Financial Management

Theory and Practice

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When we wrote the first edition of *Financial Management: Theory and Practice*, we had four goals: (1) to create a text that would help students make better financial decisions; (2) to provide a book that could be used in the introductory MBA course, but one that was complete enough for use as a reference text in follow-on case courses and after graduation; (3) to motivate students by demonstrating that finance is both interesting and relevant; and (4) to make the book clear enough so that students could go through the material without wasting either their time or their professor’s time trying to figure out what we were saying.

Valuation as a Unifying Theme

Our emphasis throughout the book is on the actions that a manager can and should take to increase the value of the firm. Structuring the book around valuation enhances continuity and helps students see how various topics are related to one another.

As its title indicates, this book combines theory and practical applications. An understanding of finance theory is absolutely essential for anyone developing and/or implementing effective financial strategies. But theory alone isn’t sufficient, so we provide numerous examples in the book and the accompanying Excel spreadsheets to illustrate how theory is applied in practice. Indeed, we believe that the ability to analyze financial problems using Excel is absolutely essential for a student’s successful job search and subsequent career. Therefore, many exhibits in the book come directly from the accompanying Excel spreadsheets. Many of the spreadsheets also provide brief “tutorials” by way of detailed comments on Excel features that we have found to be especially useful, such as Goal Seek, Tables, and many financial functions.

The book begins with fundamental concepts, including background on the economic and financial environment, the time value of money, financial statements (with an emphasis on cash flows), bond valuation, risk analysis, and stock valuation. With this background, we go on to discuss how specific techniques and decision rules can be used to help maximize the value of the firm. This organization provides four important advantages:

1. Covering time value of money early helps students see how and why expected future cash flows determine the value of the firm. Also, it takes time for students to digest TVM concepts and to learn how to do the required calculations, so it is good to cover TVM concepts early and often.
2. Managers should try to maximize the fundamental value of a firm, which is determined by cash flows as revealed in financial statements. Our early coverage of financial statements thus helps students see how particular financial decisions affect the various parts of the firm and the resulting cash flow. Also, financial statement analysis provides an excellent vehicle for illustrating the usefulness of spreadsheets.
3. Most students—even those who do not plan to major in finance—are interested in stock and bond values, rates of return on investments, and the like. The ability to learn is a function of individual interest and motivation, so Financial Management’s early coverage of securities and security markets is pedagogically sound.

4. Once basic concepts have been established, it is easier for students to understand both how and why corporations make specific decisions in the areas of capital budgeting, raising capital, working capital management, mergers, and the like.

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**Intended Market and Use**

Financial Management is designed primarily for use in the introductory MBA finance course and as a reference text in follow-on case courses and after graduation. There is enough material for two terms, especially if the book is supplemented with cases and/or selected readings. The book can also be used as an undergraduate introductory text with exceptionally good students, or where the introductory course is taught over two terms.

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**Improvements in the 12th Edition**

As in every revision, we updated and clarified materials throughout the text, reviewing the entire book for completeness, ease of exposition, and currency. We made hundreds of small changes to keep the text up-to-date, with particular emphasis on updating the real world examples and including the latest changes in the financial environment and financial theory. In addition, we made a number of larger changes. Some affect all chapters, some involve reorganizing sections among chapters, and some modify material covered within specific chapters.

**Changes That Affect All Chapters**

**Better integration of the textbook and the accompanying Excel Tool Kit spreadsheet models for each chapter.**

We assigned a section number to each major section in each chapter and used the section numbers to identify the corresponding material in the Excel spreadsheets that accompany the chapters. In addition, many tables within the text involve examples of financial analysis that were worked out in the accompanying spreadsheets. For many such Tables, we now show the Excel row and column headings so that students can easily understand the spreadsheet analysis that underlies the Table.

**End-of-section Self-Test problems.**

Students learn specific concepts and understand particular numerical examples best if they work with illustrative problems immediately after they read the section that explains that particular material. Therefore, we now provide an opportunity for immediate reinforcement by having numerical problems at the end of each major section. The answers to the problems are shown in the text, and the worked out solutions are provided in the Excel Tool Kit spreadsheet model for the chapter.

