corporate finance | 11e

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Corporate Finance

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Stephen A. Ross
Franco Modigliani Professor of Finance and Economics Sloan School of Management
Massachusetts Institute of Technology
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Corporate Finance

ELEVENTH EDITION

Stephen A. Ross
Sloan School of Management
Massachusetts Institute of Technology

Randolph W. Westerfield
Marshall School of Business
University of Southern California

Jeffrey Jaffe
Wharton School of Business
University of Pennsylvania

Bradford D. Jordan
Gatton College of Business and Economics
University of Kentucky

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CORPORATE FINANCE, ELEVENTH EDITION

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with love and gratitude.

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About the Authors

STEPHEN A. ROSS *Sloan School of Management, Massachusetts Institute of Technology* Stephen A. Ross is the Franco Modigliani Professor of Financial Economics at the Sloan School of Management, Massachusetts Institute of Technology. One of the most widely published authors in finance and economics, Professor Ross is recognized for his work in developing the arbitrage pricing theory, as well as for having made substantial contributions to the discipline through his research in signaling, agency theory, option pricing, and the theory of the term structure of interest rates, among other topics. A past president of the American Finance Association, he currently serves as an associate editor of several academic and practitioner journals and is a trustee of CalTech.

RANDOLPH W. WESTERFIELD *Marshall School of Business, University of Southern California* Randolph W. Westerfield is Dean Emeritus of the University of Southern California's Marshall School of Business and is the Charles B. Thornton Professor of Finance Emeritus.

Professor Westerfield came to USC from the Wharton School, University of Pennsylvania, where he was the chairman of the finance department and member of the finance faculty for 20 years. He is a member of the Board of Trustees of Oak Tree Capital Mutual Funds. His areas of expertise include corporate financial policy, investment management, and stock market price behavior.

JEFFREY F. JAFFE *Wharton School of Business, University of Pennsylvania* Jeffrey F. Jaffe has been a frequent contributor to the finance and economics literatures in such journals as the *Quarterly Economic Journal, The Journal of Finance, The Journal of Financial and Quantitative Analysis, The Journal of Financial Economics,* and *The Financial Analysts Journal*. His best-known work concerns insider trading, where he showed both that corporate insiders earn abnormal profits from their trades and that regulation has little effect on these profits. He has also made contributions concerning initial public offerings, regulation of utilities, the behavior of market makers, the fluctuation of gold prices, the theoretical effect of inflation on interest rates, the empirical effect of inflation on capital asset prices, the relationship between small-capitalization stocks and the January effect, and the capital structure decision.

BRADFORD D. JORDAN *Gatton College of Business and Economics, University of Kentucky* Bradford D. Jordan is professor of finance and holder of the Richard W. and Janis H. Furst Endowed Chair in Finance at the University of Kentucky. He has a long-standing interest in both applied and theoretical issues in corporate finance and has extensive experience teaching all levels of corporate finance and financial management policy. Professor Jordan has published numerous articles on issues such as cost of capital, capital structure, and the behavior of security prices. He is a past president of the Southern Finance Association, and he is coauthor of *Fundamentals of Investments: Valuation and Management,* 7th edition, a leading investments text, also published by McGraw-Hill/Irwin.

Preface

The teaching and the practice 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 takeovers, junk bonds, financial restructuring, initial public offerings, bankruptcies, and derivatives. In addition, there are the new recognitions of "real" options, private equity and venture capital, subprime mortgages, bailouts, and credit spreads. As we have learned in the recent global credit crisis and stock market collapse, 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 have placed 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. We want our book to embody and reflect the main principle of finance: Namely, that good financial decisions will add value to the firm and to shareholders and bad financial decisions will destroy value. The key to understanding how value is added or destroyed is cash flows. To add value, firms must generate more cash than they use. We hope this simple principle is manifest in all parts of this book.

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 Eleventh Edition

Each chapter has been updated and where relevant, "internationalized." We try to capture the excitement of corporate finance with current examples, chapter vignettes, and openers. Spreadsheets applications are spread throughout.

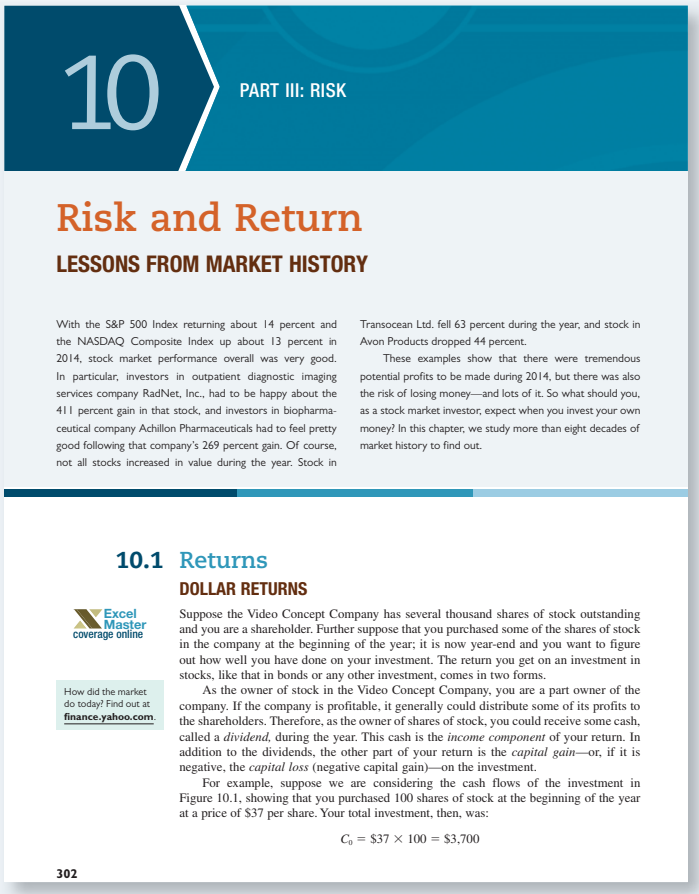
- **CHAPTER 2** has been rewritten to better highlight the notion of cash flow and how it contrasts with accounting income.
- **CHAPTER 6** has been reorganized to better emphasize some special cases of capital budgeting including cost cutting proposals and investments of unequal lives.
- **CHAPTER 9** has updated the many new ways of stock market trading.
- **CHAPTER 10** has updated material on historical risk and return and better motivated the equity risk premium.
- **CHAPTER 13** has sharpened the discussion of how to use the CAPM for the cost of equity and WACC.
- **CHAPTER 14** has updated and added to the discussion of behavioral finance and its challenge to the efficient market hypothesis.
- **CHAPTER 15** expands on its description of equity and debt and has new material on the value of a call provision as well as the differences between book and market values.
- **CHAPTER 19 AND 20** continue to build on the notion of a financial life cycle where capital structure decisions are driven by the varying needs for internal and external finance over a firm's life.

