GLOSSARY

ABC system An inventory system in which items are classified according to their value for inventory control purposes.

Absolute purchasing power parity theory Theory that claims the current exchange rate is determined by the relative prices in two countries of a similar basket of traded goods and services.

Actuaries are people who use applied mathematics and statistics to predict claims on insurance companies and pension funds.

Additional funds needed The additional external financing required to support asset growth when forecasted assets exceed forecasted liabilities and equity.

After-tax cost of debt (AT kd) The after-tax cost to a company of obtaining debt funds.

Agency costs Costs incurred to monitor agents to reduce the conflict of interest between agents and principals.

Agency problem The possibility of conflict between the interests of a firm's managers and those of the firm's owners.

Agent A person who has the implied or actual authority to act on behalf of another.

Aggressive working capital financing approach The use of short-term funds to finance all temporary current assets, possibly all or some permanent current assets, and perhaps some fixed assets.

American Depository Receipts (ADRs) Securities denominated in US dollars that represent a claim on foreign currency-denominated stocks held in a trust.

Amortized loan A loan that is repaid in regularly spaced, equal installments, that cover all interest and principal owed;

Annuitant A person who is entitled to receive annuity payments.

Annuity A series of equal cash payments made at regular time intervals.

Arbitrage The process whereby equivalent assets are bought in one place and simultaneously sold in another, making a risk-free profit.

Average tax rate The amount of tax owed, divided by the amount of taxable income.

Balance sheet The financial statement that shows an economic unit's assets, liabilities, and equity at a given point in time

Banker's acceptance A security that represents a promise by a bank to pay a certain amount of money, if the original note maker doesn't pay.

Bearer The owner of a security.

Best efforts basis An arrangement in which the investment banking firm tries its best to sell a firm's securities for the desired price, without guarantees. If the securities must be sold for a lower price, the issuer collects less money.

Beta (3) the measure of non-diversifiable risk. The stock market has a beta of 1.0. Betas higher than 1.0 indicate more non-diversifiable risk than the market, and betas lower than 1.0 indicate less. Risk-free portfolios have betas of 0.0.

Bird in the hand theory A theory that says that investors value a dollar of dividends more highly than a dollar of reinvested earnings because uncertainty is resolved.

Board of directors A group of individuals elected by the common stockholders to oversee the management of the firm.

Bond maturity date The date when a bond issuer makes the final payment promised.

Bonds Securities that promise to pay the bearer a certain amount at a time in the future and may pay interest at regular intervals over the life of the security.

Book value, net worth The total amount of common stockholder's equity on a company's balance sheet.

Broker A person who brings buyers and sellers together-

Business risk The uncertainty a company has due to fluctuations in its operating income.

Call premium The premium the issuer pays to call in a bond before maturity. The excess of the call price over the face value.

Call provision A bond indenture provision that allows the issuer to pay off a bond before the slated maturity date at a specified price.

Capital Funds supplied to a firm.

Capital Asset Pricing Model (CAPM) A financial model that can be used to calculate the appropriate required rate of return for an investment project, given its degree of risk as measured by beta (3).

Capital budget A document that shows planned expenditures for major asset acquisitions items, such as equipment or plant construction.

Capital budgeting The process of evaluating proposed projects.

Capital gains The profit made when an as set price is higher than the price paid.

Capital market The market where long-term securities arc traded.

Capital rationing The process whereby management sets a limit on the amount of cash available for new capital budgeting projects.

Capital structure The mixture of sources of capital that a firm uses (for example, debt. preferred stock, and common stock).

Cash budget A detailed budget plan that shows the cash flows expected to occur during specific time periods.

Chief financial officer The manager who directs and coordinates the financial activities of the firm.

Clientele dividend theory The theory that says that a company should attempt to determine the dividend wants of its stockholders and maintain a consistent policy of paying stockholders what they want.

Coefficient of variation The standard deviation divided by the mean. A measure of the degree of risk used to compare alternatives with possible returns of different magnitudes.

Collateral Assets a borrower agrees to give to a lender if the borrower defaults on the terms of a loan.

Collection policy The firm's plans for getting delinquent credit customers to pay their bills.

Combined leverage The phenomenon whereby a change in sales causes net income to change by a larger percentage because of fixed operating and financial costs.

Commercial paper A short-term, unsecured debt instrument issued by a large corporation or financial institution.

Common stock A security that indicates ownership of a corporation.

Compensating balance A specified amount that a lender requires a borrower to maintain in a non-interest paying account during the life of a loan.

