



LIST OF CHANGES

Principles of Corporate Finance

14th Edition

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Brealey: *Principles of Corporate Finance, 14e*, describes the theory and practice of corporate finance. We hardly need to explain why financial managers have to master the practical aspects of their job, but we should spell out why down-to-earth managers need to bother with theory. Throughout the text, we show how managers use financial theory to solve practical problems. Much of this book is concerned with understanding what financial managers do and why, but we also say what financial managers should do to increase company value.

With this edition, the most significant change is the addition of new co-author Alex Edmans, Professor of Finance at London Business School and Mercers School Memorial Professor of Business at Gresham College. Poets & Quants named him MBA Professor of the Year for 2021.

Take Students Higher

McGraw Hill supports you in moving students from foundational cognitive skills to higher-order thinking and application with a variety of digital content and assignable assets. Within Connect, each asset's alignment to the levels of Bloom's Taxonomy is identified so you can easily assign and receive reporting on student progress. The chart below outlines the asset type and how it aligns to Bloom's Taxonomy.

LOWER  HIGHER

ASSET	DESCRIPTION	REMEMBER	UNDERSTAND	APPLY	ANALYZE	EVALUATE	CREATE
SmartBook® 2.0	SmartBook 2.0 adaptively aids students to study more efficiently by highlighting where in the chapter to focus, asking review questions, and pointing them to resources until they understand.	■	■				
Guided Examples	These videos provide narrated and animated, step-by-step walkthroughs of algorithmic versions of assigned problems, providing immediate feedback, and focus on the areas where students need the most guidance.	■	■	■			
Corporate Finance Video Series	Assignable, animated videos with 3 accompanying questions help students understand the key learning objectives. These dynamic videos are between 2-5 minutes in length are especially helpful to keep students engaged and those who would like additional review outside of the text.	■	■	■			
Finance Prep Courses	Prep Courses cover the basic concepts in Math, Statistics, Accounting, Excel, Calculators, and Economics and are comprised of animated tutorial modules with quiz questions. Instructors can assign as homework or include for optional practice. Prep Courses provide a level playing field, give instructors more time in class to cover finance topics, and ensure that students do not get left behind.	■	■	■	■		
Excel Simulations	Assignable within Connect Finance, these simulations allow students to practice their Excel skills, including financial formulas and functions. The questions feature animated, narrated Help and Show Me tutorials (when enabled) and automatic feedback and grading for students and professors.	■	■	■	■		
End-of-Chapter Problems	Our assignable, gradable end-of-chapter content helps students learn to solve problems and apply the concepts in finance. Algorithmic versions allow students to practice problems as many times as they need to ensure that they fully understand each problem.	■	■	■	■	■	
Interactive Data Problems	Interactive Data Problems allow students to visualize and interact with data in different ways. Students use this tool to manipulate data and answer a variety of accompanying problems that test multiple levels of understanding.	■	■	■	■	■	
NEW! Kaplan CFA Questions	McGraw Hill has partnered with Kaplan Schweser to provide sample CFA questions for the CFA exams. These questions represent the kinds of questions that professionals in the field believe are relevant to the "real world." Located in Connect, this bank of assignable questions is sorted by topic and level.	■	■	■	■	■	
NEW! Integrated Excel	Integrated Excel assignments pair the power of Microsoft Excel with the power of Connect. A seamless integration of Excel within Connect, Integrated Excel questions allow students to work in live, auto-graded Excel spreadsheets.	■	■	■	■	■	
NEW! Application Based Activities	These highly interactive, automatically graded exercises provide students a safe space to practice using problem-solving skills to apply their knowledge to realistic scenarios. Each scenario addresses key concepts and skills that students must use to work through and solve course specific problems, resulting in improved critical thinking and relevant workplace skills.	■	■	■	■	■	

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Chapter-by-Chapter Changes

What has changed in this edition? You will have seen the first change on the cover: Alex Edmans has joined the author team. Alex is a global authority in corporate finance, with particular expertise in corporate governance, responsible business, and behavioral finance—three areas we have significantly bolstered as we will shortly describe. In addition to being a leading researcher, he has substantial practitioner expertise. He has also won a multitude of teaching awards at MIT, Wharton, and London Business School and is particularly noted for the ability to explain complex finance concepts in simple language. He recently gave a year-long Gresham College public lecture series on the principles of finance attended by a diverse audience, from schoolchildren to retirees.