Pedagogy

In this edition of *Corporate Finance*, we have updated and improved our features to present material in a way that makes it coherent and easy to understand. In addition, *Corporate Finance* is rich in valuable learning tools and support, to help students succeed in learning the fundamentals of financial management.

Chapter Opening Vignettes

Each chapter begins with a contemporary vignette that highlights the concepts in the chapter and their relevance to real-world examples.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PART III: RISK

Risk and Return

LESSONS FROM MARKET HISTORY

With the S&P 500 Index returning about 14 percent and the NASDAQ Composite Index up about 13 percent in 2014, stock market performance overall was very good. In particular, investors in outpatient diagnostic imaging services company RadNet, Inc., had to be happy about the 411 percent gain in that stock, and investors in biopharmaceutical company Achillon Pharmaceuticals had to feel pretty good following that company's 269 percent gain. Of course, not all stocks increased in value during the year. Stock in Transocean Ltd. fell 63 percent during the year, and stock in Avon Products dropped 44 percent.

These examples show that there were tremendous potential profits to be made during 2014, but there was also the risk of losing money—and lots of it. So what should you, as a stock market investor, expect when you invest your own money? In this chapter, we study more than eight decades of market history to find out.

10.1 Returns

DOLLAR RETURNS

Excel Master coverage online

How did the market do today? Find out at finance.yahoo.com.

Suppose the Video Concept Company has several thousand shares of stock outstanding and you are a shareholder. Further suppose that you purchased some of the shares of stock in the company at the beginning of the year; it is now year-end and you want to figure out how well you have done on your investment. The return you get on an investment in stocks, like that in bonds or any other investment, comes in two forms.

As the owner of stock in the Video Concept Company, you are a part owner of the company. If the company is profitable, it generally could distribute some of its profits to the shareholders. Therefore, as the owner of shares of stock, you could receive some cash, called a *dividend,* during the year. This cash is the *income component* of your return. In addition to the dividends, the other part of your return is the *capital gain*—or, if it is negative, the *capital loss* (negative capital gain)—on the investment.

For example, suppose we are considering the cash flows of the investment in Figure 10.1, showing that you purchased 100 shares of stock at the beginning of the year at a price of $37 per share. Your total investment, then, was:

$$C_0 = \$37 \times 100 = \$3{,}700$$

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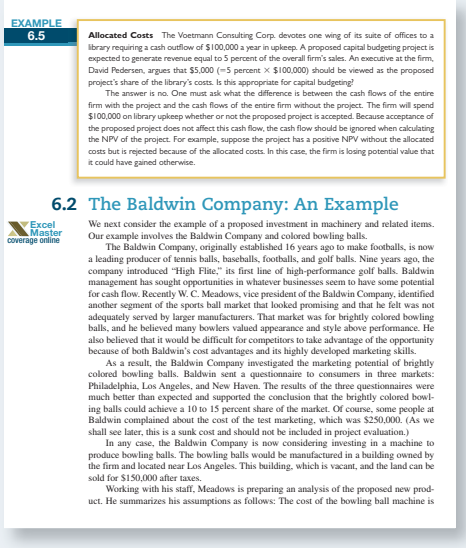
ExcelMaster Icons

Topics covered in the comprehensive ExcelMaster supplement (in Connect Finance) are indicated by an icon in the margin.


EXAMPLE 6.5

Allocated Costs The Voetmann Consulting Corp. devotes one wing of its suite of offices to a library requiring a cash outflow of $100,000 a year in upkeep. A proposed capital budgeting project is expected to generate revenue equal to 5 percent of the overall firm's sales. An executive at the firm, David Pedersen, argues that $5,000 (=5 percent × $100,000) should be viewed as the proposed project's share of the library's costs. Is this appropriate for capital budgeting?

The answer is no. One must ask what the difference is between the cash flows of the entire firm with the project and the cash flows of the entire firm without the project. The firm will spend $100,000 on library upkeep whether or not the proposed project is accepted. Because acceptance of the proposed project does not affect this cash flow, the cash flow should be ignored when calculating the NPV of the project. For example, suppose the project has a positive NPV without the allocated costs but is rejected because of the allocated costs. In this case, the firm is losing potential value that it could have gained otherwise.

6.2 The Baldwin Company: An Example

Excel Master coverage online

We next consider the example of a proposed investment in machinery and related items. Our example involves the Baldwin Company and colored bowling balls.

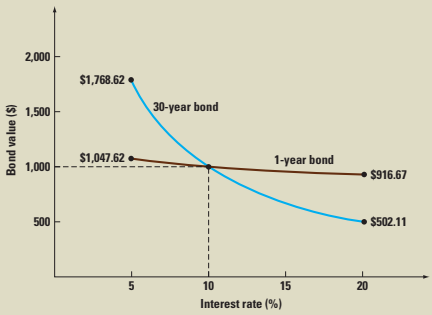
The Baldwin Company, originally established 16 years ago to make footballs, is now a leading producer of tennis balls, baseballs, footballs, and golf balls. Nine years ago, the company introduced "High Flite," its first line of high-performance golf balls. Baldwin management has sought opportunities in whatever businesses seem to have some potential for cash flow. Recently W. C. Meadows, vice president of the Baldwin Company, identified another segment of the sports ball market that looked promising and that he felt was not adequately served by larger manufacturers. That market was for brightly colored bowling balls, and he believed many bowlers valued appearance and style above performance. He also believed that it would be difficult for competitors to take advantage of the opportunity because of both Baldwin's cost advantages and its highly developed marketing skills.

