

PREFACE

The field of finance is broad and dynamic. Its breadth is both geographic, in that it is a global discipline, and functional, in that it involves transactions between suppliers and demanders of funds. Because of ongoing developments in technology, new legislation, and other innovations, the field is rapidly changing. Virtually everyone is directly impacted by the field of finance.

Rationale for This Text

For many years, the conventional wisdom in business schools and departments has been to focus the single required finance course on the role of the chief financial officer in a large corporation. This narrow view of finance as financial management made sense to most business faculty, who viewed the school's mission as preparing students to work in the treasury operations of the traditional corporation.

But times have certainly changed. Not only is an information and technology revolution changing the way firms are organized and the way they operate, but the financial marketplace is also undergoing a transformation. Today more financial professionals are involved in forming, managing, and “growing” firms. The emerging economy is being driven by new, rapidly growing businesses that are continuously accessing the expanding marketplace to obtain the financing they need to nurture great ideas into great businesses. In addition, the firm and its employees are much more active on the buy side of the market, managing company pension plans and self-directed investment/retirement programs.

Although finance has always encompassed three key areas—financial management, financial markets, and investments—there is now a greater need for students to be exposed to all three areas. This need exists for a number of reasons. First, finance is not just financial management. Second, today's financial managers and professionals are deeply involved in both sides of the financial marketplace: They issue as well as buy or sell securities. Third, many business students are required only to take a single finance course, so this course should expose them to the breadth of the field, rather than solely to financial management. Fourth, at some schools, non-business majors are eager to take a course that is broad enough to cover topics in which they have an interest (financial markets and, particularly, investments), even if they do not plan to pursue a

career in financial management. And fifth, exposure to the entire field is consistent with the broadened responsibilities of all financial professionals—managers, intermediaries, and investors—in today’s economy.

Objective and Primary Goals in This Text

Simply stated, this text’s objective is to provide students with practical understanding of the scope, interrelationships, career opportunities, terminology, and key analytical and decision tools used by finance professionals in today’s global environment. Achievement of the key aspects of the text’s objective is tied to six **primary goals**.

Goal 1: Expose students to the breadth of finance. This goal differentiates this text from other introductory finance texts. The text provides functional breadth by covering the key aspects of financial management, financial markets, and investments—the three key areas of finance. Geographic breadth is provided by describing global aspects of the activities of financial professionals operating in each area of finance.

Goal 2: Provide an understanding of the interrelationships among the three areas of finance. This goal supports Goal 1 by making the dynamic interactions among the areas clear to the student. The student should understand how the global financial marketplace functions to allow firms (financial managers) and investors to achieve their investment and financing goals efficiently.

Goal 3: Make students aware of the many career opportunities in finance. As is consistent with the goal of most introductory business courses, the text makes clear the many career opportunities available in finance. Students will come away with an understanding of the numerous finance jobs in financial management, financial institutions, and investments. This insight should better prepare them to choose or redirect their planned career focus.

Goal 4: Acquaint students with the vocabulary of finance. The text clearly defines the key terms in all three areas of finance. A marginal glossary of all terms and the use of these terms in subsequent text discussions and Review Questions familiarize the student with the vocabulary of finance.

Goal 5: Expose students to the key tools used by financial managers and investors in analysis and decision making. Throughout the text, popular analytical and decision tools are introduced, demonstrated, and evaluated in light of the objectives of the financial manager or investor employing them. In addition to numerous examples demonstrating these tools, many applications of these tools are included in the end-of-chapter materials. Our intention is to provide students with useful insights into the concepts, tools, and techniques routinely used by finance professionals.

Goal 6: Keep all discussions practical. The student should understand how the financial world really works—that is, the activities and interactions between

the three areas. All discussions, examples, pedagogical elements, and end-of-chapter materials have been crafted to emphasize the actual application and use of the concepts, tools, and techniques presented. The net result should give the student a real-world understanding of the fundamental aspects of finance.

Organization of the Text

This text was carefully designed to meet its objective and primary goals. It is divided into five parts and contains 22 chapters. The first chapter, which precedes Part 1, provides an overview of the financial environment that describes the basic roles and interactions among the three areas of finance—firms (financial managers), investors, and markets. The five part titles are:

- Part 1: The Financial Marketplace
- Part 2: Financial Tools for Firms and Investors
- Part 3: Financial Management
- Part 4: Investment Management
- Part 5: How Investors Monitor and Control a Firm's Managers

Each of these parts is closely integrated with those that precede them. Rather than merely presenting the three areas of finance as separate topics, this text is integrative. The interrelatedness between financial management, financial markets, and investments that is established in Chapter 1 is continuously reinforced throughout the text, and its practical ramifications are summarized and strongly emphasized in Part 5. All text discussions recognize and reinforce the global aspects of the topics presented.

