# Brief Contents

## PART 1  Overview of Corporate Finance

- **CHAPTER 1**  INTRODUCTION TO CORPORATE FINANCE  
- **CHAPTER 2**  FINANCIAL STATEMENTS, TAXES, AND CASH FLOW

## PART 2  Financial Statements and Long-Term Financial Planning

- **CHAPTER 3**  WORKING WITH FINANCIAL STATEMENTS
- **CHAPTER 4**  LONG-TERM FINANCIAL PLANNING AND GROWTH

## PART 3  Valuation of Future Cash Flows

- **CHAPTER 5**  INTRODUCTION TO VALUATION: THE TIME VALUE OF MONEY
- **CHAPTER 6**  DISCOUNTED CASH FLOW VALUATION
- **CHAPTER 7**  INTEREST RATES AND BOND VALUATION
- **CHAPTER 8**  STOCK VALUATION

## PART 4  Capital Budgeting

- **CHAPTER 9**  NET PRESENT VALUE AND OTHER INVESTMENT CRITERIA
- **CHAPTER 10**  MAKING CAPITAL INVESTMENT DECISIONS
- **CHAPTER 11**  PROJECT ANALYSIS AND EVALUATION

## PART 5  Risk and Return

- **CHAPTER 12**  SOMETHING FROM CAPITAL MARKET HISTORY
- **CHAPTER 13**  RETURN, RISK, AND THE SECURITY MARKET LINE
- **CHAPTER 14**  OPTIONS AND CORPORATE FINANCE

## PART 6  Cost of Capital and Long-Term Financial Policy

- **CHAPTER 15**  COST OF CAPITAL
- **CHAPTER 16**  RAISING CAPITAL
- **CHAPTER 17**  FINANCIAL LEVERAGE AND CAPITAL STRUCTURE POLICY
- **CHAPTER 18**  DIVIDENDS AND DIVIDEND POLICY

## PART 7  Short-Term Financial Planning and Management

- **CHAPTER 19**  SHORT-TERM FINANCE AND PLANNING
- **CHAPTER 20**  CASH AND LIQUIDITY MANAGEMENT
- **CHAPTER 21**  CREDIT AND INVENTORY MANAGEMENT

## PART 8  Topics in Corporate Finance

- **CHAPTER 22**  INTERNATIONAL CORPORATE FINANCE
PART 1  Overview of Corporate Finance

CHAPTER 1
INTRODUCTION TO CORPORATE FINANCE  1

1.1 Corporate Finance and the Financial Manager  2
   What Is Corporate Finance?  2
   The Financial Manager  2
   Financial Management Decisions  2
   Capital Budgeting  2
   Capital Structure  3
   Working Capital Management  4
   Conclusion  4

1.2 Forms of Business Organization  4
   Sole Proprietorship  5
   Partnership  5
   Corporation  6
   A Corporation by Another Name . . .  7

1.3 The Goal of Financial Management  8
   Possible Goals  8
   The Goal of Financial Management  8
   A More General Goal  9
   Sarbanes–Oxley  10

1.4 The Agency Problem and Control of the Corporation  11
   Agency Relationships  11
   Management Goals  11
   Do Managers Act in the Stockholders’ Interests?  12
   Managerial Compensation  12
   Control of the Firm  12
   Conclusion  13
   Stakeholders  14

1.5 Financial Markets and the Corporation  14
   Cash Flows to and from the Firm  14
   Primary versus Secondary Markets  14
   Primary Markets  15
   Secondary Markets  15
   Dealer versus Auction Markets  15
   Trading in Corporate Securities  16
   Listing  16

1.6 Summary and Conclusions  17

PART 2  Financial Statements and Long-Term Financial Planning

CHAPTER 2
FINANCIAL STATEMENTS, TAXES, AND CASH FLOW  21

2.1 The Balance Sheet  22
   Assets: The Left Side  22
   Liabilities and Owners’ Equity: The Right Side  22
   Net Working Capital  23
   Liquidity  24
   Debt versus Equity  25
   Market Value versus Book Value  25

