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BREALEY MYERS

PRINCIPLES OF CORPORATE FINANCE



SOME USEFUL WEBSITES

At the end of each part in the book we list a sample of relevant websites. Here are some sites that you should find generally useful.

Good sources for financial news:

www.cfonews.com

www.dowjones.com

www.economist.com (The Economist)

www.ft.com (The Financial Times)

www.wsj.com (The Wall Street Journal—partly restricted to subscribers)

www.brint.com (cross-references to press comment on business and financial issues)

McGRAW-HILL EDUCATION
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"2145A005"

Web addresses for some other journals that are read by financial managers:

www.businessweek.com

www.cfo.com

www.corporatefinancemag.com

www.euromoney.com (free access on registration)

www.forbes.com

www.fortune.com

www.institutionalinvestoronline.com (free access on registration)

www.Risk.net

Some useful sites with market commentary and data on individual firms and stocks:

www.bloomberg.com

www.corporateinformation.com (a good international site on company information)

<http://finance.yahoo.com> (an outstanding source of stock price and company information)

www.hoovers.com

www.reportgallery.com (easy access to annual reports)

Some home pages with a variety of useful data, calculators, etc.:

www.duke.edu/~charvey (Campbell Harvey's home page)

www.equity.stern.nyu.edu/~adamodar (Aswath Damodaran's home page)

<http://aida.econ.yale.edu> (Robert Shiller's home page)

<http://welch.som.yale.edu> (Ivo Welch's home page)

Links to other finance sites:

www.afponline.org

www.ceoexpress.com

www.cob.ohio-state.edu/fin/journal/jofsites.htm (very good site maintained by Ohio State College of Business)

www.corpfinet.com

www.courses.dsu.edu/finance

www.financewise.com

www.finpipe.com

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Stewart C. Myers

Richard A. Brealey

Welcome to the 7th edition of *Principles of Corporate Finance*. We are proud of the success of previous editions, and we have done our best to make this edition better.

This book may be your first view of the world of modern finance. If so, you will read first for new ideas, for an understanding of how finance theory translates to practice, and occasionally, we hope, for entertainment. But eventually you will be in a position to make financial decisions, not just study them. At that point you can turn to this book as a reference and guide.

Of course finance will not stand still. Basic concepts will not change, but markets, institutions, and applications will. At some point you will want something more up-to-date on your bookshelf. We suggest the 8th and subsequent editions of this book.

McGraw-Hill/Irwin has agreed to sell the next edition of this book at half price to purchasers of this Career Edition. The only requirement is that you buy a new copy of the book and send in the enclosed card to register in the Brealey/Myers *Principles of Corporate Finance* database. You will be informed when the next edition appears and can then trade in your book for the new model.

Many purchasers of *Principles of Corporate Finance* are not new students of finance, but practicing financial managers. They too can register and receive the next edition at half price. Regardless of the reader's experience and responsibilities in finance, we are confident that this book will be a positive-NPV investment.

SOME COMMONLY USED SYMBOLS

APV	Adjusted present value	\tilde{r}_t	Uncertain actual rate of return in period t
BV	Book value	r_D	Expected rate of return on firm's debt
C_t	Cash flow at time t	r_E	Expected rate of return on firm's equity
CEQ_t	Certainty-equivalent cash flow at time t	r_f	Risk-free interest rate
DIV_t	Dividend payment at time t	r_m	Expected rate of return on the market portfolio
D	Market value of firm's debt	$r_{\$}$	Dollar rate of interest
DEP_t	Depreciation in year t	$S_{\$Fr/\$}$	Spot rate of exchange between Swiss francs and dollars
DF_t	Discount factor for cash flow in period t	t	Time
e	2.718 (base for natural logarithms)	T_c	Rate of corporate income tax
E	Market value of firm's equity	T_p	Rate of personal income tax
EPS_t	Earnings per share in year t	V	Market value of firm: $V = D + E$
EX	Exercise price of option	y	Yield to maturity
f_t	Expected return on a one-period forward loan maturing at time t	β	Beta: A measure of market risk
$f_{\$/\pounds}$	Forward rate of exchange between dollars and pounds	δ	Delta: Hedge ratio
g	Growth rate	ρ_{12}	Rho: Correlation coefficient between investments 1 and 2
i_t	Expected inflation in year t	σ	Sigma: Standard deviation
IRR	Internal rate of return	σ_{12}	Covariance of investment 1 with investment 2
LCF_t	Lease's cash outflow in year t	σ^2	Sigma squared: Variance
NPV	Net present value	Σ	Capital sigma: "The sum of"
P_t	Price at time t		
PV	Present value		
PVGO	Present value of growth opportunities		
r_t	Expected rate of return (or cost of capital) in period t . We omit the subscript where the expected return is identical in each period. Sometimes we use a <i>second</i> subscript to define the date at which the investment is made. Thus, ${}_{t-1}r_t$ is the (spot) rate of return on an investment made at $t-1$ and paying off at time t .		

Dear Student:

The book you now hold serves two major purposes: first, it is meant to be read. Reading it will give you an understanding of the principles of modern corporate finance. Hundreds of thousands of finance students have gone before you to learn finance from the most esteemed corporate finance text available Brealey & Myers: **Principles of Corporate Finance**. Second, if you are like most finance professionals, you will want to keep it in a dignified spot on your shelf next to several other important reference works. The problem with the second purpose has always been that eventually, your book will grow older, and in some sense, out of date. Wouldn't you like to keep an updated copy of the most respected corporate finance text available throughout your career? Of course you would.

So we are going to make it easy. If you send the attached card to the McGraw-Hill/Irwin office, we will make certain you are kept abreast when future editions of Brealey & Myers are published. And better yet, as a special thank you from the authors, we will provide these future editions at significant discounts! So you will keep up to date and save money too! We will contact you when a new edition becomes available. Please fill out the card below to participate.

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