corporate Finance, Fifth Canadian Edition, provides what we believe is a modern, unified treatment of financial management in Canada that is suitable for beginning students.

Rapid and extensive changes in financial markets and instruments place new burdens on the teaching of corporate finance. On the one hand, it is much more difficult to keep materials up to date. On the other, the permanent must be distinguished from the temporary to avoid following what is merely the latest fad. Our solution is to stress the modern fundamentals of finance and to make the subject come alive with contemporary Canadian examples. As we emphasize throughout this book, we view the subject of corporate finance as the working of a small number of integrated and very powerful intuitions.

There are three basic themes in *Fundamentals of Corporate Finance*.

AN EMPHASIS ON INTUITION We are always careful to separate and explain the principles at work on an intuitive level before launching into any specifics. The underlying ideas are discussed first in very general terms and then by way of examples that illustrate in more concrete terms how a financial manager might proceed in a given situation.

A UNIFIED VALUATION APPROACH We treat net present value (NPV) as the basic concept underlying corporate finance. Many texts stop well short of consistently integrating this important principle. The most basic notion, that NPV represents the excess of market value over cost, tends to get lost in an overly mechanical approach to NPV that emphasizes computation at the expense of understanding. Every subject covered in *Fundamentals of Corporate Finance* is firmly rooted in valuation, and care is taken throughout the text to explain how particular decisions have valuation effects.

A MANAGERIAL FOCUS Students won't lose sight of the fact that financial management concerns management. Throughout the text, the role of the financial manager as decision maker is emphasized, and the need for managerial input and judgement is stressed. "Black box" approaches to finance are consciously avoided.

These three themes work together to provide consistent treatment, a sound foundation, and a practical, workable understanding of how to evaluate financial decisions.

Coverage

Fundamentals of Corporate Finance contains innovative coverage of a wide variety of subjects. For example, Chapter 4, on long-term financial planning, contains a thorough discussion of the sustainable growth rate as a planning tool. Chapter 11, on project analysis and evaluation, contains an extensive discussion of how to evaluate NPV estimates. Chapter 12, on capital market history, discusses in detail the famous Ibbotson-Sinquefield study and related Canadian studies and the nature of capital market risks and returns. Chapter 15, on raising capital, contains an updated discussion of IPOs and the costs of going public in Canada with new material on IPO underpricing.

This is just a sampling. Because *Fundamentals of Corporate Finance* is not a “me-too” book, we have taken a very close look at what is likely to be relevant, and we have taken a fresh, modern approach to many traditional subjects. In doing so, we eliminated topics of dubious relevance, downplayed purely theoretical issues, and minimized the use of extensive and elaborate computations to illustrate points that are either intuitively obvious or of limited practical use.

Unlike virtually any other introductory text, *Fundamentals of Corporate Finance* provides extensive real-world practical advice and guidance. We try to go beyond just presenting dry, standard textbook material to show how to actually use the tools discussed in the text. When necessary, the approximate, pragmatic nature of some types of financial analysis is made explicit, possible pitfalls are described, and limitations are outlined.

New to This Edition

In addition to retaining the coverage that has characterized *Fundamentals of Corporate Finance* from the beginning, the Fifth Canadian Edition features enhanced Canadian content on current issues such as ethical investing and corporate governance. Key updates include capital budgeting (Chapters 10 and 11), where we made revisions to ensure conformity with Canadian tax rules throughout, and capital market history (Chapter 12), which we updated to reflect current thinking on lower market risk premiums.

Appendix 20A *More on Credit Policy Analysis*, previously found on the textbook’s website, can now be found at the end of Chapter 20.

Finally, the recent emphasis on corporate governance has been stressed throughout the textbook. In particular, a new section on employee stock options has been added to Chapter 25 and discussions of managerial compensation and ethical financial reporting are now found in Chapter 1.

Learning solutions have always been a critical focus and the Fifth Canadian Edition retains features from the Fourth Edition and adds new ones: Calculator Hints walk students through time value calculations; Mini Cases meet the demand for more challenging assignments.

ORGANIZATION OF THE TEXT

This book was designed and developed explicitly for a first course in business or corporate finance, for both finance majors and non-majors alike. In terms of background or prerequisites,

Considers the goals of the corporation, the corporate form of organization, the agency problem, and, briefly, financial markets.

Succinctly discusses cash flow versus accounting income, market value versus book value, taxes, and a review of financial statements.

Contains a thorough discussion of the sustainable growth rate as a planning tool.

First of two chapters covering time value of money, allowing for a building-block approach to this concept.

Contains an extensive discussion on NPV estimates.

Updated to reflect market returns and events through 2003.

Discusses the expected return/risk trade-off, and develops the security market line in a highly intuitive way that bypasses much of the usual portfolio theory and statistics.