2.2 The Income Statement  26
   GAAP and the Income Statement  27
   Noncash Items  28
   Time and Costs  28

2.3 Taxes  30
   Corporate Tax Rates  30
   Average versus Marginal Tax Rates  30

2.4 Cash Flow  32
   Cash Flow from Assets  33
   Operating Cash Flow  33
   Capital Spending  34
   Change in Net Working Capital  34
   Conclusion  35
   A Note about “Free” Cash Flow  35
   Cash Flow to Creditors and Stockholders  35
   Cash Flow to Creditors  35
   Cash Flow to Stockholders  35
   An Example: Cash Flows for Dole Cola  37
   Operating Cash Flow  37
   Net Capital Spending  38
   Change in NWC and Cash Flow from Assets  38
   Cash Flow to Stockholders and Creditors  38

2.5 Summary and Conclusions  39

CHAPTER 3
WORKING WITH FINANCIAL STATEMENTS  48

3.1 Cash Flow and Financial Statements: A Closer Look  49
   Sources and Uses of Cash  49
   The Statement of Cash Flows  51

3.2 Standardized Financial Statements  53
   Common-Size Statements  53
   Common-Size Balance Sheets  53
   Common-Size Income Statements  54
   Common-Size Statements of Cash Flows  55
   Common–Base Year Financial Statements: Trend Analysis  55
### CHAPTER 6
**DISCOUNTED CASH FLOW VALUATION** 146

6.1 Future and Present Values of Multiple Cash Flows 147
- Future Value with Multiple Cash Flows 147
- Present Value with Multiple Cash Flows 150
- A Note about Cash Flow Timing 153

6.2 Valuing Level Cash Flows: Annuities and Perpetuities 154
- Present Value for Annuity Cash Flows 154
- Annuity Tables 156
- Finding the Payment 157
- Finding the Rate 159
- Future Value for Annuities 161
- A Note about Annuities Due 162
- Perpetuities 162
- Growing Annuities and Perpetuities 164

6.3 Comparing Rates: The Effect of Compounding 165
- Effective Annual Rates and Compounding 165
- Calculating and Comparing Effective Annual Rates 166
- EARs and APRs 168
- Taking It to the Limit: A Note about Continuous Compounding 169

6.4 Loan Types and Loan Amortization 171
- Pure Discount Loans 171
- Interest-Only Loans 171
- Amortized Loans 172

6.5 Summary and Conclusions 177

### CHAPTER 7
**INTEREST RATES AND BOND VALUATION** 192

7.1 Bonds and Bond Valuation 193
- Bond Features and Prices 193
- Bond Values and Yields 193
- Interest Rate Risk 197
- Finding the Yield to Maturity: More Trial and Error 198

7.2 More about Bond Features 203
- Is It Debt or Equity? 203
- Long-Term Debt: The Basics 203
- The Indenture 205
  - Terms of a Bond 205
  - Security 206
  - Seniority 206
  - Repayment 206
  - The Call Provision 207
  - Protective Covenants 207

7.3 Bond Ratings 208

7.4 Some Different Types of Bonds 209
- Government Bonds 209
- Zero-Coupon Bonds 210
- Floating-Rate Bonds 211
- Other Types of Bonds 212

7.5 Bond Markets 214
- How Bonds Are Bought and Sold 214
- Bond Price Reporting 216
- A Note about Bond Price Quotes 219

7.6 Inflation and Interest Rates 219
- Real versus Nominal Rates 219
- The Fisher Effect 220
- Inflation and Present Values 221

7.7 Determinants of Bond Yields 222
- The Term Structure of Interest Rates 222
- Bond Yields and the Yield Curve: Putting It All Together 225
- Conclusion 226

7.8 Summary and Conclusions 227

### CHAPTER 8
**STOCK VALUATION** 234

8.1 Common Stock Valuation 235
- Cash Flows 235
- Some Special Cases 237
  - Zero Growth 237
  - Constant Growth 237
  - Nonconstant Growth 240
  - Two-Stage Growth 242
- Components of the Required Return 243

8.2 Some Features of Common and Preferred Stocks 245
- Common Stock Features 245
  - Shareholder Rights 245
  - Proxy Voting 246
  - Classes of Stock 247
  - Other Rights 247
  - Dividends 248
- Preferred Stock Features 248
  - Stated Value 248
  - Cumulative and Noncumulative Dividends 248
  - Is Preferred Stock Really Debt? 249