As a result, the Baldwin Company investigated the marketing potential of brightly colored bowling balls. Baldwin sent a questionnaire to consumers in three markets: Philadelphia, Los Angeles, and New Haven. The results of the three questionnaires were much better than expected and supported the conclusion that the brightly colored bowling balls could achieve a 10 to 15 percent share of the market. Of course, some people at Baldwin complained about the cost of the test marketing, which was $250,000. (As we shall see later, this is a sunk cost and should not be included in project evaluation.)

In any case, the Baldwin Company is now considering investing in a machine to produce bowling balls. The bowling balls would be manufactured in a building owned by the firm and located near Los Angeles. This building, which is vacant, and the land can be sold for $150,000 after taxes.

Working with his staff, Meadows is preparing an analysis of the proposed new product. He summarizes his assumptions as follows: The cost of the bowling ball machine is

Figure 8.2
Interest Rate Risk and Time to Maturity



Value of a Bond with a 10 Percent Coupon Rate for Different Interest Rates and Maturities

	Time to Maturity	
Interest Rate	1 Year	30 Years
5%	$1,047.62	$1,768.62
10	1,000.00	1,000.00
15	956.52	671.70
20	916.67	502.11

us that a relatively small change in interest rates will lead to a substantial change in the bond's value. In comparison, the one-year bond's price is relatively insensitive to interest rate changes.

Intuitively, shorter-term bonds have less interest rate sensitivity because the $1,000 face amount is received so quickly. For example, the present value of this amount isn't greatly affected by a small change in interest rates if the amount is received in, say, one year. However, even a small change in the interest rate, once compounded for, say, 30 years, can have a significant effect on present value. As a result, the present value of

Figures and Tables

This text makes extensive use of real data and presents them in various figures and tables. Explanations in the narrative, examples, and end-of-chapter problems will refer to many of these exhibits.

Examples

Separate called-out examples are integrated throughout the chapters. Each example illustrates an intuitive or mathematical application in a step-by-step format. There is enough detail in the explanations so students don't have to look elsewhere for additional information.

EXAMPLE 9.5

Calculating the Required Return Pagemaster Enterprises, the company examined in Example 9.4, has 1,000,000 shares of stock outstanding. The stock is selling at $10. What is the required return on the stock?

The payout ratio is the ratio of dividends/earnings. Because Pagemaster's retention ratio is 40 percent, the payout ratio, which is 1 – Retention ratio, is 60 percent. Recall both that Pagemaster just reported earnings of $2,000,000 and that the firm's growth rate is .064.

Earnings a year from now will be $2,128,000 (=$2,000,000 × 1.064), implying that dividends will be $1,276,800 (=.60 × $2,128,000). Dividends per share will be $1.28 (=$1,276,800/1,000,000). Given that $g = .064$, we calculate R from (9.9) as follows:

$$.192 = \frac{\$1.28}{\$10.00} + .064$$

In Their Own Words

ROBERT C. HIGGINS ON SUSTAINABLE GROWTH

Most financial officers know intuitively that it takes money to make money. Rapid sales growth requires increased assets in the form of accounts receivable, inventory, and fixed plant, which, in turn, require money to pay for assets. They also know that if their company does not have the money when needed, it can literally "grow broke." The sustainable growth equation states these intuitive truths explicitly.

Sustainable growth is often used by bankers and other external analysts to assess a company's creditworthiness. They are aided in this exercise by several sophisticated computer software packages that provide detailed analyses of the company's past financial performance, including its annual sustainable growth rate.

Bankers use this information in several ways. Quick comparison of a company's actual growth rate to its sustainable rate tells the banker what issues will be at the top of management's financial agenda. If actual growth consistently exceeds sustainable growth, management's problem will be where to get the cash to finance growth. The banker thus can anticipate interest in loan products. Conversely, if sustainable growth consistently exceeds actual, the banker had best be prepared to talk about investment products because management's problem will be what to do with all the cash that keeps piling up in the till.

Bankers also find the sustainable growth equation useful for explaining to financially inexperienced small business owners and overly optimistic entrepreneurs that, for the long-run viability of their business, it is necessary to keep growth and profitability in proper balance.

Finally, comparison of actual to sustainable growth rates helps a banker understand why a loan applicant needs money and for how long the need might continue. In one instance, a loan applicant requested $100,000 to pay off several insistent suppliers and promised to repay in a few months when he collected some accounts receivable that were coming due. A sustainable growth analysis revealed that the firm had been growing at four to six times its sustainable growth rate and that this pattern was likely to continue in the foreseeable future. This alerted the banker that impatient suppliers were only a symptom of the much more fundamental disease of overly rapid growth, and that a $100,000 loan would likely prove to be only the down payment on a much larger, multiyear commitment.

SOURCE: Robert C. Higgins is Professor of Finance at the University of Washington. He pioneered the use of sustainable growth as a tool for financial analysis.

"In Their Own Words" Boxes

Located throughout the chapters, this unique series consists of articles written by distinguished scholars or practitioners about key topics in the text. Boxes include essays by Edward I. Altman, Robert S. Hansen, Robert C. Higgins, Michael C. Jensen, Merton Miller, and Jay R. Ritter.

Spreadsheet Applications

Now integrated into select chapters, Spreadsheet Applications boxes reintroduce students to Excel, demonstrating how to set up spreadsheets in order to analyze common financial problems—a vital part of every business student's education. (For even more spreadsheet example problems, check out ExcelMaster in Connect Finance).