PART 1

Overview of Corporate Finance

- 1 Introduction to Corporate Finance
- 2 Financial Statements, Taxes, and Cash Flow

PART 2

Financial Statements and Long-Term Financial Planning

- 3 Working with Financial Statements
- 4 Long-Term Financial Planning and Corporate Growth
 - Appendix 4A A Financial Planning Model for the Hoffman Company
 - Appendix 4B Derivation of the Sustainable Growth Formula

PART 3

Valuation of Future Cash Flows

- 5 Introduction to Valuation: The Time Value of Money
- 6 Discounted Cash Flow Valuation
 - Appendix 6A Proof of Annuity Present Value Formula
- 7 Interest Rates and Bond Valuation
 - Appendix 7A On Duration
 - Appendix 7B Callable Bonds and Bond Refunding
- 8 Stock Valuation

PART 4

Capital Budgeting

- 9 Net Present Value and Other Investment Criteria
- 10 Making Capital Investment Decisions
 - Appendix 10A More on Inflation and Capital Budgeting
 - Appendix 10B Capital Budgeting with Spreadsheets
- 11 Project Analysis and Evaluation

PART 5

Risk and Return

- 12 Some Lessons from Capital Market History
- 13 Return, Risk, and the Security Market Line
 - Appendix 13A Derivation of the Capital Asset Pricing Model

the book is nearly self-contained, assuming some familiarity with basic algebra and accounting concepts, while still reviewing important accounting principles very early on. The organization of this text has been developed to give instructors the flexibility they need.

PART 6

Cost of Capital and Long-Term Financial Policy

- 14 Cost of Capital ←
Appendix 14A Adjusted Present Value
Appendix 14B Economic Value Added and the Measurement of Financial Performance
- 15 Raising Capital ←
- 16 Financial Leverage and Capital Structure Policy
Appendix 16A Capital Structure and Personal Taxes
- 17 Dividends and Dividend Policy

Includes a complete illustration of the cost-of-capital calculation.

PART 7

Short-Term Financial Planning and Management

- 18 Short-Term Finance and Planning ←
- 19 Cash and Liquidity Management
Appendix 19A Cash Management Models
- 20 Credit and Inventory Management
Appendix 20A More on Credit Policy Analysis

Provides key developments in the IPO market such as the Internet "bubble," and current thinking on IPO underpricing.

PART 8

Topics in Corporate Finance

- 21 International Corporate Finance ←
- 22 Leasing
- 23 Mergers and Acquisitions

Presents a general survey of short-term financial management, which is useful when time does not permit a more in-depth treatment.

PART 9

Derivative Securities and Corporate Finance

- 24 Risk Management: An Introduction to Financial Engineering ←
- 25 Options and Corporate Securities ←
Appendix 25A The Black-Scholes Option Pricing

Covers important issues in international finance, including the introduction of the euro.

This increasingly important topic is presented at a level appropriate for an introductory class.

Illustrates many options and applications in corporate finance.

Glossary

Appendix A Mathematical Tables

Appendix B Answers to Selected End-of-Chapter Problems

Subject Index

Name Index

Equation Index

LEARNING SOLUTIONS

In addition to illustrating pertinent concepts and presenting up-to-date coverage, the authors of *Fundamentals of Corporate Finance* strive to present the material in a way that makes it coherent and easy to understand. To meet the varied needs of the intended audience, *Fundamentals of Corporate Finance* is rich in valuable learning tools and support.

Each feature can be categorized by the benefit to the student:

- Real Financial Decisions
- Application Tools
- Study Aids

Real Financial Decisions

We have included key features that help students connect chapter concepts to how decision makers use this material in the real world.

CHAPTER-OPENING VIGNETTES

VIGNETTES These are from real-world events and introduce students to the chapter concepts. New chapter-opening vignettes reflecting the New Economy can be found in many chapters. For example see Chapter 2, page 24, Chapter 4, page 82, and Chapter 8, page 211. Questions about the chapter-opening vignettes are posed in the end-of-chapter material to ensure understanding of the concepts.

CHAPTER 14



Cost of Capital

Alcan Inc. is a multinational leader in aluminum, rolled aluminum products, and specialty packaging with annual revenue of more than U.S. \$12.5 billion in 2002. Alcan's key business objective is maximizing shareholder value. As such, Alcan Inc. has become one of a growing number of Canadian companies who measure performance based on the amount by which their return on capital for the year exceeds the cost of capital. This measure is used to increase shareholder value, to prioritize investment and operational decisions, and as part of each business unit's annual compensation formula. In this chapter, we learn how to compute a firm's cost of capital and find out what it means to the firm and its investors.

IN THEIR OWN WORDS BOXES

A unique series of brief essays are written by distinguished scholars and by Canadian practitioners on key topics in the text. To name just a few, these include essays by Merton Miller on capital structure, Burton Malkiel on the technology bubble, and Claude Lamoureux on corporate governance. For example, see Chapter 12, page 357, and Chapter 16, page 480.

