

Corporate Finance, Module 19: “Financing and Valuation: Adjusted Present Value”

Corporate finance module 19: Readings for Tenth Edition

(The attached PDF file has better formatting.)

Updated: October 14, 2010

The page numbers here are for the *tenth* edition of Brealey and Myers. You may also use the seventh, eighth, or ninth editions of this text. The page numbers for earlier editions are in separate postings. The substantive changes in the textbook are slight among these editions, but the final exam problems are based on the tenth edition.

{The Brealey and Myers textbook is excellent. We say to read certain sections and to skip others. This does not mean that certain sections are better; it means that the homework assignments and exam problems are based on the sections that you must read for this course. Some of the skipped sections are fascinating, but they are not tested.}

Read the introduction on page 471 from the second bullet point (“2. Adjust the present value ...”) to the end.

Read section 19.4, “Adjusted Present Value,” on pages 486-489; skip the sub-section “APV for International Projects” on pages 489-490; and focus on the example on “APV for the RIO Corporation” on pages 488-489. The “RIO Corporation” illustration is good; know it well, since the final exam problems are similar.

Read section 19.5, “Your Questions Answered,” on pages 490-492. Many of the concepts are difficult to grasp, and Brealey and Myers try to answer the most common questions.

Read the summary from the paragraph on page 492 beginning “APV is, in concept at least, simple...” to the end (on page 493). Firms have thousands of varieties, and each is slightly different. The final exam questions follow the illustrations in the textbook and the practice problems on the discussion forum.

Review problems 6 and 8 on page 494; and problems 17 and 19 on page 496.

Adjusted present value is the hardest part of this course, but it is the most accurate method of valuing a project.