This expansion of the author team has led to a number of important changes. For example, in recent years many observers have questioned companies' focus on profits and have suggested that managers should promote the interests of *all* stakeholders rather than simply seeking to maximize shareholder value. The issue is an important one and we have, therefore, added a new chapter, Chapter 20, that discusses these different corporate objectives, how far they conflict, and how a responsible business should behave.

The structure of a firm's governance is closely related to its objectives. We have therefore moved the material on corporate governance and agency issues to Chapter 19, where it now sits next to the chapter on corporate objectives. This chapter has also been substantially rewritten.

Other chapters with major changes include the two chapters on the pricing of risky assets (Chapters 7 and 8). Chapter 7 now focuses on portfolio choice and a stock's effect on portfolio risk, while Chapter 8 concentrates on asset pricing. This is a clearer separation of topics than in previous editions; we think that it is more logical and helps understanding.

The discussion of market efficiency (Chapter 12) has also undergone substantial revision with additional and updated sections on empirical evidence. The chapter also contains an expanded discussion of behavioral finance and the evidence for behavioral biases.

Financial innovation today is being driven by technological developments such as artificial intelligence, big data, and cloud computing. Chapter 13 now includes a new section that reviews seven ways in which financial technology is changing financial practice.

U.S. financial managers work in a global environment and need to understand the financial systems of other countries. Also, many of the text's readers come from countries other than the United States. Therefore, in recent editions, we have progressively introduced more international material, including information about the major developing economies, such as China and India. Material on international differences in financing is now integrated in Chapter 14, while Chapter 19 includes a discussion of governance systems around the world.

PEDAGOGICAL CHANGES

Throughout, we have tried to make the book more topical and easier to read. In many cases, the changes consist of some updated data here and a new example there. Often, these additions reflect some recent development in the financial markets or company practice.

We have also changed the introduction to each chapter to include summaries of the content of each of the chapter's sections. We think that this will make it easier for the reader to understand the organization of the chapter and to jump forward to a particular topic of interest. Chapters now also conclude with key takeaway bullet points summarizing the chapter's principal lessons.

Within each chapter we have interspersed a number of new self-test questions that provide an opportunity for readers to pause and check their understanding. Answers to these self-tests are located at the end of the chapter.

The Beyond the Page digital extensions and applications provide additional examples, anecdotes, spreadsheet programs, and more thoroughgoing explanations and practice examples of some topics. This extra material makes it possible to escape from the constraints of the printed page by providing more explanation for readers

who need it and additional material for those who would like to dig deeper. This material is very easily accessed on the web. There are now more than 150 of these apps. They are seamlessly available with a click on the e-version of the book, but they are also readily accessible in the traditional hard copy of the text using the shortcut URLs provided in the margins of relevant pages. Check out mhhe.com/brealey14e to learn more.

Examples of these applications include:

Chapter 2: Would you like to learn more about how to use Excel spreadsheets to solve time value of money problems? A Beyond the Page application shows how to do so.

Chapter 3: Do you need to calculate a bond's duration, see how it predicts the effect of small interest rate changes on bond price, calculate the duration of a common stock, or learn how to measure convexity? The duration app allows you to do so.

Chapter 5: Want more practice in valuing annuities? There is an application that provides worked examples and hands-on practice.

Chapter 7: Ever wondered how COVID has affected the risk of stocks in the travel industry? An app provides the answer.

Chapter 12: Want an example of how speculative trading can swamp the actions of arbitrageurs? The app on the explosion in the price of GameStop shares provides one.

Chapter 18: The text briefly describes the flow-to-equity method for valuing businesses but using the method can be tricky. We provide an application that guides you step by step.

Chapter 22: The Black–Scholes Beyond the Page application provides an option calculator. It also shows how to estimate the option's sensitivity to changes in the inputs and how to measure an option's risk.