In Their Own Words . . .

How will the technology bubble be remembered? Historians will record the Internet bubble of the late 1990s as one of the greatest bubbles of all time. Valuations became truly unbelievable. During the Nifty Fifty craze, the well-known growth stocks may have sold at 60-, 70- or even 80-times earnings. During the Internet bubble, stocks would sell at 60-, 70- or 80-times sales. Priceline.com, one of the Internet companies that sold discounted airline tickets, was valued at one time with a market capitalization that was larger than the combined market capitalizations of Delta Airlines, American Airlines and United Airlines. At its low, Priceline sold for about a dollar a share. You even had enormous multi-billion dollar capitalizations from companies that had essentially no sales at all. They were just selling on a promise.

People confused the correct idea that the Internet was real, that it was going to mean some profound changes in the way we live and shop and get information,

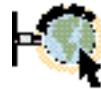
A Random Talk with Burton Malkiel



Here's another thing—the CNBC effect. You had people talking about these extraordinary gains, and [producers] didn't want a fuddy duddy value manager being interviewed on CNBC. [They] wanted the person who said Amazon.com has a price target of \$500 a share. Those were the people who got on those shows. That fed the public enthusiasm. There were some people who got it right. They were generally the value managers who actually underperformed the market as a whole very badly during that period.

ENHANCED! REAL-WORLD EXAMPLES These are integrated throughout the text, tying chapter concepts to real life through illustration and reinforcing the relevance of the material. For added reinforcement, some examples tie into the chapter-opening vignette. See Chapter 4, page 98, Chapter 6, pages 134 and 138, Chapter 8, page 223, and Chapter 10, pages 265 and 267.

EXPANDED! WEB LINKS We have added many additional website references, a key research tool directing students to websites that tie into the chapter material. See Chapter 2, page 56 and Chapter 25, page 751.



Chapter 8 Mini Case

As an investment advisor, you have been asked to pick one of the following three stock options for your latest client. The client will be investing \$25,000 in whichever option you pick. Your client plans to hold the investment over the long run, so is not particularly concerned with "quick money."

Option	Market Price	Current Dividend	Expected Firm Growth
Common shares	\$25.50	\$0.80	5.0%
Preferred shares	\$14.76	\$1.25	3.5%
Risky venture	\$ 3.75	—	40% for first 4 years, 25% for next 5 years, 8.5% thereafter

You have also learned that a majority of stock analysts expect that the risky venture will begin paying a divi-

dend of \$0.25 in five years. The market demands a 9 percent return on most equity investments, but demands a 15 percent return for risky shares.

- What should you be willing to pay for each investment given the available information?
- Over a 15-year period, what is your expected annual return from each option?
- If inflation is expected to be 4 percent annually, what price should you be willing to pay for the shares?
- If there is a 20 percent chance that each firm will grow at a rate 1.5 times the expected rate and a 30 percent chance that each will grow at only 2/3 the expected rate, how would this change your valuation of each option?
- Which option would you recommend to your client? Why?

NEW! MINI CASES These longer problems seek to integrate a number of topics from within the chapter. The Mini Cases allow students to test and challenge their abilities to solve real-life situations for each of the key sections of the text material. See Chapter 4, page 107, Chapter 8, page 232, and Chapter 10, page 300.

NEW! S&P PROBLEMS At the end of each chapter there are student exercises using the **Education Version of Standard & Poor's Market Insight**. This web-based resource, which is available with each new copy of the text, contains a wealth of current and past financial statement data plus stock price history, as well as more descriptive material from a universe of more than 650 firms to allow students to engage in sophisticated company and industry analysis.



S&P Problems

- Equity Multiplier** Use the balance sheets for Canadian Pacific Railway Ltd. (CP), Biovail Corp. (BVF), Barrick Gold Corp. (ABX), and Alcan Inc. (AL) to calculate the equity multiplier for each company over the most recent two years. Comment on any similarities or differences between the companies and explain how these might affect the equity multiplier.
- Inventory Turnover** Use the financial statements for IPSCO Inc. (IPS) and Premium Brands Inc. (FLCHP) to calculate the inventory turnover for each company over the past three years. Is there a difference in inventory turnover between the two companies? Is there a reason the inventory turnover is lower for IPSCO? What does this tell you about comparing ratios across industries?

EXPANDED! INTERNET APPLICATION QUESTIONS Many new questions, relevant to the topic discussed in each chapter, are presented for the students to explore using the Internet. From the *Fundamentals of Corporate Finance* website www.mcgrawhill.ca/college/ross, students will find direct links to the websites included in these questions. See Chapter 4, page 108 and Chapter 11, page 334.



Each chapter concludes with a short, annotated list of books and articles to which the interested reader may refer for additional information.

