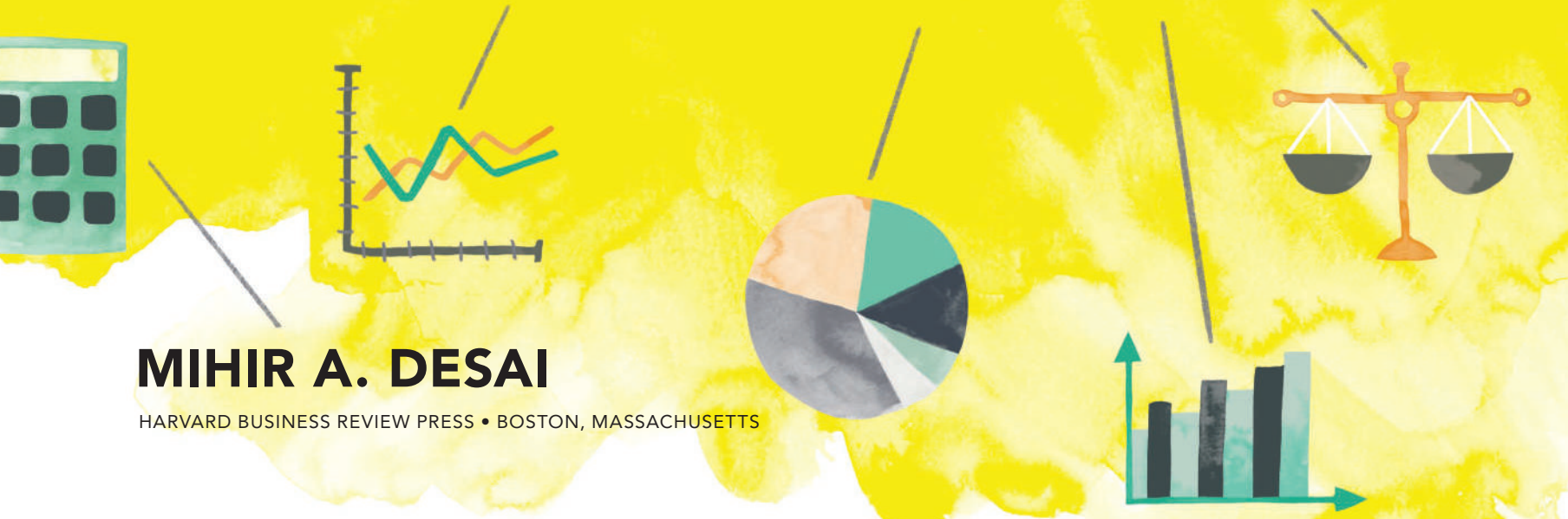




# How Finance Works

THE HBR GUIDE TO THINKING SMART ABOUT THE NUMBERS



**MIHIR A. DESAI**

HARVARD BUSINESS REVIEW PRESS • BOSTON, MASSACHUSETTS

# Contents

**Introduction . . . 1**

## **CHAPTER 1**

**Financial Analysis . . . 9**

Using ratios to analyze performance—  
all while playing a game

## **CHAPTER 2**

**The Finance Perspective . . . 51**

Why finance is obsessed with cash and the future

## **CHAPTER 3**

**The Financial Ecosystem . . . 85**

Understanding the who, why, and  
how of capital markets

## **CHAPTER 4**

**Sources of Value Creation . . . 113**

Risk, costly capital, and the origins of value

## **CHAPTER 5**

**The Art and Science of Valuation . . . 149**

How to value a home, an education, a project,  
or a company

## **CHAPTER 6**

**Capital Allocation . . . 187**

How to make the most important decisions facing  
CEOs and CFOs

**Conclusion . . . 223**

Answers . . . 229

Glossary . . . 243

Notes . . . 257

Index . . . 259

Acknowledgments . . . 267

About the Author . . . 269