**End-of-chapter problems ranked by difficulty.**

In past editions we arranged the end-of-chapter problems by topic, not by difficulty level. Students would often start working the problems, hit a difficult one relatively quickly, become frustrated, and give up. In this edition we arranged the problems by difficulty. The first set of problems is designated “Easy,” and most
students should be able to work them without much trouble. Then come “Intermediate” problems, which are a bit harder, and then “Challenging,” which are still longer and more complex. This ranking procedure reduces students’ stress and frustration because they can clearly identify the problems that are going to require more effort.

**Improved Test Bank.**
We made substantial improvements to the Test Bank, including the addition of numerous problems that are similar to the “Easy,” “Intermediate,” and “Challenging” problems at the end of each chapter. Different instructors have different views on how students should be tested, but the new Test Bank can be used to provide a set of relatively straightforward problems (“Easy” and “Intermediate”) that deal with all aspects of financial management. Most instructors also use a few “Challenging” exam problems, where students must figure out how to apply finance concepts to deal with new and different situations they haven’t seen before. The problems can also be changed algorithmically, as discussed below.

**The ThomsonNOW Web-based course platform.**
We discuss the new ThomsonNOW Web-based course delivery system in more detail later in the preface, but one very important feature of ThomsonNOW is the availability of algorithmic versions of the end-of-chapter problems and the Test Bank problems. This allows an instructor to easily create Web-based homework assignments with problem inputs and answers that are unique to each student. The assignments are automatically graded, and the scores are posted to a gradesheet that can be exported into Excel. Because the assignments are unique to each student and are automatically graded, it is feasible for a busy instructor (is there any other kind?!) to assign homework frequently. In our own classes, we typically assign a short Web-based homework “quiz” for every 1-2 class sessions. Our students have told us that they appreciate having such frequent assignments because it helps them keep up in the course. Moreover, we have noticed an improvement in our students’ ability to work problems in subsequent in-class tests and exams.

**More focused Web Extensions in the e-Library.**
New material must be added with each edition to keep students on the cutting edge. To make room for the new material, we identified specialized topics that are important but not essential in every introductory finance course. We then made this material accessible as a chapter Web Extension, provided as an Adobe PDF file on the textbook’s Web site. In the previous edition, there was only one Web Extension for a chapter, with some chapters’ Web Extensions covering multiple topics. We now have multiple Web Extensions for those chapters, with each Extension focused on a particular topic. This makes it easier for an instructor to “pick and choose” any additional individual topics he or she wishes to cover.

**Improved PowerPoint Shows.**
We carefully reviewed and revised each PowerPoint show for clarity and effectiveness. In addition, the shows are now in a standard Microsoft template and thus can be easily customized by instructors.

**Significant Reorganization of Some Chapters**

Reorganized the discussion of financial markets.
In the previous edition, the coverage of financial markets was somewhat fragmented, with related topics being covered in the introductory chapter, the bond valuation chapter, and the stock valuation chapter. We have now consolidated this material, discussing financial securities, institutions, and markets in Chapter 1.
This consolidation allowed us to eliminate some redundancies and provide a more integrated discussion of the material. As it now stands, Chapter 1 includes a detailed discussion of financial securities, hedge funds, global stock markets, and IPOs. This new structure provides two important advantages. First, an instructor can hit the ground running and cover financial markets during the first class. Because this material is descriptive rather than problem-oriented, it is not absolutely critical for students to have read the material before the first class; instead, they can go back and read it after the first class. Second, students are typically interested in financial markets, and comprehensive coverage in the first class stimulates student interest and enthusiasm.

**Financial statement analysis moved up to immediately follow financial statements and cash flows.**

Chapter 4, Analysis of Financial Statements, now immediately follows financial statements and cash flows. This early coverage of financial statement analysis helps provide vocabulary and concepts that are important for the remainder of the book.

