

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

Required reading, Eighth Edition:

(The attached PDF file has better formatting.)

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{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 503 from the second bullet point (“2. Adjust the present value ...”) to the end. Read section 19.4, “Adjusted Present Value,” on pages 521-524; skip the sub-section “APV for International Projects” on pages 524-525; and focus on the example on “APV for the Perpetual Crusher Project” on pages 521-522. The “perpetual crusher project” illustration is good; know it well, since the final exam problems are similar.

Read section 19.6, “Your Questions Answered,” on pages 525-527. 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 528 beginning “APV is, in concept at least, simple...” to the end. 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.