Component cost of capital The cost of raising funds from a particular source, such as bondholders or common stockholders.

Compound interest Interest earned on interest in addition to interest earned on the original principal.

Conservative working capital financing approach The use of long-term debt and equity to finance all long-term fixed assets and permanent current assets, in addition to some part of temporary current assets.

Continuous compounding A process whereby interest is earned on interest every instant of time.

Contribution margin Sales price per unit minus variable cost per unit.

Controller The manager responsible for the financial and cost accounting activities of a firm.

Conversion ratio The number of shares (usually of common stock) that the holder of a convertible bond would receive if he or she exercised the conversion option.

Conversion value The value of the stock that would be received if the conversion option on a convertible bond were exercised.

Convertible bond A bond that may be converted, at the option of the bond's owner, into a certain amount of a different type of security issued by the company.

Corporate bond A security that represents a promise by the issuing corporation to make certain payments, according to a certain schedule, to the owner of the bond-

Corporation A business chartered by the state, that is a separate legal entity having some of, but not all of, the rights and responsibilities of a natural person.

Correlation The degree to which one variable is linearly related to another.

Correlation coefficient The measurement of degree of correlation, represented by the letter. Its values range from +1.0 (perfect positive correlation) to -1.0 (perfect negative correlation).

Cost of debt (k.i) The lender's required rate of return on a company's new bonds or other instrument of indebtedness.

Cost of equity from new common stock (kn) The cost of external equity, including the costs incurred to issue new common stock.

Cost of internal equity (k) The required rate of return on funds supplied by existing common stockholders through earnings retained.

Cost of preferred stock (kp) Investors' required rate of return on a company's new preferred stock.

Coupon interest payments Periodic interest payments promised at the time of a bond's issuance.

Credit policy Credit standards a firm has established and the credit terms it offers.

Credit scoring A process by which candidates for credit are compared against indicators of creditworthiness and scored accordingly.

Credit standards Requirements customers must meet in order to be granted credit.

Credit unions Financial institutions owned by members who receive interest on shares purchased and who obtain loans-

Cross rate An exchange rate determined by examining how each of two currencies is valued in terms of a common third currency.

Cross-sectional analysis Comparing variables for different entities (such as ratio values for different companies) for the same point in time or time period.

Current assets Liquid assets of an economic entity (e.g., cash. accounts receivable. inventory, etc.) usually converted into cash within one year.

Current liabilities liabilities that are coming due soon, usually within one year.

Date of record The date on which stockholder records are checked for the purpose of determining who will receive the dividend that has been declared.

Dealer A person who makes his or her living buying and selling assets. **Debenture** A bond that is unsecured.

Declaration date The date on which the hoard of directors announces a dividend is to be paid.

Default risk premium The extra interest lenders demand to compensate for assuming the risk that promised interest and principal payments may be made late or not at all.

Deficit economic unit A government, business, or household unit with expenditures greater than its income.

Degree of combined leverage (DCL) The percent change in net income divided by the percent change in sales-

Degree of financial leverage (DFL) The percent change in net income divided by the percent change in operating income.

Degree of operating leverage (DOL) The percent change in operating income divided by the percent change in sales.

Depreciation basis The total value of an asset upon which depreciation expense will be calculated, a part at a time, over the life of the asset.

Discount loan A loan with terms that call for the loan interest to be deducted from the loan proceeds at the time the loan is granted.

Discount rate The interest rate used when calculating a present value representing the required rate of return.

Discount yield The return realized by an investor who purchases a security for less than face value and redeems it at maturity for face value.

Discounted cash flow (DCF) model **A** model that estimates the value of an asset by calculating the sum of the present values of all future cash flows.

Diversification effect The effect of combining assets in a portfolio such that the fluctuations of the assets' returns tend to offset each other, reducing the overall volatility (risk) of the portfolio.

Dividend payout ratio Dividends paid divided by net income.

Dividend reinvestment plan An arrangement offered by some corporations where cash dividends are held by the company and used to purchase additional shares of stock for the investor.

Dividend yield A stock's annual dividend divided by its current market price.

Dividends Payments made to stockholders at the discretion of the board of directors of the corporation.

Dividends payable The liability item on a firm's balance sheet that reflects the amount of dividends declared but not yet paid.

Effective interest rate The annual interest rate that reflects the dollar interest paid divided by the dollar obtained for use.

Electronic funds transfers The act of crediting one account and simultaneously debiting another by a computer.