**Reorganized the discussion of the determinants of interest rates.**

In the previous edition, our discussion of the determinants and implications of interest rates was fragmented, with coverage in both the introductory and the bond valuation chapters. We have now consolidated this material in Chapter 5 (Bonds, Bond Valuation, and Interest Rates) in a section that immediately follows our discussion of bond pricing. This new structure is pedagogically better because students who understand the basics of bond pricing are in a better position to benefit from a discussion of why different fixed-income securities have different yields.

**Better link between risk, return, and stock pricing.**

We now cover the chapters on risk, return (Chapters 6 and 7) immediately before the chapter on stock pricing (Chapter 8). This permits students to apply the concepts they learned about the risk/return tradeoff to stock pricing.

**Notable Changes within Selected Chapters**

We made too many small improvements within each chapter to mention them all, but some of the more notable ones are discussed below.

**Chapter 1: An Overview of Financial Management and the Financial Environment.**

The opening vignette now has a global scope, and there is a new box on ethics, “Ethics for Individuals and Businesses.” As noted earlier, we consolidated and improved our discussion of securities, institutions, and markets. Because many MBA students will not take a separate Investments course, many instructors like to cover or at least recommend additional material on securities and financial markets. With that in mind, we added three new Web Extensions that (1) describe securitization, (2) provide an overview of derivatives, and (3) cover stock markets in more detail, including discussions of market indexes and the costs of trading. Each of these new Web Extensions now has its own separate PowerPoint show.

**Chapter 2: Time Value of Money.**

We added a new opening vignette on the role played by TVM concepts in the current pension fund crisis. We also improved the coverage of annuities, with the annuity formula now based on the differences between time lines of different perpetuities, which makes the formula a bit more intuitive. We added three new Web Extensions, one on the derivation of annuity formulas, another on continuous compounding, and a third on the tabular approach.
We also improved our calculator tutorials for the most popular TI and HP calculators, using illustrations that are identical to the text examples. Therefore, when a student reads about, say, the future values in the text, he or she can simultaneously learn from the tutorial how to find the specific FV with a calculator. Students tell us that learning how to use their calculators as they learn TVM concepts is much more efficient than studying the two separately.

We added a new box on Sarbanes-Oxley and financial fraud.

Chapter 4: Analysis of Financial Statements.
We added a new opening vignette on how firms guide analysts’ earnings estimates. The analyses of common sized and percent change statements are now better integrated with the Excel Tool Kit, which shows students how easy it is to do all the calculations involved in financial analysis using a spreadsheet.

Chapter 5: Bonds, Bond Valuation, and Interest Rates.
The chapter on bond pricing now comes earlier in the book, closer to the chapter on time value of money. This permits students to apply their financial calculator and Excel skills to bond analysis while time value of money concepts are still fresh in their minds. Also, the section on calculating bond yields now follows immediately the section on calculating bond prices, since these topics are so closely related. We also improved our coverage of Excel’s PRICE and YIELD functions, providing detailed examples in the Tool Kit. We consolidate and better integrated coverage of interest rate determinants with our discussion of default and interest rate price risk. We improved the discussion of TIPS, and we show how to use them in estimating the real risk-free rate and the inflation premium. Finally, we now have separate Web Extensions for (1) zero coupon bonds and their taxation, (2) a more detailed explanation of TILS, (3) duration analysis, and (4) the pure expectations theory of the term structure (using geometric averages).

Chapter 6: Risk, Return, and the Capital Asset Pricing Model.
We improved the explanation of correlation and covariance, including a better explanation for how Excel can be used in estimating correlation and covariance from historic data. We also improved the discussion of beta and how to estimate beta.

Chapter 7: Portfolio Theory and Other Asset Pricing Models.
We eliminated the opening section on measuring portfolio risk (because this is now covered in Chapter 6), so the chapter begins with a discussion of efficient portfolios. We added a new section on the standard deviation of an N-asset portfolio, including an easy approach for calculating the portfolio standard deviation. In the section on the Fama-French model we now provide the URL for Kenneth French’s Web site, which has data for use in estimating parameters of the Fama-French model. We also beefed up our discussion of behavioral finance.