SPREADSHEET APPLICATIONS

Using a Spreadsheet for Time Value of Money Calculations

More and more, businesspeople from many different areas (not just finance and accounting) rely on spreadsheets to do all the different types of calculations that come up in the real world. As a result, in this section, we will show you how to use a spreadsheet to handle the various time value of money problems we present in this chapter. We will use Microsoft Excel™, but the commands are similar for other types of software. We assume you are already familiar with basic spreadsheet operations.

As we have seen, you can solve for any one of the following four potential unknowns: future value, present value, the discount rate, or the number of periods. With a spreadsheet, there is a separate formula for each. In Excel, these are shown in a nearby box.

To Find	Enter This Formula
Future value	= FV (rate,nper,pmt,pv)
Present value	= PV (rate,nper,pmt,fv)
Discount rate	= RATE (nper,pmt,pv,fv)
Number of periods	= NPER (rate,pmt,pv,fv)

In these formulas, pv and fv are present and future value, nper is the number of periods, and rate is the discount, or interest, rate.

Two things are a little tricky here. First, unlike a financial calculator, the spreadsheet requires that the rate be entered as a decimal. Second, as with most financial calculators, you have to put a negative sign on either the present value or the future value to solve for the rate or the number of periods. For the same reason, if you solve for a present value, the answer will have a negative sign unless you input a negative future value. The same is true when you compute a future value.

To illustrate how you might use these formulas, we will go back to an example in the chapter. If you invest $25,000 at 12 percent per year, how long until you have $50,000? You might set up a spreadsheet like this:

	A	B	C	D	E	F	G	H
1								
2	**Using a spreadsheet for time value of money calculations**							
3								
4	If we invest $25,000 at 12 percent, how long until we have $50,000? We need to solve							
5	for the unknown number of periods, so we use the formula NPER(rate, pmt, pv, fv):							
6								
7	Present value (pv):	$25,000						
8	Future value (fv):	$50,000						
9	Rate (rate):	.12						
10								
11	Periods:	**6.1162554**						
12								
13	The formula entered in cell B11 is =NPER(B9,0,-B7,B8); notice that pmt is zero and that pv							
14	has a negative sign on it. Also notice that rate is entered as a decimal, not a percentage.							

This is the stockholders' share in the firm stated in accounting terms. The accounting value of stockholders' equity increases when retained earnings are added. This occurs when the firm retains part of its earnings instead of paying them out as dividends.

The home page for the Financial Accounting Standards Board (FASB) is **www.fasb.org**.

VALUE VERSUS COST

The accounting value of a firm's assets is frequently referred to as the *carrying value* or the *book value* of the assets.[2] Under **generally accepted accounting principles (GAAP)**, audited financial statements of firms in the United States carry the assets at cost.[3] Thus the terms *carrying value* and *book value* are unfortunate. They specifically say "value," when in fact the accounting numbers are based on cost. This misleads many readers of financial statements to think that the firm's assets are recorded at true market values. *Market value* is the price at which willing buyers and sellers would trade the assets. It would be only a coincidence if accounting value and market value were the same. In fact, management's job is to create value for the firm that exceeds its cost.

Many people use the balance sheet, but the information each may wish to extract is not the same. A banker may look at a balance sheet for evidence of accounting liquidity and working capital. A supplier may also note the size of accounts payable and therefore the general promptness of payments. Many users of financial statements, including managers and investors, want to know the value of the firm, not its cost. This information is not found on the balance sheet. In fact, many of the true resources of the firm do not appear on the balance sheet: good management, proprietary assets, favorable economic conditions, and so on. Henceforth,

Explanatory Website Links

These Web links are specifically selected to accompany text material and provide students and instructors with a quick reference to additional information on the Internet.

25.5 Interest Rate Futures Contracts

In this section we consider interest rate futures contracts. Our examples deal with futures contracts on Treasury bonds because of their high popularity. We first price Treasury bonds and Treasury bond forward contracts. Differences between futures and forward contracts are explored. Hedging examples are provided next.

PRICING OF TREASURY BONDS

As mentioned earlier in the text, a Treasury bond pays semiannual interest over its life. In addition, the face value of the bond is paid at maturity. Consider a 20-year, 8 percent coupon bond that was issued on March 1. The first payment is to occur in six months—that is, on September 1. The value of the bond can be determined as follows:

Pricing of Treasury Bond

$$P_{TB} = \frac{\$40}{1+R_1} + \frac{\$40}{(1+R_2)^2} + \frac{\$40}{(1+R_3)^3} + \cdots + \frac{\$40}{(1+R_{39})^{39}} + \frac{\$1{,}040}{(1+R_{40})^{40}} \quad (25.1)$$

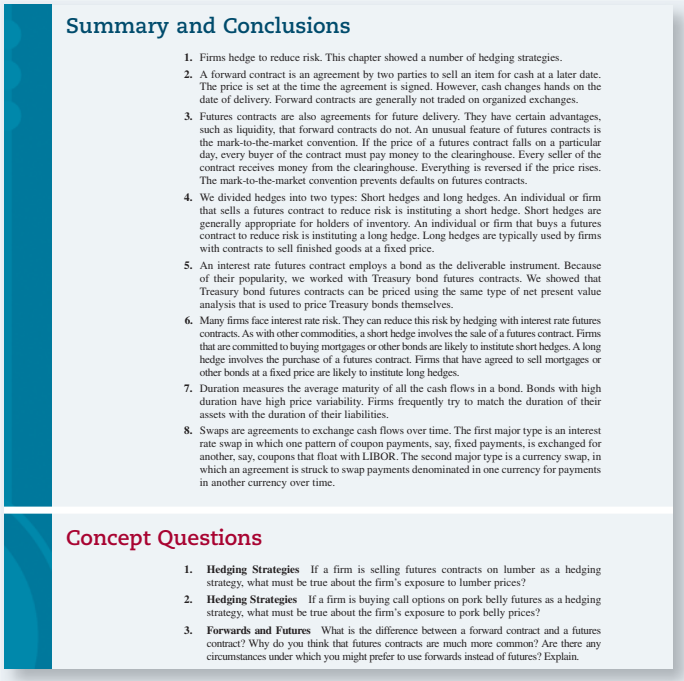
Because an 8 percent coupon bond pays interest of $80 a year, the semiannual coupon is $40. Principal and the semiannual coupon are both paid at maturity. As we mentioned in a previous chapter, the price of the Treasury bond, P_{TB}, is determined by discounting each payment on the bond at the appropriate spot rate. Because the payments are semiannual, each spot rate is expressed in semiannual terms. That is, imagine a horizontal term structure where the effective annual yield is 8 percent for all maturities. Because each spot

[2]Ordinarily, an unusual firm name in this textbook is a tip-off that it is fictional. This, however, is a true story.