Application Tools

Realizing that there is more than one way to solve problems in corporate finance, we include sections that will not only encourage students to learn different problem-solving methods, but will also help them learn or brush up on their financial calculator and Excel® spreadsheet skills.

NEW! CALCULATOR HINTS

This feature introduces students to problem solving with the assistance of a financial calculator. Sample keystrokes are provided for illustrative purposes, although individual calculators will vary somewhat. For example, see Chapter 5, page 123, and Chapter 6, page 147.

Calculator HINTS

You solve present value problems on a financial calculator just as you do future value problems. For the example we just examined (the present value of \$1,000 to be received in three years at 15 percent), you would do the following:

Enter	3	15			1000
	N	%i	PMT	PV	FV
Solve for					-657.50

Notice that the answer has a negative sign; as we discussed above, that's because it represents an outflow today in exchange for the \$1,000 inflow later.



MORE! SPREADSHEET STRATEGIES

STRATEGIES This feature either introduces students to Excel® or helps them brush up on their Excel® spreadsheet skills, particularly as they relate to corporate finance. This feature appears in self-contained sections and shows students how to set up spreadsheets to analyze common financial problems—a vital part of every business student's education. For example, see Chapter 5, page 128 and Chapter 9, page 240.

Spreadsheet STRATEGIES



Calculating NPVs with a Spreadsheet

Spreadsheets are commonly used to calculate NPVs. Examining the use of spreadsheets in this context also allows us to issue an important warning. Let's rework Example 9.1:

	A	B	C	D	E	F	G	H
1								
2		Using a spreadsheet to calculate net present values						
3								
4	From Example 9.1, the project's cost is \$10,000. The cash flows are \$2,000 per year for the first							
5	two years, \$4,000 per year for the next two, and \$5,000 in the last year. The discount rate is							
6	10 percent; what's the NPV?							
7								
8		year	Cash flow					
9		0	-\$10,000		Discount rate =			10%
10								



SPREADSHEET TEMPLATES Several questions (identified by an icon) within the end-of-chapter material can be solved using the Financial Analysis Spreadsheet Templates (FAST) available at the Ross Online Learning Centre www.mcgrawhill.ca/college/ross. These Excel® templates are a valuable extension of the Spreadsheet Strategies feature. For example, see Chapter 9, page 260 and Chapter 12, page 360.

Study Aids

We want students to get the most from this book and their course, and we realize that students have different learning styles and study needs. We therefore present a number of study features to appeal to as wide a range of students as possible.

CONCEPT BUILDING Chapter sections are intentionally kept short to promote a step-by-step, building block approach to learning. Each section is then followed by a series of short concept questions that highlight the key ideas just presented. Students use these questions to make sure they can identify and understand the most important concepts as they read. See Chapter 5, page 121 and Chapter 9, page 240 for examples.

KEY TERMS Within each chapter, key terms are highlighted in **boldface** type the first time they appear. Key terms are defined in the text, and also in a running glossary in the margins of the text for quick reminders. For reference there is a comprehensive list of key terms at the end of each chapter and a full glossary at the back of the textbook with page references for each term.

Table 6.2 Summary of annuity and perpetuity calculations	
I. Symbols:	
PV = Present value, what future cash flows are worth today	
FV _t = Future value, what cash flows are worth in the future	
r = Interest rate, rate of return, or discount rate per period—typically, but not always, one year	
t = Number of periods—typically, but not always, the number of years	
C = Cash amount	
II. Future value of C per period for t periods at r percent per period:	
FV _t = C × [(1 + r) ^t − 1]/r	
A series of identical cash flows is called an annuity, and the term [(1 + r) ^t − 1]/r is called the <i>annuity future value factor</i> .	
III. Present value of C per period for t periods at r percent per period:	
PV = C × {1 − [1/(1 + r) ^t]}/r	
The term {1 − [1/(1 + r) ^t]}/r is called the <i>annuity present value factor</i> .	
IV. Present value of a perpetuity of C per period:	
PV = C/r	
A <i>perpetuity</i> has the same cash flow every year forever.	

SUMMARY TABLES These tables succinctly restate key principles, results, and equations. They appear whenever it is useful to emphasize and summarize a group of related concepts. For example, see Chapter 4, page 100 and Chapter 6, page 149.

NUMBERED EXAMPLES Separate numbered and titled examples are extensively integrated into the chapters. These examples provide detailed applications and illustrations of the text material in a step-by-step format. Each example is completely self-contained so students don't have to search for additional information. Based on our classroom testing, these examples are among the most useful learning aids because they provide both detail and explanation. See Chapter 2, page 67, Chapter 5, page 118, and Chapter 9, page 248.

EXAMPLE 5.3: How Much for that Cup?