Part 1 includes three chapters that together describe the financial marketplace. The roles and interactions among financial institutions and markets, the key securities (bonds and stocks), and the fundamentals of interest rates are discussed. Part 2 presents the financial tools used by both firms and investors. It includes four chapters devoted to the time value of money, return and risk, valuation, and financial statements and analysis, respectively. These topics, which are routinely used by both financial managers and investors, are developed in such a way as to allow their straightforward application to the subsequent discussions. After covering Part 2, an instructor can proceed either to cover Part 3 on financial management or Part 4 on investments without losing continuity.

The seven chapters in Part 3 present the “traditional” financial management topics in a focused manner, but with enough detail to provide the student with the core coverage currently available in abbreviated editions of the leading financial management texts. The first chapter's description of the firm and environment is followed by capital budgeting (two chapters), cost of capital, capital structure and dividends, financial planning, and short-term financial management. The coverage of financial management was carefully determined on the basis of market research, reviewer feedback, and the experience we have gained from years of teaching. Our goal was to make sure that the text instills a core understanding of financial management. We strongly believe that the careful crafting of the material achieves our objective and that the transition from a traditional introduction to financial management course to the more enlightened

approach will be seamless and add significant value to the students' first (and possibly only) exposure to finance.

Part 4 is devoted to investment management. Like Part 3 on financial management, this part builds on the basic financial tools presented in Part 2. It contains six chapters that together give the student a solid foundation in investments and an understanding of this area of the financial marketplace. Topics covered in this part include investment information and transactions, how external forces affect a firm's value, investing in stocks, investing in bonds, mutual funds and asset allocation, and derivative securities. Coverage of these topics was developed on the basis of market research, reviewer feedback, and our own experience. In addition, the discussions were carefully crafted for consistency with the goals cited earlier in this Preface.

The final part of the text, Part 5, presents a summarizing chapter that draws on modern finance theory to explain, in a simple and understandable fashion, how corporate control and governance provide the mechanisms through which investors effectively monitor and control a firm's managers. This chapter ties together the actions and activities of financial managers, financial markets, and investors in a way that fully reinforces the text's message that the three areas of finance exist in a dynamic, interactive environment.

How This Text Is Different

The preceding discussions make it clear that this text differs from both traditional financial management texts and existing introduction to finance texts. The key difference is its integrative focus. The three areas of finance are not presented as isolated topics but, rather, are developed in an interactive, dynamic, global framework that gives the reader a true introduction to the field of finance. Some of the key conceptual differences between this text and others are the following:

- The text explains how the investment decisions of financial managers require funding and how financial markets can facilitate the flow of funds from individual investors and institutional investors (financial institutions) to the firms.
- Financial management concepts are discussed with an emphasis on how they are related to financial markets and institutions, and to investors.
- The assessment and valuation of firms by investors is given much attention. Financial managers make investment decisions that are supposed to maximize the wealth of the shareholders who own the firm's stock. The text explains how investors monitor a firm's decisions to ensure that the firm's managers are acting in their best interest. Because investors do not have the same information about a firm as the firm's managers, they rely on a separate set of indicators to evaluate firms. The type of information that investors use to monitor firms is discussed, with emphasis on the sources that are available.
- When assessing or valuing a firm, investors consider not only the characteristics of the firm but also the impact of external forces. The potential impact of external forces on a firm's value is not emphasized in most introductory

courses, yet it is one of the most popular topics in the financial news. This text identifies the external forces that influence a firm’s performance and are therefore monitored by investors. It also explains how these forces affect a firm’s value.

- Three of the most widely discussed investments topics are investing in mutual funds, asset allocation, and investing in derivative securities. The text discusses these topics, because many students will need to understand them for their own personal investing, even if they do not pursue careers related to these topics.
- In assessing various investment alternatives, investors sometimes take action in response to an investment that is not performing as well as it should. Investors not only provide funding for firms but may take actions to ensure that the firms are using the funds wisely. Thus financial management is implicitly controlled within constraints by investors who monitor and influence a firm’s managers. These relationships are clearly explained in the text.

