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CONTENT AND ORGANIZATION

Finance as a scientific discipline is the study of how to allocate scarce resources over time under conditions of uncertainty. There are three analytical "pillars" to finance: optimization over time (the analysis of intertemporal trade-offs), asset valuation, and risk management (including portfolio theory). At the core of each of these pillars are a few basic laws and principles that apply across all of the topical subfields.

The book is divided into six major parts. Part I explains what finance is, gives an overview of the financial system, and reviews the structure and uses of corporate financial statements. Parts II, III, and IV correspond to each of the three conceptual pillars of finance and emphasize the application of finance principles to decision problems faced by households (life-cycle financial planning and investment) and firms (capital budgeting). Part V covers the theory and practice of asset pricing. It explains the Capital Asset Pricing Model, and the pricing of futures, options, and other contingent claims, such as risky corporate debt, loan guarantees, and levered equity. Part VI deals with issues in corporate finance: capital structure, mergers and acquisitions, and real options analysis of investment opportunities.

Finance is intended for use in its current form anywhere in the world. The book is written so that its concepts are as relevant and as understandable to a student in Argentina, France, Japan, or China as they are to a student in the United States. The international aspects of finance are integrated throughout the book, not confined to specific, separate "international" chapters.