Equity multiplier The total assets to total common stockholders' equity ratio.

Euro The common currency to be used by European Union countries. **Eurodollars** Dollar-denominated deposits in banks located outside the United States.

European Currency Unit (ECU) An index reflecting the value of a market basket of currencies from European Union countries.

Excess financing The amount of excess funding available for expected asset growth when forecasted liabilities and equity exceed forecasted assets.

Exchange Rate The number of units of one country's currency that is needed to purchase one unit of another country's currency.

Ex-dividend A characteristic of common stock such that it is trading without entitlement to an upcoming dividend.

Ex-rights A characteristic of common stock such that it is trading without the entitlement to an upcoming rights offering-

Externalities Positive or negative effects that will occur to existing projects if a new capital budgeting project is accepted.

Face value, or par value, or principal The amount the bond issuer promises to pay to the investor when the bond matures. The terms face value, par value, and principal are often used interchangeably.

Factoring The practice of selling accounts receivable to another firm.

Factors Firms that buy and administer another firm's accounts receivable.

Federal Reserve System The government sponsored entity that acts as the central bank of the United States, and that examines and regulates banks and other financial institutions.

Fiduciary responsibility The legal requirement that those who are managing assets owned by someone else do so in a prudent manner and in accordance with the interests of the person(s) they represent.

Financial (capital) lease A lease that is generally long-term and non-cancelable with the lessee using up most of the economic value of the asset by the end of the lease's term.

Financial leverage The phenomenon whereby a change in operating income causes net income to change by a larger percentage because of the presence of fixed financial costs.

Financial ratio A number that expresses the value of one financial variable relative to the value of another.

Financial risk The additional volatility of a firm's net income caused by the presence of fixed financial costs.

Financing cash flows Cash flows that occur as creditors are paid interest and principal and stockholders are paid dividends.

First mortgage A mortgage bond (a bond secured by real property) that gives the holder first claim on the real property pledged as security if there is a foreclosure.

Fixed assets Assets that would not normally be sold or otherwise disposed of for a long period of time.

Fixed costs Costs that do not vary with the level of production.

Flotation costs Fees that companies pay (to investment bankers and to others**)** when new securities arc issued.

Forward rate The exchange rate for future delivery.

Future value The value money or another asset will have in the future.

Future value interest factor for a single amount (FV1F) The (1 4- k)" factor that is multiplied by the original value to solve for future value.

Future value interest factor for an annuity (FVIFA) The factor, which when multiplied by an expected annuity, gives you the sum of the future values of the annuity stream.

Going concern value That value which comes from the future earnings and cash flows that can be generated by a company if it continues to operate.

Going out of business value That value that is that amount that would be left if all the assets were sold. The liabilities and preferred stock paid off and the remainder distributed among the owners.

Hedge A financial arrangement used to offset or protect against negative effects of something else, such as fluctuating exchange rates.

Hurdle rate The minimum rate of return that management demands from a proposed project before that project will be accepted.

Income statement A financial statement that presents the revenues, expenses, and income of a business over a specific time period.

Incremental cash flows Cash flows that will occur only if an investment is undertaken.

Incremental depreciation expense The change in depreciation expense that a company will incur if a proposed capital budgeting project is accepted.

Indenture The contract between the issuing corporation and the bond's purchaser.

Independent projects A group of projects such that any or all could be **accepted-industry comparison** The process whereby financial ratios of a firm are compared to those of similar firms to see if the firm under scrutiny compares favorably or unfavorably with the norm.

Inflation premium The extra interest that compensates lenders for the expected erosion of purchasing power of funds due to inflation over the life of the loan.

Initial public offering (IPO) The process whereby a private corporation issues new common stock to the general public, thus becoming a publicly traded corporation.

Institutional investors Financial institutions that invest in the securities of other companies.

Interest The compensation lenders demand and borrowers pay when money is lent.

Interest rate parity A theory that states that the difference between the exchange rate specified for future delivery, and that for current delivery, equals the difference in the interest rates for securities of the same maturity.

Interest rate spread The rate a bank charges for loans minus the rate it pays for deposits.

Intermediation The process by which funds are channeled from surplus to deficit economic units through a financial institution

Internal rate of return (IRR) The estimated rate of return for a proposed project. Given the size of the project's incremental cash flows and their timing.

International bonds Bonds that are sold in countries other than where the issuer is domiciled.