Numbered Equations

Key equations are numbered and listed on the back endsheets for easy reference.

The end-of-chapter material reflects and builds upon the concepts learned from the chapter and study features.



Summary and Conclusions

1. Firms hedge to reduce risk. This chapter showed a number of hedging strategies.
2. A forward contract is an agreement by two parties to sell an item for cash at a later date. The price is set at the time the agreement is signed. However, cash changes hands on the date of delivery. Forward contracts are generally not traded on organized exchanges.
3. Futures contracts are also agreements for future delivery. They have certain advantages, such as liquidity, that forward contracts do not. An unusual feature of futures contracts is the mark-to-the-market convention. If the price of a futures contract falls on a particular day, every buyer of the contract must pay money to the clearinghouse. Every seller of the contract receives money from the clearinghouse. Everything is reversed if the price rises. The mark-to-the-market convention prevents defaults on futures contracts.
4. We divided hedges into two types: Short hedges and long hedges. An individual or firm that sells a futures contract to reduce risk is instituting a short hedge. Short hedges are generally appropriate for holders of inventory. An individual or firm that buys a futures contract to reduce risk is instituting a long hedge. Long hedges are typically used by firms with contracts to sell finished goods at a fixed price.
5. An interest rate futures contract employs a bond as the deliverable instrument. Because of their popularity, we worked with Treasury bond futures contracts. We showed that Treasury bond futures contracts can be priced using the same type of net present value analysis that is used to price Treasury bonds themselves.
6. Many firms face interest rate risk. They can reduce this risk by hedging with interest rate futures contracts. As with other commodities, a short hedge involves the sale of a futures contract. Firms that are committed to buying mortgages or other bonds are likely to institute short hedges. A long hedge involves the purchase of a futures contract. Firms that have agreed to sell mortgages or other bonds at a fixed price are likely to institute long hedges.
7. Duration measures the average maturity of all the cash flows in a bond. Bonds with high duration have high price variability. Firms frequently try to match the duration of their assets with the duration of their liabilities.
8. Swaps are agreements to exchange cash flows over time. The first major type is an interest rate swap in which one pattern of coupon payments, say, fixed payments, is exchanged for another, say, coupons that float with LIBOR. The second major type is a currency swap, in which an agreement is struck to swap payments denominated in one currency for payments in another currency over time.

Concept Questions

1. **Hedging Strategies** If a firm is selling futures contracts on lumber as a hedging strategy, what must be true about the firm's exposure to lumber prices?
2. **Hedging Strategies** If a firm is buying call options on pork belly futures as a hedging strategy, what must be true about the firm's exposure to pork belly prices?
3. **Forwards and Futures** What is the difference between a forward contract and a futures contract? Why do you think that futures contracts are much more common? Are there any circumstances under which you might prefer to use forwards instead of futures? Explain.

Summary and Conclusions

The summary provides a quick review of key concepts in the chapter.

Questions and Problems

Because solving problems is so critical to a student's learning, new questions and problems have been added, and existing questions and problems have been revised. All problems have also been thoroughly reviewed and checked for accuracy.

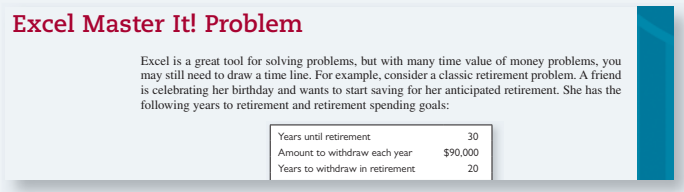
Problems have been grouped according to level of difficulty with the levels listed in the margin: Basic, Intermediate, and Challenge.

Additionally, we have tried to make the problems in the critical "concept" chapters, such as those on value, risk, and capital structure, especially challenging and interesting.

We provide answers to selected problems in Appendix B at the end of the book.

Excel Master It! Problems

Included in the end-of-chapter material are problems directly incorporating Excel, and new tips and techniques taught in the chapter's ExcelMaster supplement.



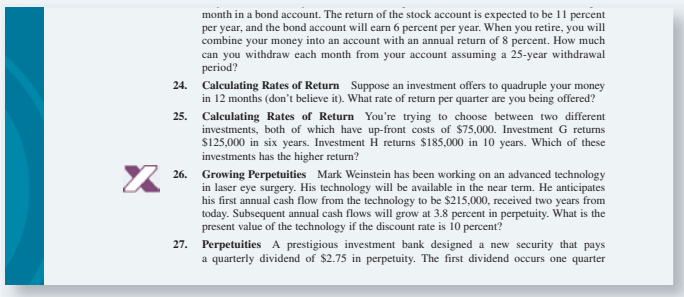
Excel Master It! Problem

Excel is a great tool for solving problems, but with many time value of money problems, you may still need to draw a time line. For example, consider a classic retirement problem. A friend is celebrating her birthday and wants to start saving for her anticipated retirement. She has the following years to retirement and retirement spending goals:

Years until retirement	30
Amount to withdraw each year	$90,000
Years to withdraw in retirement	20

Excel Problems

Indicated by the Excel icon in the margin, these problems can be found at the end of almost all chapters. Located in Connect Finance for Corporate Finance 11e, Excel templates have been created for each of these problems, where students can use the data in the problem to work out the solution using Excel skills.

