List of Changes

Principles of Corporate Finance, 13th edition

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New in the 13th edition:

Some of the biggest changes in this edition were prompted by the tax changes enacted in the U.S. Tax Cuts and Jobs Act passed in December 2017. One of the chapters most affected was **Chapter 6**, which is concerned with calculating the present value of capital projects. The major tax changes are described in that chapter, as well as an example of a capital budgeting problem with 100% bonus depreciation and a 21% corporate tax rate. But the U.S. system of immediate expensing of capital expenditures is almost unique. This title also includes examples of the more common systems of straight-line depreciation and double-declining-balance, which is essentially identical to the former U.S. MACRS depreciation.

Another 2017 tax change was the limit imposed on interest tax shields. For companies that are caught by this change, it may no longer make sense to discount cash flows by the weighted average cost of capital. The implications for company debt policy are discussed in **Chapter 18**. **Chapter 19** shows how adjusted present value can be used in these cases to value companies and projects. Similarly, the cap on interest tax shields complicates the valuation of leases. **Chapter 25** demonstrates that when the cap is operative, leases need to be valued by constructing an equivalent loan. Finally, **Chapter 32** considers the possible effect on the private-equity market.

The third important change was the switch by the United States to a territorial tax system. This has major implications for tax strategies, which are largely discussed in the chapters on working capital management (**Chapter 30**) and mergers (**Chapter 31**).

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 U.S. Therefore, in recent editions more international material, including information about the major developing economies, such as China and India, have been progressively introduced. In the current edition, the international content has continued to be augmented. An understanding of practices in other countries will also lead to a better understanding of the characteristics of one's own financial system.

Users of previous editions of this book will not find dramatic changes in coverage or in the ordering of topics. However, there are a number of chapters that have been thoroughly rewritten. For example, the material on agency issues in **Chapter 12** has been substantially revised. **Chapter 13** on market efficiency and behavioral finance is now fresher and more up to date. **Chapter 23** on credit risk focuses more on the practical issues of forecasting default probabilities.

Throughout, edits have been made to keep the book more up-to-date 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.

In the 11th edition, digital extensions have been added through the Beyond the Page features, or "apps". This extra material can allow an escape from some of 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. The Beyond the Page features include extra examples and spreadsheet programs, as well as some interesting anecdotes.

There are now more than 150 of these apps. They are all seamlessly available with a click on the e-versions of the book, but they are also readily accessible from the traditional hard copy of the text through the shortcut URLs. Check out **mhhe.com/brealey13e** to learn more.

Examples of these applications include:

- **Chapter 1:** In Chapter 1, we refer to Bernard Madoff's ponzi scheme. But this scam pales into insignificance compared with the great Albanian ponzi scheme, which is described in an app.

- **Chapter 2**: Do you need to learn how to use a financial calculator? The Beyond the Page financial calculator application shows how to do so.

- **Chapter 3:** Would you like 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 application for Figure 3.2 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 9:** How about measuring the betas of the Fama–French three-factor model for U.S. stocks? The Beyond the Page beta estimation application does this.

- **Chapter 14:** Ever wonder why Google split its stock into A and C shares? An app provides the

answer.

- **Chapter 15:** Want to now how companies can raise capital by an initial coin offering? There is an app on the topic

- **Chapter 19:** 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 20:** 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.

- **Chapter 28:** Would you like to view the most recent financial statements for different U.S. companies and calculate their financial ratios? There is an application that will do this for you.

These apps offer an opportunity to widen the types of material that can be made available and help the reader to decide how deeply he or she wishes to explore a topic.

End-of-chapter questions have been added, basic and intermediate questions have been merged, and questions have been reordered to better follow the same sequence as the chapter.