8.3 The Stock Markets 249
- Dealers and Brokers 250
- Organization of the NYSE 250
  - Members 250
  - Operations 251
  - Floor Activity 251
- NASDAQ Operations 252
  - NASDAQ Participants 253
- Stock Market Reporting 254

8.4 Summary and Conclusions 256
13.8 The SML and the Cost of Capital: A Preview 428
   The Basic Idea 428
   The Cost of Capital 429
13.9 Summary and Conclusions 429

CHAPTER 14
OPTIONS AND CORPORATE FINANCE 439
14.1 Options: The Basics 440
   Puts and Calls 440
   Stock Option Quotations 440
   Option Payoffs 444
14.2 Fundamentals of Option Valuation 446
   Value of a Call Option at Expiration 446
   The Upper and Lower Bounds on a Call Option’s Value 446
   The Upper Bound 447
   The Lower Bound 447
   A Simple Model: Part I 448
   The Basic Approach 448
   A More Complicated Case 449
   Four Factors Determining Option Values 450
14.3 Valuing a Call Option 451
   A Simple Model: Part II 451
   The Fifth Factor 452
   A Closer Look 453
14.4 Employee Stock Options 454
   ESO Features 454
   ESO Repricing 455
   ESO Backdating 455
14.5 Equity as a Call Option on the Firm’s Assets 456
   Case I: The Debt Is Risk-Free 457
   Case II: The Debt Is Risky 457
14.6 Options and Capital Budgeting 459
   The Investment Timing Decision 459
   Managerial Options 461
   Contingency Planning 462
   Options in Capital Budgeting: An Example 463
   Strategic Options 464
   Conclusion 464
14.7 Options and Corporate Securities 465
   Warrants 465
   The Difference between Warrants and Call Options 465
   Earnings Dilution 466
  Convertible Bonds 466
   Features of a Convertible Bond 466
   Value of a Convertible Bond 466
   Other Options 468
   The Call Provision on a Bond 468
   Put Bonds 469
   Insurance and Loan Guarantees 469
14.8 Summary and Conclusions 470

PART 6 Cost of Capital and Long-Term Financial Policy

CHAPTER 15
COST OF CAPITAL 479
15.1 The Cost of Capital: Some Preliminaries 480
   Required Return versus Cost of Capital 480
   Financial Policy and Cost of Capital 480
15.2 The Cost of Equity 481
   The Dividend Growth Model Approach 481
   Implementing the Approach 481
   Estimating g 482
   Advantages and Disadvantages of the Approach 483
   The SML Approach 483
   Implementing the Approach 484
   Advantages and Disadvantages of the Approach 484
15.3 The Costs of Debt and Preferred Stock 485
   The Cost of Debt 485
   The Cost of Preferred Stock 486
15.4 The Weighted Average Cost of Capital 487
   The Capital Structure Weights 487
   The SML and the WACC 488
   Calculating the WACC for Eastman Chemical 489
   Eastman’s Cost of Equity 489
   Eastman’s Cost of Debt 491
   Eastman’s WACC 492
   Solving the Warehouse Problem and Similar Capital Budgeting Problems 494
   Performance Evaluation: Another Use of the WACC 496
15.5 Divisional and Project Costs of Capital 497
   The SML and the WACC 497
   Divisional Cost of Capital 498
   The Pure Play Approach 498
   The Subjective Approach 499
15.6 Flotation Costs and the Weighted Average Cost of Capital 501
   The Basic Approach 501
   Flotation Costs and NPV 502
   Internal Equity and Flotation Costs 504
15.7 Summary and Conclusions 504
CHAPTER 16
RAISING CAPITAL  513
16.1 The Financing Life Cycle of a Firm: Early-Stage Financing and Venture Capital  514
   Venture Capital  514
   Some Venture Capital Realities  515
   Choosing a Venture Capitalist  515
   Conclusion  516
16.2 Selling Securities to the Public: The Basic Procedure  516
16.3 Alternative Issue Methods  517
16.4 Underwriters  519
   Choosing an Underwriter  520
   Types of Underwriting  520
      Firm Commitment Underwriting  520
      Best Efforts Underwriting  520
      Dutch Auction Underwriting  521
   The Aftermarket  521
   The Green Shoe Provision  522
   Lockup Agreements  522
   The Quiet Period  522
16.5 IPOs and Underpricing  523
   IPO Underpricing: The 1999–2000 Experience  523
   Evidence on Underpricing  525
   Why Does Underpricing Exist?  526
16.6 New Equity Sales and the Value of the Firm  529
16.7 The Costs of Issuing Securities  530
   The Costs of Selling Stock to the Public  530
   The Costs of Going Public: The Case of Symbion  532
16.8 Rights  534
   The Mechanics of a Rights Offering  534
   Number of Rights Needed to Purchase a Share  535
   The Value of a Right  536
   Ex Rights  538
   The Underwriting Arrangements  539
   Effects on Shareholders  539
16.9 Dilution  540
   Dilution of Proportionate Ownership  540
   Dilution of Value: Book versus Market Values  540
      A Misconception  541
      The Correct Arguments  542
16.10 Issuing Long-Term Debt  542
16.11 Shelf Registration  543
16.12 Summary and Conclusions  544