International Fisher effect A theory developed by economist Irving Fisher that claims that changes in interest rates for two countries will be offset by equal changes, in the opposite direction, in the exchange rate.

Inventory financing A type of financing that uses inventory as loan collateral.

Investment banking firm A firm that helps issuers sell their securities and that provides other financial services.

Investment grade bond Bonds rated Baa3 or above by Moody's bond rating agency and BBR- or above by Standard & Poor's.

JIT An inventory system in which inventory items needed are scheduled to be delivered "just in time" to be used as needed.

Junk bond Bonds with lower than investment grade ratings.

Lease A contract between an asset owner (lessor) and another party who uses that asset (lessee) that allows the use of the asset for a specified period of time, specifies payment terms, and does not convey legal ownership.

Lessee The party in a lease contract who uses the asset.

Lessor The party in a lease contract who owns the asset.

Leverage effect The result of one factor causing another factor to be magnified, such as where debt magnifies the return stockholders earn on their invested funds over the return on assets.

Liability insurance Insurance that pays obligations that may be incurred by the insured as a result of negligence, slander, malpractice, and similar actions.

Line of credit An informal arrangement between a lender and borrower in which the lender sets a limit on the maximum amount of funds the borrower may use at any one time.

Liquidation value The amount that would be received by the owners of a company that sold all its assets at market value, paid all its liabilities and preferred stock, and distributed what was left to the owners of the firm.

Liquidity risk premium The extra interest lenders demand to compensate for holding a security that is not easy to sell at its fair value.

Lockbox A way station (typically a post office box) at which customers may send payments to a firm.

MAFRS, modified accelerated cost recovery system The depreciation rules established by the Tax Reform Act of 19S6 that allow owners to take accelerated depreciation with greater deductions in earlier years than in later years.

Managing investment banker The head of an investment banking underwriting syndicate.

Marginal cost of capital (MCC) The weighted average cost of capital for the next dollar of funds raised.

Marginal tax rate The tax rate applied to the next dollar of taxable income.

Market efficiency The relative ease, speed, and cost of trading securities. In an efficient market, securities can be traded easily, quickly, and at low cost. In an inefficient market, one or more of these qualities is missing.

Market risk premium The additional return above the risk-free rate demanded by investors for assuming the risk of investing in the market.

Maturity date The dale the bearer of a security is to be paid the principal, or face value, of a security.

Maturity risk premium The extra (or sometimes lesser) interest that lenders demand on longer-term securities.

Mixed ratio A financial ratio that includes variables from both the income statement and from the balance sheet.

Moderate working capital financing approach An approach in which a firm finances temporary current assets with short-term funds and permanent current assets with long-term assets and fixed funds.

Modigliani and Miller dividend theory A theory developed by financial theorists Franco Modigliani and Merton Miller that says the amount of dividends paid by a firm does not affect the firm's value.

Money market The market where short-term securities are traded.

Mortgage bond A bond secured by real properly.

Multinational corporation (MNC) A corporation that has operations in more than one country.

Municipal bonds Bonds issued by a state, city, county, or other nonfederal government authority, including specially created municipal authorities such as a toll road or industrial development authority.

Mutually exclusive projects A group of projects that compete against each other. Only one of the mutually exclusive projects may be chosen.

Mutuals Institutions (savings and loans or insurance companies for example) that are owned by their depositors or policy holders

Negotiable CDs A deposit security issued by financial institutions that comes in minimum denominations of $100.000 and can be traded in the money market.

Net present value (NPV) The estimated change in the value of the firm that would occur if a project is accepted.

Net working capital The amount of current assets minus the amount of current liabilities of an economic unit.

Nominal interest rate The rate observed in the financial marketplace that includes the real rate of interest and various premiums.

Nominal risk-free rate of interest The interest rate without any premiums for the uncertainties associated with lending.

Non-diversifiable risk The portion of a portfolio's total risk that cannot be eliminated by diversifying. Factors shared to a greater or lesser degree by most assets in the market, such as inflation and interest rate risk cause non-diversifiable risk.

Non-simple project A project that has a negative initial cash flow, and also has one or more negative future cash flows.

NPV profile A graph that displays how a project's net present value changes as the discount rate, or required rate of return changes.

Open-market operations The buying and selling of U.S. Treasury securities or foreign currencies to achieve some economic objective.

Operating lease A lease that has a term substantially shorter than the useful life of the asset and is usually cancelable by the lessee.

Operating leverage The effect of fixed operating costs on operating income; because of fixed costs, any change in sales results in a larger percentage change in operating income.