To further illustrate the effect of compounding for long horizons, consider the case of the Stanley Cup. The cup, the oldest team trophy in North America, was originally purchased by the governor general of Canada, Frederick Arthur Stanley, in 1893. Lord Stanley paid \$48.67 for the cup over 110 years ago. The Hockey Hall of Fame in Toronto has the cup insured for \$1.5 million, although to millions of fans across Canada, it is priceless.¹ What would the sum Lord Stanley paid for the cup be worth today if he had invested it at 10 percent rather than purchasing the cup?

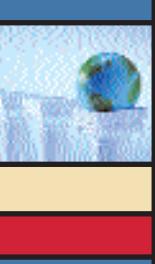
110 years, at 10 percent, \$48.67 grows quite a bit. How much? The future value factor is approximately:

$$(1 + r)^t = (1.10)^{110} = 35,743.36$$

$$FV = \$48.67 \times 35,743.36 = \$1,739,629.30$$

Well, \$1,739,629.30 is a lot of money, considerably more than \$1.5 million—of course, no hockey fan would recommend that Lord Stanley should have invested the money rather than buy the cup!

This example is something of an exaggeration, of course. In 1893, it would not have been easy to locate an investment that would pay 10 percent every year without fail for the next 110 years.

**KEY EQUATIONS** These are called out in the text and identified by equation number. An Equation Index is available at the end of the book and a Formula Sheet can be found on the Ross Online Learning Centre at www.mcgrawhill.ca/college/ross.

CHAPTER SUMMARY AND CONCLUSION These paragraphs review the chapter's key points and provide closure to the chapter.

CHAPTER REVIEW PROBLEMS AND SELF-TEST Appearing after the Summary and Conclusions and Key Terms, each chapter includes Chapter Review Problems and a Self-Test section. These questions and answers allow students to test their abilities in solving key problems related to the chapter content and provide instant reinforcement. See Chapter 4, page 101 and Chapter 9, page 258.

CONCEPTS REVIEW AND CRITICAL THINKING QUESTIONS

This section facilitates students' knowledge of key principles, and their intuitive understanding of chapter concepts. A number of the questions relate to the chapter-opening vignette—reinforcing students' critical-thinking skills and the learning of chapter material. For example, see Chapter 5, page 131 and Chapter 10, page 293.

Concepts Review and Critical Thinking Questions

1. The basic present value equation has four parts. What are they?
 2. What is compounding? What is discounting?
 3. As you increase the length of time involved, what happens to future values? What happens to present values?
 4. What happens to a future value if you increase the rate? What happens to a present value?
- To answer the next four questions, refer to the Government of Canada stripped coupon we discussed to open the chapter.
5. Why would ScotiaMcLeod be willing to accept such a small amount today (\$29.19) in exchange for a promise to repay over three times that amount (\$100) in the future?
 6. Would you be willing to pay \$500 today in exchange for \$10,000 in 30 years? What would be the key con-

siderations in answering yes or no? Would your answer depend on who is making the promise to repay?

7. Suppose that when ScotiaMcLeod offered the Government of Canada coupon for \$29.19, the province of Quebec had offered an essentially identical security. Do you think it would have had a higher or lower price? Why?
8. The Canada stripped coupon is actively bought and sold by ScotiaMcLeod and other investment dealers. If you obtained a price today, do you think the price would exceed the \$29.19 original price? Why? If you looked in the year 2006, do you think the price would be higher or lower than today's price? Why?

QUESTIONS AND PROBLEMS We have found that many students learn better when they have plenty of opportunity to practice; therefore, we provide extensive end-of-chapter questions and problems. The end-of-chapter support greatly exceeds what is typical in an introductory textbook. The questions and problems are labelled by topic and are separated into three learning levels: Basic, Intermediate, and Challenge. Throughout the text, we have worked to supply interesting problems that illustrate real-world applications of chapter material. Answers to selected end-of-chapter material appear in Appendix B. See Chapter 8, page 230, Chapter 10, page 260, and Chapter 12, page 360.

As described earlier in this Preface (see page xx), students' learning and understanding of the chapter content is further supported by the following end-of-chapter materials:

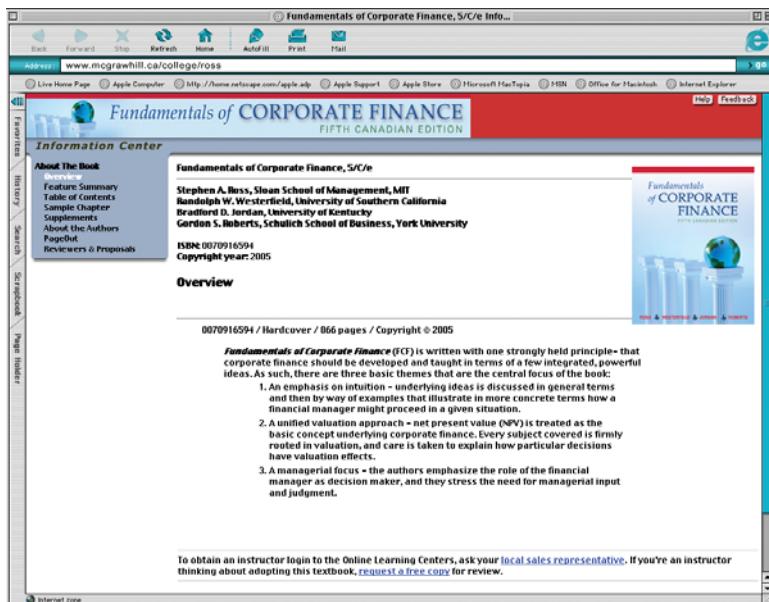
- S&P Problems
- Internet Application Questions
- Mini Cases
- Suggested Readings