Chapter 8: Stocks, Stock Valuation, and Stock Market Equilibrium
We now discuss stock market data as reported in The Wall Street Journal and other sources early in the chapter so students will be familiar with stock quotations and price ranges before we cover stock valuation. We also added a brief discussion of the FCF model for stock valuation (which is covered in more detail in Chapter 15). The section on preferred stock pricing now immediately follows common stock valuation, and the chapter ends with an improved discussion of efficient markets.

Chapter 9: Financial Options and Applications in Corporate Finance
To be consistent with the nomenclature used by options traders, we changed some of the chapter’s terms. We also improved the explanation of the binomial model,
including the formula for the number of shares in the hedge portfolio. Moreover, we added new boxes on “Financial Reporting and Employee Stock Options” and “Taxes and Stock Options,” and we added a new section entitled “Applications of Option Pricing in Corporate Finance.”

Chapter 10: The Cost of Capital.
Flotation costs are no longer in a separate section but are covered with each component cost of capital, e.g., flotation costs of debt are covered with the cost of debt. We improved and streamlined the discussion of the divisional cost of capital and the project cost of capital, and we added a new section on the cost of capital for privately held or small firms.

Because many students have trouble understanding the relative merits of different ranking criteria, we now cover NPV first, and we present it as the primary criterion because it is directly related to the maximization of shareholder wealth. We then cover the IRR and other methods and present them as supplements to NPV. In addition, we moved the equivalent annual annuity (EAA) approach out of the last edition’s Web Extension and into this edition’s textbook section that covers replacement chains.

Chapter 12: Cash Flow Estimation and Risk Analysis.
We more clearly show the link between FCF as applied to financial statements and FCF as applied to a project. We moved the numerical example to the beginning of the chapter so that students can see a concrete application before we discuss such concepts as sunk costs, opportunity costs, etc. We also added an explanation of NPV breakeven analysis.

Chapter 13: Real Options.
We added a section and a numerical example for the valuation of an option.

Chapter 14: Financial Planning and Forecasting Financial Statements
We added a new opening vignette on how companies do financial planning based on a recent survey of corporate executives. We also moved the section on AFN so that it now precedes the projected financial statement approach. With this arrangement, students can get an understanding of the basic logic of financial forecasting from the simple AFN approach, and this helps follow the logic of the more complex projected financial statement approach.

Chapter 15: Corporate Valuation, Value-Based Management, and Corporate Governance.
We rewrote and expanded our coverage of corporate governance. In addition, we added a new box on “The Sarbanes-Oxley Act of 2002 and Corporate Governance.”

We use the corporate valuation model to develop a new explanation of recapitalization that gives students a better understanding of stock repurchases and other capital structure changes. We also added a discussion of the “windows of opportunity” theory, and we added a section that discusses and synthesizes the results of recent empirical studies on capital structure.

Chapter 18: Distributions to Shareholders: Dividends and Repurchases.
We added a new opening vignette discussing Microsoft’s recent cash distributions. We also added a discussion of the “life-cycle” hypothesis.

Chapter 20: Lease Financing.
We added a new box on hidden dangers in leasing, “What You Don’t Know Can Hurt You!”
We added a new opening vignette based upon CFO magazine’s annual survey on working capital management. We added a new box based on the annual CFO cash management scorecard and we discuss the provisions and implications of “Check 21.”

Chapter 25: Mergers, LBOs, Divestitures, and Holding Companies.
We added a new opening vignette on the P&G/Gillette merger, we improved the discussion of the adjusted present value approach, and we added a section covering the free-cash-flow-to-equity approach.

Chapter 26: Multinational Financial Management.
We completely re-wrote the discussion of international monetary systems and the links between exchange rate regimes, international trade, and inflation. We also added a new section that provides a detailed discussion and illustration of capital budgeting for international projects.

ThomsonNOW: A New Web-Based Course Management Platform
ThomsonNOW is Thomson Publishing’s new Web-based course management system, and it can be seamlessly integrated into Blackboard and WebCT for those instructors already using those Web-based course management systems. ThomsonNOW includes the following features, with more to be added over time.