Opportunity cost The cost of foregoing the best alternative to make a competing choice.

Optimal capital budget The list of all accepted projects and the total amount of their initial cash outlays.

Over-the-counter market A network of dealers around the world who purchase securities and maintain inventories of securities for sale.

Par value The stated value of a share of common stock.

Partnership An unincorporated business owned by two or more people. **Payback period** The expected amount of time a capital budgeting project will take to generate cash flows that cover the project's initial cash outlay.

Payment date The date the transfer agent sends out a company's dividend checks.

Pension fund A financial institution that takes in funds for workers, invests those funds, and then provides for a retirement benefit.

Permanent current assets The minimum level of current assets maintained.

Perpetuity An annuity that has an infinite maturity.

Portfolio A collection of assets that are managed as a group.

Preemptive right A security given by some corporations to existing stockholders that gives them the right to buy new shares of common stock at a below-market price until a specified expiration date,

Preferred stock A security issued by a corporation with a given dividend to be paid before any dividends are paid to holders of the firm's common stock.

Present value Today's value of promised or expected future value.

Present value interest factor for a single amount (PV1F) The 1/(1 + k) factor that is multiplied by a given future value, to solve for the present value.

Present value interest factor for an annuity (PVIFA) The factor, which when multiplied by an expected annuity payment, gives you the present value of the annuity stream.

Primary market The market where newly issued securities are sold to the public.

Primary reserves Vault cash and deposits at the Fed that go toward meeting a bank's reserve requirements.

Principal A person who authorizes an agent to act for him or her.

Private corporation A corporation that does not otter its shares to the general public and that can keep its financial statements confidential.

Pro forma financial statements Projected financial statements.

Progressive tax rate structure A tax structure under which the tax rate increases as taxable income increases usually in a pattern of several steps.

Promissory note A legal document the borrower signs indicating agreement to the terms of a loan.

Proprietorship A business that is not incorporated and is owned by one person.

Prospectus A disclosure document given to a potential investor when a new-security is issued.

Publicly traded corporations Corporations that have common stock that can be bought in the marketplace by any interested party and that must release audited financial statements to the public.

Pure time value of money The value demanded by an investor to compensate for the postponement of consumption.

Putable bonds Bonds that can be redeemed before the scheduled maturity date, at the option of the bondholder.

Quota A quantity limit imposed by one country on the amount of a given good that can be imported from another country.

Real rate of interest The rate that the market offers to lenders to compensate for postponing consumption.

Refunding Issuing new bonds to replace old bonds.

Relative purchasing power parity theory A theory that states that as prices change in one country relative to those prices in another country, for a given traded basket of similar goods and services, the exchange rate will tend to change proportionately but in the opposite direction.

Required reserve ratio The percentage of deposits that determines the amount of reserves a financial institution is required to hold.

Residual income Income left over, and available to common stockholders, after all other claimants have been paid.

Restrictive covenants Promises made by the issuer of a bond to the investor, to the benefit of the investor.

Rights-on A characteristic of common stock such that it is trading with the entitlement to an upcoming right.

Risk The potential for unexpected events to occur.

Risk-adjusted discount rate (RADR) A required rate of return adjusted to compensate for the effect a project has on a firm's risk.

Risk aversion A tendency to avoid risk that explains why most investors require a higher expected rate of return the more risk they assume.

Risk-free rate of return The rate of return that investors demand in order to take on a project that contains no risk other than an inflation premium.

Risk-return relationship The positive relationship between the risk of an investment and an investor's required rate of return.

Sales breakeven point The level of sales that must be achieved such that operating income equals zero.

Savings and loan associations (S&Ls) Financial institutions that take in deposits and make loans (primarily mortgage loans).

Second mortgage A mortgage bond (a bond secured by real property) that gives the holder second claim (after the first mortgage bondholder) on the real property pledged as security.

Secondary market The market where previously issued securities are traded from one investor to another.

Secondary reserves Marketable securities that can be readily sold to obtain cash.

Secured bond A bond backed by specific assets that the investor may claim if there is a default.

Security A document that establishes the bearer's claim to receive funds in the future.

Self-liquidating loan A loan that is used to acquire assets that generate enough cash to pay off the loan**.**

Senior debenture An unsecured bond having a superior claim on the earnings and assets of the issuing firm relative to other debentures,

Serial payments A mode of payment where the issuer pays off bonds according to a staggered maturity schedule.

Signaling The message sent by managers, or inferred by investors, when a financial decision is made.