CHAPTER 17
FINANCIAL LEVERAGE AND CAPITAL STRUCTURE POLICY  551
17.1 The Capital Structure Question  552
17.2 The Effect of Financial Leverage  553
   The Basics of Financial Leverage  553
      Financial Leverage, EPS, and ROE: An Example  554
      EPS versus EBIT  555
   Corporate Borrowing and Homemade Leverage  556
17.3 Capital Structure and the Cost of Equity Capital  558
   M&M Proposition I: The Pie Model  558
   The Cost of Equity and Financial Leverage: M&M Proposition II  559
   Business and Financial Risk  561
17.4 M&M Propositions I and II with Corporate Taxes  562
   The Interest Tax Shield  563
   Taxes and M&M Proposition I  563
   Taxes, the WACC, and Proposition II  564
   Conclusion  565
17.5 Bankruptcy Costs  567
   Direct Bankruptcy Costs  568
   Indirect Bankruptcy Costs  568
17.6 Optimal Capital Structure  569
   The Static Theory of Capital Structure  569
   Optimal Capital Structure and the Cost of Capital  570
   Optimal Capital Structure: A Recap  571
   Capital Structure: Some Managerial Recommendations  573
   Taxes  573
      Financial Distress  573
17.7 The Pie Again  573
   The Extended Pie Model  574
   Marketed Claims versus Nonmarketed Claims  575
17.8 The Pecking-Order Theory  575
   Internal Financing and the Pecking Order  575
   Implications of the Pecking Order  576
17.9 Observed Capital Structures  577
17.10 A Quick Look at the Bankruptcy Process  579
   Liquidation and Reorganization  579
      Bankruptcy Liquidation  579
      Bankruptcy Reorganization  580
   Financial Management and the Bankruptcy Process  581
   Agreements to Avoid Bankruptcy  582
17.11 Summary and Conclusions  582