TECHNOLOGY SOLUTIONS

Online Learning Centre

More and more students are studying online. That is why we offer an Online Learning Centre (OLC) that follows *Fundamentals of Corporate Finance* chapter by chapter. You don't have to build or maintain anything and it's ready to go the moment you and your students type in the URL:

www.mcgrawhill.ca/college/ross



As your students study, they can refer to the OLC website for such benefits as:

- Online Quizzes
- Access to the Educational Version of Standard & Poor's Market Insight
- S&P Problems
- CBC Video Cases
- Video Clips
- Annotated Web Links
- Internet Application Questions
- Finance Around the World
- Study to Go
- Excel templates tied to end-of-chapter text material
- Chapter Highlights
- Glossary and Key Terms
- Chapter Summary
- Formula Sheet

Remember, the *Fundamentals of Corporate Finance* OLC content is flexible enough to use with any course management platform currently available. If your department or school is already using a platform, we can help. For information on our course management services, contact your *i*-Learning Sales Specialist or see "Superior Service" on page xxviii.



Mobile Learning

STUDY TO GO The businesses and companies of today want their new employees to be adept in all aspects of the changing business environment. They are quick to tell us they want graduates with the skills of tomorrow . . . today. From laptops to cell phones to PDAs, the new medium is mobility.

As a leader in technology and innovation, McGraw-Hill Ryerson has developed material providing students with optimum flexibility for use anytime, anywhere they need to study—whether with a laptop, PDA, or tablet. These innovations provide instructors with a number of exciting ways to integrate technology into the learning process.

With **Study To Go** we have introduced wireless activities as a part of our Online Learning Centre. Now, whether you are waiting in line, riding on transit, or just filling some spare time, homework and practice are just a click away.



POWERWEB AND POWERWEB TO GO Keeping your course current can be a job in itself, and now McGraw-Hill Ryerson can do it for you. **PowerWeb** extends the learning experience beyond the core textbook by offering all the latest news and developments pertinent to your course via the Internet, without all the clutter and dead links of a typical online search.

PowerWeb offers current articles related to corporate finance, weekly updates with assessment tools, informative and timely world news culled by a finance expert, refereed web links, and more. In addition, PowerWeb provides an array of helpful learning aids, including self-grading quizzes and interactive glossaries and exercises. Students may also access study tips, conduct online research, and learn about different career paths. Visit the PowerWeb site at <http://www.dushkin.com/powerweb> and see firsthand what PowerWeb can mean to your course.

PowerWeb To Go is a new McGraw-Hill content offering designed specifically for use on handheld devices. PowerWeb To Go content consists of current news stories, weekly updates, and magazine articles developed specifically for corporate finance. It is revised daily, giving you the most up-to-date, course-specific information available and is easily loaded onto your Pocket PC or Palm OS handheld device. Visit the PowerWeb To Go site at www.powerwebtogo.com for information on how you can sign up today.

PageOut

Create a custom course website with **PageOut**, free with every McGraw-Hill Ryerson textbook.

To learn more, contact your McGraw-Hill Ryerson publisher's representative or visit www.mhhe.com/solutions



Course Management

PAGEOUT McGraw-Hill Ryerson's course management system, PageOut, is the easiest way to create a website for your corporate finance course. There is no need for HTML coding, graphic design, or a thick how-to book. Just fill in a series of boxes in plain English and click on one of our professional designs. In no time, your course is online!

For the integrated instructor, we offer *Fundamentals of Corporate Finance* content for complete online courses. Whatever your needs, you can customize the *Fundamentals of Corporate Finance* Online Learning Centre content and author your own online course materials. It is entirely up to you. You can offer online discussion and message boards that will complement your office hours, and reduce the lines outside your door. Content cartridges are also available for course management systems, such as **WebCT** and **Blackboard**. Ask your *i-Learning Sales Specialist* for details.

GRADESUMMIT GradeSummit is a self-assessment, diagnostic service helping students make the most efficient use of their study time. This Internet service provides many ways for students to analyze what they know and do not know to quickly discover those subject areas where spending study time will help most. GradeSummit reveals subject strengths and weaknesses and provides feedback and direction, which enables students to focus their study time.