Signaling dividend theory A theory that says that dividend payments often send a signal from the management of a firm to market participants-

Simple project A project that has a negative initial cash flow, followed by positive cash flows only.

Sinking fund A method for retiring bonds. The bond issuer makes regular contributions to a fund that the trustee uses to buy back outstanding bonds and retire them.

Spot rate The exchange rate for current delivery.

Stakeholder A party having an interest in a firm (for example, owners, workers, management, creditors, suppliers, customers, and the community as a whole).

Standard deviation A statistic that indicates how widely dispersed actual or possible values are distributed around a mean.

Stated interest rate The interest rate advertised by the lender. Depending on the terms of the loan, the staled rate may or may not be the same as the effective interest rate.

Statement of retained earnings A financial statement that shows how the value of retained earnings changes from one point in time to another.

Stock Certificates of ownership interest in a corporation.

Stock dividend A firm sends out new shares of stock to existing stockholders and makes an accounting transfer from retained earnings to the common stock and capital in excess of par accounts of the balance sheet.

Stock split A firm gives new shares of stock to existing shareholders; on the balance sheet, they decrease the par value of the common stock proportionately to the increase in the number of shares outstanding.

Straight bond value The value a convertible bond would have if it did not offer the conversion option to the investor.

Straight-line depreciation A depreciation rule that allows equal amounts of the cost of an asset to be allocated over the asset's life.

Strengthening currency A currency that is now convertible into a larger number of units of another currency than previously.

Subchapter S corporation A small corporation whose income is taxed like a partnership.

Subordinated debenture An unsecured bond having an inferior claim on the earnings and assets of the issuing firm relative to other debentures.

Sunk costs A cost that must be borne whether a proposed capital budgeting project is accepted or rejected.

Surplus economic unit A business, household, or government unit with income greater than its expenditures.

Syndicate A temporary alliance of investment banking firms that is formed for the purpose of underwriting a new security issue.

Target stock A class of common stock that represents a claim on a part of company.

Tariff A tax imposed by one country on imports from another country.

Temporary current assets That portion of current assets that fluctuates during the company's business cycle.

10-K reports An audited set of financial statements submitted annually by all public corporations to the Securities and Exchange Commission (SEC).

10-Q reports An unaudited set of financial statements submitted quarterly by all public corporations to the Securities and Exchange Commission (SEC)

Time value of money The phenomenon whereby money is valued more highly the sooner it is received.

Trade credit Funds obtained by delaying payment to suppliers.

Transaction cost The cost of making a transaction, usually the cost associated with purchasing or selling a security.

Transfer agent A party, usually a commercial bank that keeps track of changes in stock ownership, collects cash from a company, and pays dividends to its stockholders.

Treasurer The manager responsible for financial planning, fundraising, and allocation of money in a business.

Treasury bills Securities issued by the federal government in minimum denominations of $10.000 in maturities of three, six, or twelve months.

Treasury bonds and notes Securities issued by the federal government that make semi-annual coupon interest payments and pay the face value at maturity. Treasury notes come in maturities of one to ten years. Treasury bonds come in maturities of more than ten years.

Trend analysis Where something (such as a financial ratio) is examined over time so as to discern any changes.

Trustee The party that oversees a bond issue and makes sure all the provisions set forth in the indenture are carried out.

Uncertainty The chance, or probability that outcomes other than what is expected will occur.

Underwriting The process by which investment banking firms purchase a new security issue in its entirety and resell it to investors. The risk of the new issue is transferred from the issuing company to the investment bankers.

Unitary tax A tax assessed by a state on the earnings of a foreign corporation.

Variable costs Costs that vary with the level of production.

Variable rate bonds Bonds that have periodic changes in their coupon rates, usually tied to changes in market interest rates.

Warrant A security that gives the holder the option to buy a certain number of shares of common stock of the issuing company, at a certain price, for a specified period of time.

Weakening currency A currency that is now convertible into a smaller number of units of another currency than previously.

Wealth Assets minus liabilities.

Weighted average cost of capital (ka) or (WACC) The average of all the component costs of capital, weighted according to the percentage of each component in the firm's optimal capital structure.

Working capital Another name for the current assets on a firm's balance sheet.

Yield to maturity (YTM) The investor's return on a bond, assuming that all promised interest and principal payments are made on time and the interest payments are reinvested at the YTM rate.

Zero-coupon bonds Bonds that pay face value at maturity and that pay no coupon interest.