The Teaching/Learning System

Introduction to Finance’s Teaching/Learning System is state-of-the-art. The system is driven by a set of carefully crafted learning goals that help guide and organize student reading and study. In addition, numerous other features facilitate teaching and reinforce student learning to promote achievement of the learning goals. Each of the system’s key elements is described in the paragraphs that follow.



The Teaching/Learning System is anchored in a set of about six proven Learning Goals (LGs) per chapter. Marked by a special icon, which is shown here in the margin, the Learning Goals are listed at the start of each chapter, tied to major headings, reviewed point by point at the chapter’s end, and noted in assignment material and supplements such as the Test Bank and Study Guide. These goals focus students’ attention on what material they need to learn, where it can be found in the chapter, and whether they have mastered it by the end of the chapter. In addition, instructors can easily build lectures and assignments around the LGs.

Example Method The Example Method is an important component of the Teaching/Learning System, because it infuses practical demonstrations into the learning process. Seeing a financial concept or technique applied in a realistic example provides students with immediate reinforcement that helps cement their understanding of that concept or technique. Where applicable, the solution of each example shows the use of time lines, tables, and financial calculators. Calculator keystrokes of inputs, functions, and solutions are highlighted in discussions and examples of time value calculations in Chapter 5 and in the application of those techniques in subsequent chapters. Appendix A and the laminated table card included in all new books contain financial tables and note the basic calculator keystrokes for the most popular financial calculators.

Input	Function
800	PV
5	N
6	I
	CPT
	FV
Solution	
	1070.58

NewsLine Boxes Articles excerpted from financial news sources such as *The Wall Street Journal* appear in NewsLine boxes. The boxes encourage students to follow the financial news by introducing them to relevant news articles reported daily in the press. A short abstract focuses students' reading of each selection.

Key Equations Key Equations are printed in color throughout the text to help students identify the most important mathematical relationships.

Marginal Glossary Throughout the text, key terms and their definitions appear in the text margin when they are first introduced. In addition, these terms are printed in boldface type in the index so that the glossary entry is easy to find.



International Coverage Discussions of the international dimensions of chapter topics are integrated throughout the book. Coverage of international events and topics is highlighted with an icon in the text margin and integrated into chapter learning goals and the end-of-chapter summary and exercises.

Review Questions Review Questions appear at the end of each section of the chapter (positioned before the next first-level heading) and are marked with a special design element. As students progress through the chapter, they can test their understanding of each key concept, technique, and practice before moving on to the next section.

Tying It All Together In keeping with the text's goal of providing an understanding of the interrelationships among the three areas of finance, each chapter concludes with Tying it All Together, a summary paragraph. The respective roles of financial managers, financial markets, and investors are then clearly outlined in an Integrative Table.

Summary End-of-chapter Summaries are keyed to the learning goals, each of which is restated for reinforcement at the beginning of the appropriate paragraph in the Summary. The learning goal-driven Summary facilitates students' review of the key material that was presented to support mastery of the given goal.

Self-Test Exercises At the end of most chapters, one or more Self-Test Exercises are included. Each exercise is keyed to the corresponding learning goal and software icons, as appropriate. Appendix B contains all answers and worked-out solutions to the self-test exercises in one location, marked with an easy-to-spot purple stripe on the edge of the page. These demonstration exercises and their answers and solutions help to strengthen students' understanding of the topics and techniques presented.

Chapter Exercises A comprehensive set of exercises provides students with multiple self-testing opportunities and gives professors a wide choice to assign material. A short descriptor at the beginning of every exercise identifies the concept or technique that it has been designed to test. All exercises are keyed, via icons, to the learning goals and software resources.

Web Exercises Web Exercises at the end of each chapter link the chapter topic to related sites on the Internet and require students to find information to answer various questions. These exercises will capture student interest in researching with the Internet, while educating them about finance-related sites. All the Web Exercises are available in up-to-date form on the text's Web site, www.awl.com/gitman_madura. In addition, an ongoing Fantasy Stock Market Game Web Exercise appears in Appendix C at the end of the book.

Continuing Case At the end of each of the book's five parts is a Continuing Case that challenges students to use what they have learned in the several chapters. The case presents a financial dilemma for an Internet start-up company called exam-ace.net. Probing questions emphasize the small-business issues, communications challenges, team building, and ethical considerations that business people face.