The Courseware Individualized Learning Plan
For each chapter, a student can take a “pre-test” in the Courseware section of ThomsonNOW. The pre-test is automatically scored, and the student is given a learning plan that identifies the chapter’s sections or which the student needs to improve. This learning plan has links to an e-book for each chapter, so a student can also read and study the material without leaving the computer. In addition, a “post-test” helps the student determine if he or she has mastered the material.

Algorithmic Homework Assignments with Automatic Grading
As previously noted, ThomsonNOW can create algorithmic versions of select end-of-chapter and Test Bank problems. With just a few clicks, an instructor can create a Web-based homework assignment that contains unique problems and answers for each student. The assignment is automatically graded, and the scores are posted to a gradesheet that can be exported into Excel or into the gradesheets of Blackboard and WebCT. Similarly, an instructor can create sets of practice problems (based on algorithmic versions of the end-of-chapter problems and Test Bank problems). In Finance, practice makes perfect, so ThomsonNOW’s ability to quickly and easily create practice problems and grade homework assignments can have a dramatic impact on a student’s progress and knowledge.

e-book
ThomsonNOW also contains an e-book, which is very helpful to students who use the Individualized Learning Plan in ThomsonNOW’s Courseware—they can read the e-book and work practice problems without ever leaving the computer.

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Thomson One—Business School Edition

Thomson ONE—Business School Edition is an online database that draws from the world acclaimed Thomson Financial data sources, including the SEC Disclosure, Datastream, First Call, and Worldscope databases. Now you can give your students the opportunity to practice with a business school version of the same Internet-based database that brokers and analysts around the world use every day. Thomson ONE—BSE provides (1) one-click download of financial statements to Excel, (2) data from domestic and international companies, (3) 10 years of financial data; and (4) one-click Peer Set analyses.

We also have available problems that rely on data from Thomson ONE—BSE. Due to the ever-changing nature of the Web, these problems are updated frequently, and they can be found on the textbook’s Web site, http://www.thomsonedu.com/finance/brigham.

Here is some of the data provided by Thomson ONE—BSE:

I/B/E/S Consensus Estimates.
Includes consensus estimates—averages, means, and medians; analyst-by-analyst earnings coverage; analysts’ forecasts based on 15 industry standard measures; current and historic coverage for the selected 500 companies. Current coverage is 5 years forward plus historic data from 1976 for U.S. companies and from 1987 for international companies, with current data updated daily and historic data updated monthly.

Worldscope.
Includes company profiles, financials, accounting results, and market per-share data for the selected 500 companies going back to 1980, all updated daily.

Disclosure SEC Database.
Includes company profiles, annual and quarterly company financials, pricing information, and earnings estimates for selected U.S. and Canadian companies, annually from 1987, quarterly for the last 10 years, and monthly for prices, all updated weekly.

DataStream Pricing.
Daily international pricing, including share price information (open, high, low, close, P/E) plus index and exchange rate data, for the last 10 years.

ILX Systems Delayed Quotes.
Includes 20-minute delayed quotes of equities and indices from U.S. and global tickers covering 130 exchanges in 25 developed countries.

Comtex Real-Time News.
Includes current news releases.

SEC Edgar Filings and Global Image Source Filings.
Includes regulatory and nonregulatory filings for both corporate and individual entities. Edgar filings are real-time and go back 10 years; image filings are updated daily and go back 7 years.

The Instructional Package: An Integrated Learning System

Financial Management includes a broad range of ancillary materials designed to enhance students’ learning and to make it easier for instructors to prepare for and conduct classes. All resources available to students are of course also available to instructors, and instructors also have access to the course management tools.

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Learning Tools Available for Students and Instructors

Study Guide.
This supplement outlines the key sections of each chapter, and it provides students with a set of questions and problems similar to those in the text and in the Test Bank, along with worked-out solutions. Instructors seldom use the Study Guide themselves, but students often find it useful, so we recommend that instructors ask their bookstores to have copies available. Our bookstores generally have to reorder it, which attests to its popularity with students.

Technology Supplement.
The Technology Supplement on ThomsonNOW contains tutorials for four commonly used financial calculators, for Excel, and for PowerPoint. The calculator tutorials cover those features students need to work the problems in the text.