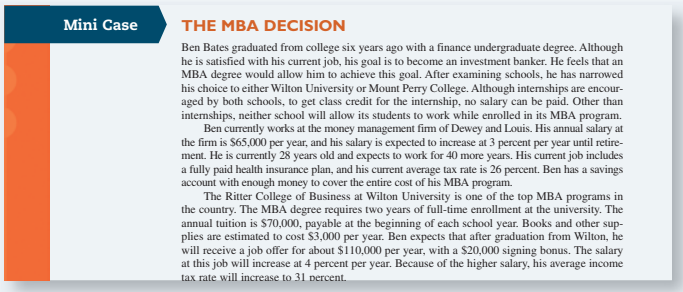


month in a bond account. The return of the stock account is expected to be 11 percent per year, and the bond account will earn 6 percent per year. When you retire, you will combine your money into an account with an annual return of 8 percent. How much can you withdraw each month from your account assuming a 25-year withdrawal period?

24. **Calculating Rates of Return** Suppose an investment offers to quadruple your money in 12 months (don't believe it). What rate of return per quarter are you being offered?
25. **Calculating Rates of Return** You're trying to choose between two different investments, both of which have up-front costs of $75,000. Investment G returns $125,000 in six years. Investment H returns $185,000 in 10 years. Which of these investments has the higher return?
26. **Growing Perpetuities** Mark Weinstein has been working on an advanced technology in laser eye surgery. His technology will be available in the near term. He anticipates his first annual cash flow from the technology to be $215,000, received two years from today. Subsequent annual cash flows will grow at 3.8 percent in perpetuity. What is the present value of the technology if the discount rate is 10 percent?
27. **Perpetuities** A prestigious investment bank designed a new security that pays a quarterly dividend of $2.75 in perpetuity. The first dividend occurs one quarter

End-of-Chapter Cases

Located at the end of almost every chapter, these mini cases focus on common company situations that embody important corporate finance topics. Each case presents a new scenario, data, and a dilemma. Several questions at the end of each case require students to analyze and focus on all of the material they learned in that chapter.



Mini Case

THE MBA DECISION

Ben Bates graduated from college six years ago with a finance undergraduate degree. Although he is satisfied with his current job, his goal is to become an investment banker. He feels that an MBA degree would allow him to achieve this goal. After examining schools, he has narrowed his choice to either Wilton University or Mount Perry College. Although internships are encouraged by both schools, to get class credit for the internship, no salary can be paid. Other than internships, neither school will allow its students to work while enrolled in its MBA program.

Ben currently works at the money management firm of Dewey and Louis. His annual salary at the firm is $65,000 per year, and his salary is expected to increase at 3 percent per year until retirement. He is currently 28 years old and expects to work for 40 more years. His current job includes a fully paid health insurance plan, and his current average tax rate is 26 percent. Ben has a savings account with enough money to cover the entire cost of his MBA program.

The Ritter College of Business at Wilton University is one of the top MBA programs in the country. The MBA degree requires two years of full-time enrollment at the university. The annual tuition is $70,000, payable at the beginning of each school year. Books and other supplies are estimated to cost $3,000 per year. Ben expects that after graduation from Wilton, he will receive a job offer for about $110,000 per year, with a $20,000 signing bonus. The salary at this job will increase at 4 percent per year. Because of the higher salary, his average income tax rate will increase to 31 percent.

Comprehensive Teaching and Learning Package

Corporate Finance has many options in terms of the textbook, instructor supplements, student supplements, and multimedia products. Mix and match to create a package that is perfect for your course.

McGraw-Hill Connect Finance

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- Create and deliver assignments easily with selectable end-of-chapter questions and test bank items.
- Streamline lesson planning, student progress reporting, and assignment grading to make classroom management more efficient than ever.
- Go paperless with the eBook and online submission and grading of student assignments.

Smart grading When it comes to studying, time is precious. Connect Finance helps students learn more efficiently by providing feedback and practice material when they need it, where they need it. When it comes to teaching, your time is also precious. The grading function enables you to:

- Have assignments scored automatically, giving students immediate feedback on their work and side-by-side comparisons with correct answers.
- Access and review each response; manually change grades, or leave comments for students to review.
- Reinforce classroom concepts with practice tests and instant quizzes.

Instructor library The Connect Finance Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture.

Student study center The Connect Finance Student Study Center is the place for students to access additional resources.

LEARNSMART®

Diagnostic and Adaptive Learning of Concepts: LearnSmart Students want to make the best use of their study time. The LearnSmart adaptive self-study technology within Connect Finance provides students with a seamless combination of practice, assessment, and remediation for every concept in the textbook. LearnSmart's intelligent software adapts to every student response and automatically delivers concepts that will advance the student's understanding while reducing the time devoted to the concepts already mastered. The result for every student is the fastest path to mastery of the chapter. LearnSmart:

- Applies an intelligent concept engine to identify the relationships between ideas and to serve new concepts to each student only when he or she is ready.
- Adapts automatically to each student, so students spend less time on the topics they understand and practice more on those they have yet to master.
- Provides continual reinforcement and remediation, but gives only as much guidance as students need.
- Integrates diagnostics as part of the learning experience.
- Enables you to assess which concepts students have efficiently learned on their own, thus freeing class time for more applications and discussion.

SMARTBOOK®

SmartBook™ uses McGraw-Hill Education's market-leading adaptive technology to provide an ultra-efficient reading and learning experience for students. Students have access to a "smart" eBook, customized to highlight the most important concepts in the chapter and those that the individual student is yet to master. As the student reads, the reading material constantly adapts to ensure the student is focused on the content he or she needs most to close knowledge gaps. Broken into separate modules that have students read, practice the material they just learned, and review material they have covered previously to improve knowledge retention, SmartBook is a next-generation study tool that is proven to improve student learning outcomes and understanding of the material.

Student progress tracking Connect Finance keeps instructors informed about how each student, section, and class is performing, allowing for more productive use of lecture and office hours. The progress-tracking function enables you to:

- View scored work immediately and track individual or group performance with assignment and grade reports.
- Access an instant view of student or class performance relative to learning objectives.