The ability to create automatically graded quizzes provides a vehicle to you, the instructor, to make accountable homework assignments.

GradeSummit's diagnostic reports yield valuable data about student understanding of the course material. With as little as an hour per term, you can create graded homework assignments, use a variety of reporting features, download homework scores to use with your existing grade book, and know you have given your students a service they will thank you for. Try it today at www.gradesummit.com, or for more information, contact us at info@gradesummit.com.

SUPERIOR SERVICE

SUPERIOR SERVICE Service takes on a whole new meaning with McGraw-Hill Ryerson and *Fundamentals of Corporate Finance*. More than just bringing you the textbook, we have consistently raised the bar in terms of innovation and educational research—both in finance and in education in general. These investments in learning and the education community have helped us to understand the needs of students and educators across the country, and allowed us to foster the growth of truly innovative, integrated learning.



INTEGRATED LEARNING Your Integrated Learning Sales Specialist is a McGraw-Hill Ryerson representative who has the experience, product knowledge, training, and support to help you assess and integrate any of our products, technology, and services into your course for optimum teaching and learning performance. Whether it's using our test bank software, helping your students improve their grades, or putting your entire course online, your *i*-Learning Sales Specialist is there to help you do it. Contact your *i*-Learning Sales Specialist today to learn how to maximize all of McGraw-Hill Ryerson's resources!

i-LEARNING ADVANTAGE McGraw-Hill Ryerson offers a unique *i*-Service package designed for Canadian faculty. Our mission is to equip providers of higher education with superior tools and resources required for excellence in teaching. For additional information, visit www.mcgrawhill.ca/highereducation/eservices.

TEACHING, TECHNOLOGY & LEARNING CONFERENCE SERIES The educational environment has changed tremendously in recent years, and McGraw-Hill Ryerson continues to be committed to helping you acquire the skills you need to succeed in this new milieu. Our innovative Teaching, Technology & Learning Conference Series brings faculty together from across Canada with 3M Teaching Excellence award winners to share teaching and learning best practices in a collaborative and stimulating environment. Preconference workshops on general topics, such as teaching large classes and technology integration, will also be offered. We will also work with you at your own institution to customize workshops that best suit the needs of your faculty.

RESEARCH REPORTS INTO MOBILE LEARNING AND STUDENT SUCCESS These landmark reports, undertaken in conjunction with academic and private sector advisory boards, are the result of research studies into the challenges professors face in helping students succeed and the opportunities that new technology presents to impact teaching and learning.



COMPREHENSIVE TEACHING AND LEARNING PACKAGE

For the Student

SELF STUDY CD-ROM Included with each new copy of the textbook, this CD-ROM is created especially to help students understand corporate finance. The Self-Study software prepared by Sanjay Banerji, McGill University, is an electronic study aid that contains true-false and multiple-choice questions for each chapter. This study tool enables you to determine which topics in the textbook you need to review and reinforces the concepts learned. A link is provided to the Student Online Learning Centre for additional learning materials.

STUDY GUIDE 007-092284-5 Prepared by Jeannette Switzer, Dalhousie University, the study guide is a valuable resource that provides students with an overview and additional review problems for each chapter. Each chapter begins with chapter highlights followed by a chapter outline (New!), discussion of key concepts, and examples to illustrate them. A fill-in-the-blank test helps reinforce the key concepts. Each chapter closes with a number of problems with worked-out solutions, categorized by level of difficulty. New! Appendices related to using your financial calculator are added to Chapters 5 and 6.



STUDENT ONLINE LEARNING CENTRE Prepared by Eric Wang, Athabasca University, the OLC offers aids such as Online Quizzes, Internet Application Exercises, Annotated Web Links, Excel Templates, Study To Go, and CBC Video Cases, and more! The *Fundamentals of Corporate Finance* Online Learning Centre is located at www.mcgrawhill.ca/college/ross.

For the Instructor

INSTRUCTOR'S ONLINE LEARNING CENTRE The OLC includes a password-protected website for Instructors; visit us at www.mcgrawhill.ca/college/ross. The site offers downloadable supplements and PageOut, the McGraw-Hill Ryerson course website development centre.

INSTRUCTOR'S CD-ROM This CD-ROM includes the following Instructor Supplements:

Instructor's Manual prepared by Ian Rakita, Concordia University. The IM contains two main sections. The first section contains a chapter outline with lecture tips, real-world tips, and ethics notes. The second section includes detailed solutions for all end-of-chapter problems. The IM is also available as a download from the Instructor's OLC.

Computerized Test Bank prepared by Larry Bauer, Memorial University. This test bank contains true/false and multiple-choice questions categorized by difficulty level, type, and topic. It also includes essay and critical thinking questions. New for this edition, more than 1,000 questions have been added to the test bank.