CHAPTER 18
DIVIDENDS AND DIVIDEND POLICY  590
18.1 Cash Dividends and Dividend Payment  591
   Cash Dividends  591
### TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>592</td>
<td>Standard Method of Cash Dividend Payment</td>
<td>592</td>
</tr>
<tr>
<td>592</td>
<td>Dividend Payment: A Chronology</td>
<td>592</td>
</tr>
<tr>
<td>593</td>
<td>More about the Ex-Dividend Date</td>
<td>593</td>
</tr>
<tr>
<td>594</td>
<td>18.2 Does Dividend Policy Matter?</td>
<td>594</td>
</tr>
<tr>
<td>595</td>
<td>An Illustration of the Irrelevance of Dividend Policy</td>
<td>595</td>
</tr>
<tr>
<td>595</td>
<td>Current Policy: Dividends Set Equal to Cash Flow</td>
<td>595</td>
</tr>
<tr>
<td>595</td>
<td>Alternative Policy: Initial Dividend Greater Than Cash Flow</td>
<td>595</td>
</tr>
<tr>
<td>596</td>
<td>Homemade Dividends</td>
<td>596</td>
</tr>
<tr>
<td>596</td>
<td>A Test</td>
<td>596</td>
</tr>
<tr>
<td>597</td>
<td>18.3 Real-World Factors Favoring a Low Payout</td>
<td>597</td>
</tr>
<tr>
<td>598</td>
<td>Expected Return, Dividends, and Personal Taxes</td>
<td>598</td>
</tr>
<tr>
<td>599</td>
<td>Flotation Costs</td>
<td>599</td>
</tr>
<tr>
<td>599</td>
<td>Dividend Restrictions</td>
<td>599</td>
</tr>
<tr>
<td>599</td>
<td>18.4 Real-World Factors Favoring a High Payout</td>
<td>599</td>
</tr>
<tr>
<td>600</td>
<td>Desire for Current Income</td>
<td>600</td>
</tr>
<tr>
<td>600</td>
<td>Uncertainty Resolution</td>
<td>600</td>
</tr>
<tr>
<td>601</td>
<td>Tax and Legal Benefits from High Dividends</td>
<td>601</td>
</tr>
<tr>
<td>601</td>
<td>Corporate Investors</td>
<td>601</td>
</tr>
<tr>
<td>601</td>
<td>Tax-Exempt Investors</td>
<td>601</td>
</tr>
<tr>
<td>601</td>
<td>Conclusion</td>
<td>601</td>
</tr>
<tr>
<td>602</td>
<td>18.5 A Resolution of Real-World Factors?</td>
<td>602</td>
</tr>
<tr>
<td>602</td>
<td>Information Content of Dividends</td>
<td>602</td>
</tr>
<tr>
<td>603</td>
<td>The Clientele Effect</td>
<td>603</td>
</tr>
<tr>
<td>604</td>
<td>18.6 Establishing a Dividend Policy</td>
<td>604</td>
</tr>
<tr>
<td>604</td>
<td>Residual Dividend Approach</td>
<td>604</td>
</tr>
<tr>
<td>606</td>
<td>Dividend Stability</td>
<td>606</td>
</tr>
<tr>
<td>607</td>
<td>A Compromise Dividend Policy</td>
<td>607</td>
</tr>
<tr>
<td>608</td>
<td>Some Survey Evidence on Dividends</td>
<td>608</td>
</tr>
<tr>
<td>609</td>
<td>18.7 Stock Repurchase: An Alternative to Cash Dividends</td>
<td>609</td>
</tr>
<tr>
<td>610</td>
<td>Cash Dividends versus Repurchase</td>
<td>610</td>
</tr>
<tr>
<td>611</td>
<td>Real-World Considerations in a Repurchase</td>
<td>611</td>
</tr>
<tr>
<td>612</td>
<td>Share Repurchase and EPS</td>
<td>612</td>
</tr>
<tr>
<td>612</td>
<td>18.8 Stock Dividends and Stock Splits</td>
<td>612</td>
</tr>
<tr>
<td>613</td>
<td>Some Details about Stock Splits and Stock Dividends</td>
<td>613</td>
</tr>
<tr>
<td>613</td>
<td>Example of a Small Stock Dividend</td>
<td>613</td>
</tr>
<tr>
<td>613</td>
<td>Example of a Stock Split</td>
<td>613</td>
</tr>
<tr>
<td>614</td>
<td>Example of a Large Stock Dividend</td>
<td>614</td>
</tr>
<tr>
<td>614</td>
<td>Value of Stock Splits and Stock Dividends</td>
<td>614</td>
</tr>
<tr>
<td>614</td>
<td>The Benchmark Case</td>
<td>614</td>
</tr>
<tr>
<td>615</td>
<td>Popular Trading Range</td>
<td>614</td>
</tr>
<tr>
<td>615</td>
<td>Reverse Splits</td>
<td>615</td>
</tr>
<tr>
<td>616</td>
<td>18.9 Summary and Conclusions</td>
<td>616</td>
</tr>
</tbody>
</table>