Contemporary Design A vibrant, contemporary design, with pedagogical use of colors in most charts and graphs, draws reader attention to features of the learning system. Bars of data are highlighted with color in tables and then graphed in the same color so that visual learners can immediately see relationships among the data.

First-Rate Supplements

The Teaching/Learning System includes a variety of useful supplements for teachers and for students.

Instructor's Manual Prepared by Kurt R. Jesswein, Murray State University. This comprehensive resource pulls together a wide variety of teaching tools so that instructors can use the text easily and effectively in the classroom. Each chapter provides an overview of key topics, teaching tips, and detailed answers and solutions to all review questions and end-of-chapter exercises. Each part concludes with answers to the Continuing Case questions.

Test Bank Authored by Curt Bacon, Southern Oregon University. The Test Bank contains 1,750 questions in short-essay and multiple-choice formats. For quick test selection and construction, each chapter features a handy chart for identifying each type of question, what learning goal it tests, and its level of difficulty.

Study Guide Written by Kurt R. Jesswein, Murray State University. The Study Guide is an integral component of the Learning System. It offers many tools for studying finance. Each chapter contains the following features: chapter summary arranged in order of learning goals, chapter outline keyed to learning goals, key formulas list, and study tips. In addition, each chapter offers a wealth of practice exercises, including self-test exercises and true-false, multiple-choice, and essay questions. Finally, thumbnail printouts of the PowerPoint Lecture Presentation at the end of the guide facilitate classroom note taking.

Instructor's Resource Disk (IRD)

Fully compatible with Windows and Macintosh operating systems, this CD-ROM provides a number of resources.

PowerPoint Lecture Presentation Created by Daniel Borgia, Florida Gulf Coast University. This presentation combines lecture notes with figures, tables, and equations selected from the textbook. The lecture presentations for each chapter can be viewed electronically in the classroom or can be printed as transparency masters.

Computerized Test Bank The easy-to-use testing software (TestGen-EQ with QuizMaster-EQ for Windows and Macintosh) is a valuable test preparation tool that allows professors to view, edit, and add questions.


Instructor's Manual/Test Bank For added convenience, the IRD also includes Microsoft Word files for the entire contents of the Instructor's Manual and Test Bank.


Companion Web Site


Available at www.awl.com/gitman_madura, the Web site provides online access to innovative teaching and learning tools.

Ten-question multiple-choice quizzes for each chapter allow students to gauge their grasp of concepts.

To enhance students' mastery of mathematically based concepts and techniques, we offer a number of **software resources**. All students who purchase a new copy of the text will receive an individualized coupon code that will allow them to download the software from the text's Web site at no additional cost. A system of icons in the end-of-chapter exercises alert students to corresponding software resources, which include the following:

 **Tutor** The Tutor helps students identify and solve various types of finance problems using Excel worksheets. Most important, Tutor provides an unlimited supply of problem types constructed via random-number generation so that students can get the practice necessary to master calculations.

 **Problem Solver** Many students are intimidated by the mathematics of finance and lose sight of the underlying concepts. Problem Solver addresses this issue by providing short, menu-driven Excel worksheets that are an efficient way to perform financial computations. Once the student inputs the data, Problem Solver performs the calculation. Page references are included for each computation.

 **Excel Spreadsheet Templates** Excel spreadsheets are universally accepted as powerful computational tools. Pre-programmed spreadsheet templates are provided for students to input data and solve problems.

An **Online Career Center** shows students career options in the finance field. Organized around job positions, the site features links to educational pro-

grams, information on certification requirements, career paths, and job-seeking advice.

An online syllabus builder enables instructors to create a calendar of assignments for each class and to track quiz grades with an electronic gradebook.

For students who use financial calculators, a guide called *Using Financial and Business Calculators* that supports Texas Instruments BA-35 and BAI Plus and Hewlett-Packard HP 12C, 17BII, and 19BII models is available in PDF format.

For added convenience, many of the instructor supplements are available for downloading from the site. Please contact your sales representative for the instructor resources password and information on obtaining Web content in WebCT and BlackBoard versions.

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We invite colleagues to share with us their classroom experiences using this book and its package, in care of the Acquisitions Editor in Finance, Addison Wesley Longman, One Jacob Way, Reading, Massachusetts 01867-3999. Your constructive criticism is much valued.