

Preface

Organization and Suggestions

We draw upon our years of teaching and research experience on the subject of financial analysis, planning and forecasting for this textbook. Overall, our goal is an introductory level book that reviews, discusses, and integrates both theoretical and practical corporate analysis and planning. Financial analysis, planning and forecasting, are classified into five parts: (1) Information and Methodology for Financial Analysis; (2) Alternative Finance Theories and Cost of Capital; (3) Capital Budgeting and Leasing Decisions; (4) Corporate Policies and Their Interrelationships; (5) Financial Planning and Forecasting.

We focus on three principles to frame our discussion of the material: (1) to integrate theory with practice; (2) to strike a balance between the overview and detailed understanding; and (3) to demonstrate how basic quantitative training required by management schools can be used to improve the usefulness of accounting and financial information in management decisions.

Furthermore, the theory used and discussed in this book can be grouped into the following classical theoretical areas of corporate finance: (1) Pre-M&M Theory, (2) M&M Theory, (3) CAPM, and (4) Option Pricing Theory (OPT). The interrelationships among these theories are carefully analyzed. Meaningful real-world examples of using these theories are jointly discussed, step by step, with relevant data and methodology. Finally, alternative planning and forecasting models are used to show how the interdisciplinary approach can be used to make meaningful financial-management decisions.

Prerequisites to an understanding of this book include one term of accounting; one term of economics; one term of quantitative methods (or statistics); one term of financial management; and/or one term of computer

programming. To assist the student in learning and integrating new concepts, we provide approximately 40% review of the prerequisite material and 60% percent new information related to financial management.

To further the learning process and application of the material, the book contains both problem sets and project approach assignments. Overall, there are 491 problem sets, which are given at the end each of the 25 chapters. These questions are used to reinforce the microview of understanding financial management. In addition, five projects are suggested at the end of each part of the text. These projects make for a useful term assignment that extends the topic material into a more macroview of understanding financial analysis, planning, and forecasting.

Based on our personal teaching experiences at various universities, we find that this book can be used in a second undergraduate Financial Management course and a second MBA Financial Management course, as well as a financial analysis planning and forecasting course. In addition, this book can be used in the Investment Analysis and Portfolio Management course with some supplemental material.

In this second edition, we have extensively updated and expanded the topics of financial analysis, planning and forecasting. The new chapters included in this new edition are as follows:

- Chapter 7 Risk Estimation and Diversification
- Chapter 8 Risk and Return Trade-Off Analysis
- Chapter 9 Options and Option Strategies
- Chapter 10 Option Pricing Theory and Firm Valuation
- Chapter 18 Short-Term Financial Analysis and Planning
- Chapter 19 Credit Management
- Chapter 20 Cash, Marketable Securities, and Inventory Management
- Chapter 24 Time-Series: Analysis, Model, and Forecasting