Effective Use of a Financial Calculator.
Written by Pamela Hall, this handbook is designed to help increase students’ understanding of both finance and financial calculators, enabling them to work problems more quickly and effectively.

In addition to these printed resources and the items noted above, many other resources are available on the Web at Financial Management’s Web site, http://www.thomsonedu.com/finance/brigham. These ancillaries are also available at both the Instructor’s Web site and the ThomsonNOW site. These ancillaries include:

Excel Tool Kits.
Proficiency with spreadsheets is an absolute necessity for all MBA students. With this in mind, we created Excel spreadsheets, called “Tool Kits,” for each chapter to show how the calculators used in the chapter were actually done. The Tool Kit models include explanations and screen shots that show students how to use many of the features and functions of Excel, enabling the Tool Kits to serve as self-taught tutorials.

Many chapters have Adobe PDF “appendices” that provide more detailed coverage of topics that were addressed in the chapter. In addition, these four specialized topics are covered in PDF Web chapters: Banking Relationships, Working Capital Management Extensions, Pension Plan Management, and Financial Management in Not-for-Profit Businesses.

NewsEdge.
NewsEdge is a “push” service of daily news, offering coverage of breaking stories. It is timely, authoritative, and advertising-free.

NewsWire provides summaries of recent finance news stories, indexed by topic. A headline, subject category, key words, summary of the news article, article source line, and questions to spur further thought and discussion are included. The summaries are carefully selected and prepared by Paul Bolster and Emery Trahan of Northeastern University, and they facilitate the incorporation of late-breaking news into the classroom.

End-of-Chapter Spreadsheet Problems.
Each chapter has a “Build a Model” problem, where students start with a spreadsheet that contains financial data plus general instructions relating to solving a specific problem. The model is partially completed, with headings but no formulas, so the student must literally build a model. This structure guides the student...
through the problem, minimizes unnecessary typing and data entry, and also makes it easy to grade the work, since all students’ answers are in the same locations on the spreadsheet. The partial spreadsheets for the “Build a Model” problems are available to students on the book’s Web site, while the completed models are in files on the Instructor’s portion of the Web site.

**Thomson ONE—BSE Problem Sets.**
The book’s Web site has a set of problems that require accessing the Thomson ONE—Business School Edition Web data. Using real world data, students are better able to develop the skills they will need in the real world.

**Cyberproblems.**
The Web site also contains “Cyberproblems,” which require students to go to specific Web sites and answer a series of questions. Answers are available on the Instructors’ Web site.

**Interactive Study Center.**
The textbook’s Web site contains links to all Web sites that are cited in each chapter.

**Course Management Tools Available Only to Instructors**

Instructors have access to all of the materials listed above, plus additional course management tools. These are available at: (1) Financial Management’s Instructor companion Web site, [http://www.thomsonedu.com/finance/brigham](http://www.thomsonedu.com/finance/brigham), or on the Instructor’s Resource CD, or on the Instructor’s portion of the ThomsonNOW Web site. These materials include:

**Solutions Manual.**
This comprehensive manual contains worked-out solutions to all end-of-chapter materials. It is available both print and electronic forms at the Instructor’s Web site.

**PowerPoint Slides.**
There is a Mini Case at the end of each chapter. These cases cover all the essential issues presented in the chapter, and they provide the structure for our class lectures. For each Mini Case, we developed a set of PowerPoint slides that present graphs, tables, lists, and calculations for use in lectures. Although based on the Mini Cases, the slides are completely self-contained in the sense that they can be used for lectures regardless of whether students are required to read the mini cases. Also, instructors can easily customize the slides, and they can be converted quickly into any PowerPoint Design Template. Copies of these files are on the Instructor’s Web site and the ThomsonNOW site. If instructors want students to have copies of the PowerPoint shows before class to facilitate note taking, they can give students access to these files through the ThomsonNOW site.