PowerPoint® Presentation Prepared by Anne Inglis, Ryerson University. The Microsoft® PowerPoint® Presentation slides have been re-developed in their entirety to better illustrate chapter concepts. This package is available on the Instructor's CD or as a download from the Instructor's OLC.

CBC VIDEO CASES Prepared by Calin Valsan, Bishop's University. Accompanying the text is a series of video segments (one per part) drawn from CBC broadcasts of *Venture* and *Marketplace*. These videos have been chosen to visually aid students in tying real-world finance issues to the text, and to illuminate key ideas and concepts presented in the text. A set of instructor notes accompanies the segments and will be available at the Instructor's Online Learning Centre. The video segments will be available in a VHS format for use in class and through video-streaming on the Online Learning Centre accessible by both instructors and students.



Acknowledgements

We never would have completed this book without the incredible amount of help and support we received from colleagues, editors, family members, and friends. We would like to thank, without implicating, all of you.

For starters, a great many of our colleagues read the drafts of our first and current editions. Our reviewers continued to keep us working on improving the content, organization, exposition, and Canadian content of our text. To the following reviewers, we are grateful for their many contributions to the Fifth Canadian Edition:

Keith Cheung, *University of Windsor*
Peggy Hedges, *University of Calgary*
Saiful Huq, *University of New Brunswick*
Anne Inglis, *Ryerson University*
David Kennedy, *Lethbridge Community College*
Kurt Loescher, *University of Saskatchewan*
Neil Longley, *University of Regina*
Alan Marshall, *York University*
Aziz Rajwani, *Langara College*
Ian Rakita, *Concordia University*
Wilf Roesler, *University of Lethbridge*
Jacques Schnabel, *Wilfrid Laurier University*
David Stangeland, *University of Manitoba*
Jeannette Switzer, *Dalhousie University*
George Tannous, *University of Saskatchewan*

A special thank you must be given to Trevor Chamberlain, McMaster University, for his vigilant efforts as the Technical Reviewer for the text. His keen eye and attention to detail has contributed greatly to the quality of the final product.

Also deserving of special notice is Ian Rakita, Concordia University, who prepared the Instructor's Manual. His diligence in suggesting corrections to the problems produced a major improvement in the quality of the chapter-end problems and solutions.

In addition, a technical review of the solutions and answers was provided by Chantal Allard, Queen's University.

Several of our most respected colleagues contributed essays, which are entitled "In Their Own Words" and appear in selected chapters. To these individuals we extend a special thanks:

Edward I. Altman, *New York University*
David Atkin, *Financial Post*
F. Greenslade, *National Post online*
C. Hall, *Canadian Treasurer*
Robert C. Higgins, *University of Washington*
Ken Hitzig, *Accord Financial Corporation*
Roger Ibbotson, *Yale School of Management*
Matthew Ingram, *The Globe and Mail*
Abolhassan Jalilvand, *Dalhousie University*
Claude Lamoureux, *Ontario Teachers' Pension Plan Board*
Richard M. Levich, *New York University*
Casey Mahood, *The Globe and Mail*
Burton Malkiel, *Princeton University*



Robert C. Merton, *Harvard University*
Merton H. Miller, *University of Chicago*
Jay Ritter, *University of Florida*
Clifford W. Smith Jr., *University of Rochester*
Samuel Weaver, *Hershey Foods Corporation*
Andrew Willis, *The Globe and Mail*

Two people deserve special mention for their roles in producing the Fifth Canadian Edition. During her time as a BBA student at the Schulich School of Business, Priya Malik worked as a research assistant on the Fifth Canadian Edition, updating research material and furnishing first-rate administrative assistance. Christopher Hall spent much of the summer of 2003 researching updates, drafting revisions, and responding to editorial queries. His input was essential to this edition.

Much credit goes to an “AAA-rated” group of people at McGraw-Hill Ryerson who worked on the Fifth Canadian Edition. Leading the team was Lynn Fisher, Executive Sponsoring Editor who continued her role as champion of this project by arranging unparalleled support for the development of the text and support package for this edition. Maria Chu, Developmental Editor, efficiently supervised the reviews and revision retaining her professional composure in the face of every bump in the road from initial review to final draft. Production and copyediting were handled ably by Margaret Henderson, Senior Supervising Editor, and Erin Moore, freelance Copyeditor.

Through the development of this edition, we have taken great care to discover and eliminate errors. Our goal is to provide the best Canadian textbook available on the subject. Forward your comments to: Professor Gordon S. Roberts, Schulich School of Business, York University, 4700 Keele Street, Toronto, Ontario M3J 1P3. Or, email your comments to groberts@schulich.yorku.ca

**Stephen A. Ross
Randolph W. Westerfield
Bradford D. Jordan
Gordon S. Roberts**