### PART 7 Short-Term Financial Planning and Management

#### CHAPTER 19

**SHORT-TERM FINANCE AND PLANNING** | 624

<table>
<thead>
<tr>
<th>625</th>
<th>19.1 Tracing Cash and Net Working Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>626</td>
<td>19.2 The Operating Cycle and the Cash Cycle</td>
</tr>
<tr>
<td>627</td>
<td>Defining the Operating and Cash Cycles</td>
</tr>
<tr>
<td>627</td>
<td>The Operating Cycle</td>
</tr>
<tr>
<td>627</td>
<td>The Cash Cycle</td>
</tr>
<tr>
<td>629</td>
<td>The Operating Cycle and the Firm’s Organizational Chart</td>
</tr>
<tr>
<td>629</td>
<td>Calculating the Operating and Cash Cycles</td>
</tr>
<tr>
<td>630</td>
<td>The Operating Cycle</td>
</tr>
<tr>
<td>631</td>
<td>The Cash Cycle</td>
</tr>
<tr>
<td>632</td>
<td>Interpreting the Cash Cycle</td>
</tr>
<tr>
<td>632</td>
<td>19.3 Some Aspects of Short-Term Financial Policy</td>
</tr>
<tr>
<td>633</td>
<td>The Size of the Firm’s Investment in Current Assets</td>
</tr>
<tr>
<td>634</td>
<td>Alternative Financing Policies for Current Assets</td>
</tr>
<tr>
<td>634</td>
<td>An Ideal Case</td>
</tr>
<tr>
<td>634</td>
<td>Different Policies for Financing Current Assets</td>
</tr>
<tr>
<td>637</td>
<td>Which Financing Policy Is Best?</td>
</tr>
<tr>
<td>638</td>
<td>Current Assets and Liabilities in Practice</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>639</th>
<th>19.4 The Cash Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>640</td>
<td>Sales and Cash Collections</td>
</tr>
<tr>
<td>640</td>
<td>Cash Outflows</td>
</tr>
<tr>
<td>640</td>
<td>The Cash Balance</td>
</tr>
<tr>
<td>641</td>
<td>19.5 Short-Term Borrowing</td>
</tr>
<tr>
<td>642</td>
<td>Unsecured Loans</td>
</tr>
<tr>
<td>642</td>
<td>Compensating Balances</td>
</tr>
<tr>
<td>642</td>
<td>Cost of a Compensating Balance</td>
</tr>
<tr>
<td>643</td>
<td>Letters of Credit</td>
</tr>
<tr>
<td>643</td>
<td>Secured Loans</td>
</tr>
<tr>
<td>643</td>
<td>Accounts Receivable Financing</td>
</tr>
<tr>
<td>644</td>
<td>Inventory Loans</td>
</tr>
<tr>
<td>644</td>
<td>Other Sources</td>
</tr>
<tr>
<td>645</td>
<td>19.6 A Short-Term Financial Plan</td>
</tr>
<tr>
<td>646</td>
<td>19.7 Summary and Conclusions</td>
</tr>
</tbody>
</table>

#### CHAPTER 20

**CASH AND LIQUIDITY MANAGEMENT** | 657

<table>
<thead>
<tr>
<th>658</th>
<th>20.1 Reasons for Holding Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>658</td>
<td>The Speculative and Precautionary Motives</td>
</tr>
<tr>
<td>658</td>
<td>The Transaction Motive</td>
</tr>
</tbody>
</table>
## PART 8  Topics in Corporate Finance

### CHAPTER 22  INTERNATIONAL CORPORATE FINANCE  726

#### 22.1 Terminology  727

#### 22.2 Foreign Exchange Markets and Exchange Rates  728
- Exchange Rates  729
  - Exchange Rate Quotations  729
  - Cross-Rates and Triangle Arbitrage  730
- Types of Transactions  732

#### 22.3 Purchasing Power Parity  733
- Absolute Purchasing Power Parity  733
- Relative Purchasing Power Parity  735
  - The Basic Idea  735
  - The Result  735
  - Currency Appreciation and Depreciation  736

#### 22.4 Interest Rate Parity, Unbiased Forward Rates, and the International Fisher Effect  737
- Covered Interest Arbitrage  737
- Interest Rate Parity  738
- Forward Rates and Future Spot Rates  739
- Putting It All Together  739
  - Uncovered Interest Parity  740
  - The International Fisher Effect  740

#### 22.5 International Capital Budgeting  741
- Method 1: The Home Currency Approach  741
- Method 2: The Foreign Currency Approach  742
- Unremitted Cash Flows  743

#### 22.6 Exchange Rate Risk  743
- Short-Run Exposure  743
- Long-Run Exposure  744
- Translation Exposure  745
- Managing Exchange Rate Risk  746

#### 22.7 Political Risk  746

#### 22.8 Summary and Conclusions  747

### APPENDIX A

MATHEMATICAL TABLES  A-1

### APPENDIX B

KEY EQUATIONS  B-1

### APPENDIX C

ANSWERS TO SELECTED END-OF-CHAPTER PROBLEMS  C-1

Index  I-1