**Mini Case Spreadsheets.**
In addition to the PowerPoint slides, we also provide Excel spreadsheets that do the calculations required in the Mini Cases. These spreadsheets are similar to the Tool Kits except (a) the numbers correspond to the Mini Cases rather than the chapter examples, and (b) we added some features that make it possible to do what-if analysis on a real-time basis in class. We usually begin our lectures with the PowerPoint presentation, but after we have explained a basic concept we “toggle”

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1. To convert into PowerPoint, select Format, Apply Design Template, and then pick any template. Always double-check the conversion, since some templates use differently sized fonts, which can cause some slide titles to run over their allotted space.
to the mini case Excel file and show how the analysis can be done in Excel. For example, when teaching bond pricing, we begin with the PowerPoint show and cover the basic concepts and calculations. Then we toggle to Excel and use a sensitivity-based graph to show how bond prices change as interest rates and time to maturity vary. More and more students are bringing their laptops to class, and they can follow along, doing the what-if analysis for themselves. Instructors can give students access to these files through the ThomsonNOW Web site.

**Solutions to End-of-Chapter Spreadsheet Problems.**
The partial spreadsheets for the “Build a Model” problems are available to students, while the completed models are in files on the Instructor’s Web site.

**Solutions to Thomson ONE—BSE Problem Sets.**
The Thomson ONE—BSE problems set require students to use real world data. Although the solutions change daily as the data change, we provide instructors with “representative” answers.

**Solutions to Cyberproblems.**
The “Cyberproblems” require students to go to specific Web sites and answer a series of questions. Although the solutions change frequently as the data change, we provide “representative” answers on the Instructor’s Web site.

**Test Bank.**
The Test Bank contains more than 1,200 class-tested questions and problems. Information regarding the topic and degree of difficulty, along with the complete solution for all numerical problems, is provided with each question. The Test Bank is available in four forms: (1) in a printed book; (2) in Microsoft Word files; (3) in a computerized test bank software package, Exam View, which has many features that make test preparation, scoring, and grade recording easy, and (4) on ThomsonNOW, which features the ability to create algorithmic assignments on the Web that are unique to each student and that are automatically scored and put in grade sheets that can be exported into Excel or integrated with the grade sheets of Blackboard and WebCT.

**Textchoice, the Thomson Learning Online Case Library.**
More than 100 cases written by Eugene F. Brigham, Linda Klein, and Chris Buzzard are now available via the Internet, and new cases are added every year. These cases are in a database that allows instructors to select cases and create their own customized casebooks. Most of the cases have accompanying spreadsheet models that, while not essential for working the case, do reduce number crunching and thus leave more time for students to consider conceptual issues. The models also illustrate how computers can be used to make better financial decisions. Cases that we have found particularly useful for the different chapters are listed in the end-of-chapter references. The cases, case solutions, and spreadsheet models can be previewed and ordered by instructors at [http://www.textchoice2.com](http://www.textchoice2.com).

Thomson/South-Western will provide complimentary supplements or supplement packages to those adopters qualified under Thomson’s adoption policy. Please contact your sales representative to learn how you may qualify. If, as an adopter or potential user, you receive supplements you do not need, please return them to your sales representative.

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*Note: To toggle between two open programs, such as *Excel* and *PowerPoint*, hold the Alt key down and hit the Tab key until you have selected the program you want to show.*
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Errors in the Text

At this point, authors generally say something like this: "We appreciate all the help we received from the people listed above, but any remaining errors are, of course, our own responsibility." And in many books, there are plenty of remaining errors. Having experienced difficulties with errors ourselves, both as students and as instructors, we resolved to avoid this problem in Financial Management. As a result of our error detection procedures, we are convinced that the book is relatively free of mistakes.

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Conclusion

Finance is, in a real sense, the cornerstone of the free enterprise system. Good financial management is therefore vitally important to the economic health of business firms, hence to the nation and the world. Because of its importance, corporate finance should be thoroughly understood. However, this is easier said than done—the field is relatively complex, and it is undergoing constant change in response to shifts in economic conditions. All of this makes corporate finance stimulating and exciting, but also challenging and sometimes perplexing. We sincerely hope that Financial Management: Theory and Practice will help readers understand and solve the financial problems faced by businesses today.

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