

Preface

The teaching and the practicing of corporate finance are more challenging and exciting than ever before. The last decade has seen fundamental changes in financial markets and financial instruments. In the early years of the 21st century, we still see announcements in the financial press about such matters as takeovers, junk bonds, financial restructuring, initial public offerings, bankruptcy, and derivatives. In addition, there is the new recognition of “real” options (Chapters 20 and 21), private equity and venture capital (Chapter 18), and the disappearing dividend (Chapter 17). The world’s financial markets are more integrated than ever before. Both the theory and practice of corporate finance have been moving ahead with uncommon speed, and our teaching must keep pace.

These developments place new burdens on the teaching of corporate finance. On one hand, the changing world of finance makes it more difficult to keep materials up to date. On the other hand, the teacher must distinguish the permanent from the temporary and avoid the temptation to follow fads. Our solution to this problem is to emphasize the modern fundamentals of the theory of finance and make the theory come to life with contemporary examples. Increasingly, many of these examples are outside the United States. All too often, the beginning student views corporate finance as a collection of unrelated topics that are unified largely because they are bound together between the covers of one book. As in the previous editions, our aim is to present corporate finance as the working of a small number of integrated and powerful institutions.

The Intended Audience of This Book

This book has been written for the introductory courses in corporate finance at the MBA level, and for the intermediate courses in many undergraduate programs. Some instructors will find our text appropriate for the introductory course at the undergraduate level as well.

We assume that most students either will have taken, or will be concurrently enrolled in, courses in accounting, statistics, and economics. This exposure will help students understand some of the more difficult material. However, the book is self-contained, and a prior knowledge of these areas is not essential. The only mathematics prerequisite is basic algebra.

New to the Sixth Edition

Following are the key revisions and updates to this edition:

- Significant redesign and reorganization of financial accounting, cash flows and growth.
- New material on cash flows (Chapter 2).
- New material and emphasis in sustainable growth (Chapter 3).
- New material on risk analysis and real options (Chapter 8).

- New material on alternatives to NPV such as modified IRR (Chapter 6).
- New material on capital budgeting best practices (Chapter 6).
- Includes new material on efficient markets behavioral finance (Chapter 13).
- Incorporates latest theoretical developments in capital budgeting, capital structure and dividends (Chapters 7, 15, 16 and 18).
- Incorporates the recent new tax code (e.g., the new marginal individual tax rates and the lower taxes on dividends and capital gains.)
- New problems in most chapters.

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Over the past three years, readers have provided assistance by detecting and reporting errors. Our goal is to offer the best textbook available on the subject, so this information was invaluable as we prepared the Seventh Edition. We want to ensure that all future editions are error-free and therefore we will offer \$10 per arithmetic error to the first individual reporting it. Any arithmetic error resulting in subsequent errors will be counted double. All errors should be reported using the Feedback Form on the Corporate Finance Online Learning Center at www.mhhe.com/rwj.

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