In short, Connect Finance offers you and your students powerful tools and features that optimize your time and energies, enabling you to focus on course content, teaching, and

student learning. Connect Finance also offers a wealth of content resources for both instructors and students. This state-of-the-art, thoroughly tested system supports you in preparing students for the world that awaits.

For more information about Connect Finance, go to **connect.mheducation.com**, or contact your local McGraw-Hill sales representative.

Tegrity Campus: Lectures 24/7

Tegrity Campus is a service that makes class time available 24/7 by automatically capturing every lecture in a searchable format for students to review when they study and complete assignments. With a simple one-click start-and-stop process, you capture all computer screens and corresponding audio. Students can replay any part of any class with easy-to-use browser-based viewing on a PC or Mac.

Educators know that the more students can see, hear, and experience class resources, the better they learn. In fact, studies prove it. With Tegrity Campus, students quickly recall key moments by using Tegrity Campus's unique search feature. This search helps students efficiently find what they need, when they need it, across an entire semester of class recordings. Help turn all your students' study time into learning moments immediately supported by your lecture.

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Assurance of Learning Ready

Assurance of Learning is an important element of many accreditation standards. *Corporate Finance*, 11e, is designed specifically to support your assurance of learning initiatives. Every test bank question is labeled with level of difficulty, topic area, Bloom's Taxonomy level, and AACSB skill area. Connect Finance, McGraw-Hill's online homework solution, and *EZ Test*, McGraw-Hill's easy-to-use test bank software, can search the test bank by these and other categories, providing an engine for targeted Assurance of Learning analysis and assessment.

AACSB Statement

The McGraw-Hill Companies is a proud corporate member of AACSB International. Understanding the importance and value of AACSB Accreditation, *Corporate Finance*, 11e, has sought to recognize the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the test bank to the general knowledge and skill guidelines found in the AACSB standards.

The statements contained in *Corporate Finance*, 11e, are provided only as a guide for the users of this text. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *Corporate Finance*, 11e, and the teaching package make no claim of any specific AACSB qualification or evaluation, we have, within the test bank, labeled selected questions according to the six general knowledge and skills areas.

Instructor Resources

The Instructor Library in Connect Finance contains all the necessary supplements—Instructor's Manual, Test Bank, Computerized Test Bank, and PowerPoint—all in one place. Go to connect.mheducation.com to find:

- **Instructor's Manual**
  Prepared by Steven D. Dolvin, Butler University
  This is a great place to find new lecture ideas. The IM has three main sections. The first section contains a chapter outline and other lecture materials. The annotated outline for each chapter includes lecture tips, real-world tips, ethics notes, suggested PowerPoint slides, and, when appropriate, a video synopsis.
- **Test Bank**
  Prepared by Kay Johnson
  Here's a great format for a better testing process. The Test Bank has well over 100 questions per chapter that closely link with the text material and provide a variety of question formats (multiple-choice questions/problems and essay questions) and levels of difficulty (basic, intermediate, and challenge) to meet every instructor's testing needs. Problems are detailed enough to make them intuitive for students, and solutions are provided for the instructor.
- **Computerized Test Bank (Windows)**
  These additional questions are found in a computerized test bank utilizing McGraw-Hill's EZ Test software to quickly create customized exams. This user-friendly program allows instructors to sort questions by format, edit existing questions or add new ones, and scramble questions for multiple versions of the same test.
- **PowerPoint Presentation System**
  Prepared by Steven D. Dolvin, Butler University
  Customize our content for your course. This presentation has been thoroughly revised to include more lecture-oriented slides, as well as exhibits and examples both from the book and from outside sources. Applicable slides have Web links that take you directly to specific Internet sites, or a spreadsheet link to show an example in Excel. You can also go to the Notes Page function for more tips on presenting the slides. If you already have PowerPoint installed on your PC, you can edit, print, or rearrange the complete presentation to meet your specific needs.

STUDENT SUPPORT

- **Narrated PowerPoint Examples**
  Each chapter's slides follow the chapter topics and provide steps and explanations showing how to solve key problems. Because each student learns differently, a quick click on each slide will "talk through" its contents with you!

- **Excel Templates**
  Corresponding to most end-of-chapter problems, each template allows the student to work through the problem using Excel. Each end-of-chapter problem with a template is indicated by an Excel icon in the margin beside it.
- **ExcelMaster**
  Developed by the authors for the RWJ franchise, this valuable and comprehensive supplement provides a tutorial for students in using Excel in finance, broken out by chapter sections.

Options Available for Purchase & Packaging

FINGAME ONLINE 5.0

ISBN-10: 0-07-721988-0 / ISBN-13: 978-0-07-721988-8

By LeRoy Brooks, John Carroll University.

Just $15.00 when packaged with this text. In this comprehensive simulation game, students control a hypothetical company over numerous periods of operation. As students make major financial and operating decisions for their company, they will develop and enhance skills in financial management and financial accounting statement analysis.

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Sudip Datta
Wayne State University

Ted Day
University of Texas–Dallas

Marcos DeArruda
Drexel University

K. Ozgur Demirtas
Sabanci University

Anand Desai
Wichita State University

Miranda Lam Detzler
University of Massachusetts–Boston

David Distad
University of California–Berkeley

Dennis Draper
Loyola Marymount University

Jean-Francois Dreyfus
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Gene Drzycimski
University of Wisconsin–Oshkosh

