The secrets behind every MBA’s favourite book

Start an MBA course and you’ll probably find Principles of Corporate Finance on your reading list. But the authors Richard Brealey, Stewart Myers, and the more recently added Franklin Allen are aware that the 900 pages of small font can seem overwhelming for some.

“We know it’s a subject that scares students as it sounds like hard and heavy stuff, so we just try to do anything we can to help with that,” says Brealey of the book that’s been part of his life since he started writing it in 1975, with updates every three years. “So we use slang and contractions and put in the odd dreadful pun.”

You’ll need a gin and tonic

Their jokes and wry comments have attracted a band of devotees. When Brealey went to give a talk at a university in Germany, he was surprised to find everyone armed with a gin and tonic – it was in homage to a particularly tricky section of the book on options, where the authors recommend that readers should take a rest from the complicated subject matter and pour themselves a generous glass of the drink, only to resume when they are “rested (or drunk)”.

Brealey, who’s British, says most of the jokes come from his American co-author Myers, not him. So he was able to bat off a complaint from an American professor who said: “This British sense of humour will never go down in the States.”

Jokes apart, the book has gone a long way to educating the world’s managers and financiers since it was first published in 1981. Now in its eleventh edition, it’s been translated into 12 or more languages including, to Brealey’s delight, editions for emerging markets and the BRIC nations – Brazil, Russia, India and China. He doesn’t have a number for how many MBA courses use it but it’s particularly popular outside the US.

A golden age for finance

The book’s also used in banks as a point of reference. “I think we have influenced the way people behave – the way they estimate their cost of capital or value a lease,” he says. “If companies make good investment decisions then that helps us all. Also there’s so much nonsense talked about finance and it’s great to try to clear the decks of that – whether in personal finance or corporate finance.”

The idea for the textbook came from an editor at McGraw-Hill in the US in 1973 and it was good timing. While there were already some American finance textbooks from the 1960s, they preceded an era of huge change in the sector. It was the start of the golden age of finance, a time when more data was becoming available, computers were getting more powerful and new theories and models were taking off, including the capital asset pricing model and efficient market theory. Finance was suddenly an exciting area to work in and the subject needed writing afresh.

At the time, Brealey was teaching at Berkeley. He’d already written a book about investment management called An Introduction to Risk and Return from Common Stocks, which was designed to be accessible to practitioners, so he took on the challenge. He’d met Myers at MIT seminars and in 1975 he persuaded him to join in the task. With Brealey back in London, they struck up a perfect transatlantic writing partnership: “I do a first draft and Stew totally changes it,” quips Brealey. The body of the book came from the material they taught on their own corporate finance courses and took six years to publication.

Some things stay the same

A rival finance textbook appeared three years after they first published. There have been others, including one a couple of years ago, but as the subject gets bigger it gets harder to cover it all in one book.

Two editions ago Franklin Allen joined the team to provide international expertise and institutional knowledge. And the latest edition has Q codes in the book, which give access to online material, apps and Excel spreadsheets where you can enter your own data. They’ve also developed online questions and grading systems to help more students make progress.

While the book gets regularly and comprehensively updated, Brealey says it’s surprising how much has stayed the same. The 1960s theories are still the bedrock of financial teaching, but they’re no longer seen as such sacred truths; there have been too many ways they don’t fit with booms and busts for example.

Meanwhile careful readers of the first and current editions will have noted one anomaly. Back in 1981 in the popular ‘10 Unsolved Things About Finance’ section at the back of the book, Brealey and Myers wrote that the capital asset pricing model is not the ultimate truth but in 10 or 20 years’ time we should know more. Well today, more than 30 years later, the model is still in the book as one of the ‘10 Unsolved Things’, and we’re still waiting.

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