Robert Duvic
The University of Texas at Austin

Demissew Ejara
University of New Haven

Robert Eldridge
Southern Connecticut State University

Gary Emery
University of Oklahoma

Theodore Eytan
City University of New York–Baruch College

Don Fehrs
University of Notre Dame

Steven Ferraro
Pepperdine University

Eliezer Fich
Drexel University

Andrew Fields
University of Delaware

Paige Fields
Trinity University

Adlai Fisher
University of British Columbia

Michael Fishman
Northwestern University

Melissa Frye
University of Central Florida–Orlando

Yee-Tien Fu
Stanford University

Partha Gangopadhyay
St. Cloud University

Bruno Gerard
BI Norwegian Business School

Frank Ghannadian
University of Tampa

Stuart Gillan
University of Georgia

Ann Gillette
Kennesaw State University

Michael Goldstein
Babson College

Indra Guertler
Simmons College

Re-Jin Guo
University of Illinois at Chicago

James Haltiner
College of William and Mary

Bill Hamby
Indiana Wesleyan University

Janet Hamilton
Portland State University

Qing Hao
University of Texas-Arlington

Robert Hauswald
American University

Delvin Hawley
University of Mississippi

Hal Heaton
Brigham Young University

John A. Helmuth
University of Michigan–Flint

Michael Hemler
University of Notre Dame

Stephen Heston
University of Maryland

Andrea Heuson
University of Miami

Jim Howard
University of Maryland–University College

Edith Hotchkiss
Boston College

Charles Hu
Claremont McKenna College

Hugh Hunter
Eastern Washington University

James Jackson
Oklahoma State University

Raymond Jackson
University of Massachusetts–Dartmouth

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University of St. Thomas

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Jonathan Karpoff
University of Washington

Paul Keat
American Graduate School of International Management

Dolly King
University of North Carolina–Charlotte

Brian Kluger
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Robert Krell
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Ronald Kudla
The University of Akron

Youngsik Kwak
Delaware State University

Nelson Lacey
University of Massachusetts

Gene Lai
Washington State University

Josef Lakonishok
University of Illinois

Dennis Lasser
State University of New York–Binghamton

Paul Laux
University of Delaware

Gregory LaBlanc
University of California–Berkeley

Bong-Su Lee
Florida State University

Youngho Lee
Howard University

Thomas Legg
University of Minnesota

James T. Lindley
University of Southern Mississippi

Dennis Logue
Dartmouth College

Michael Long
Rutgers University

Yulong Ma
California State University–Long Beach

Ileen Malitz
Fairleigh Dickinson University

Terry Maness
Baylor University

Surendra Mansinghka
San Francisco State University

Michael Mazzco
Michigan State University

Robert I. McDonald
Northwestern University

Hugh McLaughlin
Bentley College

Joseph Meredith
Elon University

Larry Merville
University of Texas–Dallas

Joe Messina
San Francisco State University

Roger Mesznik
Columbia University

Rick Meyer
University of South Florida

Timothy Michael
University of Houston–Clear Lake

Vassil Mihov
Texas Christian University

Richard Miller
Wesleyan University

Naval Modani
University of Central Florida

Sheila Moore
California Lutheran University

Angela Morgan
Clemson University

Edward Morris
Lindenwood University

Richard Mull
Fort Lewis College

Jim Musumeci
Bentley University

Robert Nachtmann
University of Texas–El Paso

Edward Nelling
Drexel University

James Nelson
East Carolina University

Gregory Niehaus
University of South Carolina

Peder Nielsen
Aarhus University

Ingmar Nyman
Hunter College

Dennis Officer
University of Kentucky

Joseph Ogden
State University of New York

Darshana Palkar
Nova Southeastern University

Venky Panchapagesan
Washington University–St. Louis

Bulent Parker
University of Wisconsin–Madison

Ajay Patel
Wake Forest University

Dilip Kumar Patro
Rutgers University

Gary Patterson
University of South Florida

Glenn N. Pettengill
Grand Valley State University

Pegaret Pichler
Northeastern University

Christo Pirinsky
Ohio State University

Jeffrey Pontiff
Boston College

Franklin Potts
Baylor University

Annette Poulsen
University of Georgia

N. Prabhala
University of Maryland

Mao Qiu
University of Utah–Salt Lake City

Latha Ramchand
University of Houston

Gabriel Ramirez
Kennesaw State University

Narendar Rao
Northeastern Illinois University

Raghavendra Rau
University of Cambridge

Steven Raymar
Indiana University

Adam Reed
University of North Carolina–Chapel Hill

Bill Reese
Tulane University

Peter Ritchken
Case Western Reserve University

Kimberly Rodgers
American University

Stuart Rosenstein
East Carolina University

Bruce Rubin
Old Dominion University

Patricia Ryan
Colorado State University

Jaime Sabal
Ramon Llull University

Anthony Sanders
George Mason University

Ray Sant
St. Edward's University

Andy Saporoschenko
Lindenwood University

William Sartoris
Indiana University

James Schallheim
University of Utah

Mary Jean Scheuer
California State University–Northridge

Kevin Schieuer
Bellevue University

Faruk Selcuk
University of Bridgeport

Lemma Senbet
University of Maryland

Kuldeep Shastri
University of Pittsburgh

Betty Simkins
Oklahoma State University

Sudhir Singh
Frostburg State University

Scott Smart
Indiana University

Jackie So
Southern Illinois University

Denis Sosyura
University of Michigan

John Stansfield
University of Missouri

Mark Hoven Stohs
California State University–Fullerton

Joeseph Stokes
University of Massachusetts–Amherst

John S. Strong
College of William and Mary

A. Charlene Sullivan
Purdue University

Michael Sullivan
University of Nevada–Las Vegas

Timothy Sullivan
Bentley College

R. Bruce Swensen
Adelphi University

Ernest Swift
Georgia State University

Alex Tang
Morgan State University

Richard Taylor
Arkansas State University

Andrew C. Thompson
Virginia Polytechnic Institute

Timothy Thompson
Northwestern University

Karin Thorburn
Dartmouth College

Satish Thosar
University of Redlands

Gary Tripp
Southern New Hampshire University

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Steven Venti
Dartmouth College

Avinash Verma
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Joseph Vu
DePaul University

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Ralph Walkling
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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 eleventh edition. We want to ensure that all future editions are error-free—and therefore we 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 to Dr. Brad Jordan, c/o Editorial - Finance, McGraw-Hill Education, 1333 Burr Ridge Parkway, Burr Ridge, IL 60527.

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Part VI
OPTIONS, FUTURES, AND CORPORATE FINANCE

Part VII
SHORT-TERM FINANCE

Part VIII
SPECIAL TOPICS

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