The Evolution of Business Finance Textbooks

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Introduction

This article 1) examines changes that have occurred in basic American business finance textbooks over time; 2) identifies textbooks that were influential in establishing patterns for subsequent texts and texts that were innovative in their presentation of material; and 3) analyzes the association between the content of textbooks and the field of business finance.

There are several measures of the worth of a textbook. Examples of market measures are the percentage of the market a book has had over a certain period, or the number of times it has been revised. An example of scholarship measures is the influence a text has on others — whether subsequent authors use it as a pattern, or whether it presents unique material.[1]

Often uniqueness and influence go together. Almost by definition, current texts contain little or no original research. In the past, this was not necessarily true (for example, Dewing [18, 1919] and Gerstenberg [23, 1924]).[2] I choose to highlight texts that in my opinion have made scholarly contributions.

For convenience of exposition, texts are examined in three phases: The organizational phase — 1860 through 1949; the transitional phase — 1950 through 1959; and the managerial-valuation phase — 1960 on.

The Organizational Phase (1860–1949)

Common terms used previously to characterize this period have been "descriptive" (Solomon [61] and Weston [69]), "traditional" (Hunt [32]), and "episodic" (Weston [69]). ("Episodic" refers to the major events or episodes in a firm's life: for example, promotion, initial organization, selling securities, mergers, reorganization, and bankruptcy). While each of these terms has some validity, all fail to adequately describe the majority of books published during the period. As will be seen, 1860 through 1949 was the period in which finance and finance textbooks were organized into the pattern we now observe.

Collegiate business schools came about as a natural

[1] See Constantine Danellis [14] for details of texts from 1895–1963.
[2] Reference citations after textbooks include the reference number and the edition date.

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outgrowth of proprietary commercial colleges. Commercial colleges started around the 1850s to provide employers with individuals trained in business and finance who could perform as cashiers, bookkeepers, tellers, salespeople, and secretaries. By 1880, it was apparent that businesses also needed persons trained for management. To serve this need, Joseph Wharton funded a school at the University of Pennsylvania, whose purpose he suggested was:

> To provide for young men special means of training and of correct instruction in the knowledge and in the arts of modern Finance and Economy, both public and private, in order that, being well informed, and free from delusions upon these important subjects, they may either serve the community skillfully as well as faithfully in offices of trust, or, remaining in private life, may prudently manage their own affairs and aid in maintaining sound financial morality; in short, to establish means for imparting a liberal education in all matters concerning Finance and Economy [38, p. 8].

Although the Wharton School was established in 1881, it offered a very limited program until the 1900s. Other early business schools at Berkeley, Chicago, Dartmouth, New York University, and Wisconsin were founded between 1898 and 1901. By 1910, there were 14 university-affiliated business schools, including Harvard (1907) and Northwestern (1908). Business training also took place in departments of economics or political science (Columbia, 1890) or business (Texas, 1912). New York University and Wharton were the first schools with significant undergraduate programs in the period 1900–1904.

Establishing a business school or department did not cause a rapid expansion in numbers of students. Although businessmen continued to urge universities to provide business training, frequent hostility of liberal arts faculties forced business programs to limit their course offerings.

Several factors, however, made the expansion of business schools at universities inevitable: 1) a rapidly increasing clientele for business education; 2) the willingness of universities to develop and promote business programs; 3) the realignment of the occupational structure from farming to manufacturing; and 4) the Certified Public Accountant Acts enacted in many states that required accountants to have professional training.

The first few courses in finance concerned money and banking. By 1904, however, courses entitled Practical Finance or Corporation Finance were offered, and it was these courses that spurred publication of corporate finance textbooks.

First Corporation Finance Texts

The earliest American text, perhaps best described as a manual for practitioners, was *Corporate Finance* [27], published in 1897 by Thomas Greene, a New York City auditor.[3] Greene's selection of topics set the tone for this period. Chapter titles were: Bonds and Stocks, Forms of Corporation Enterprises, Railroad Bonds, Subsidiaries and Their Securities, Corporation Accounting, Railroad Reports, Public Policy Toward Corporate Profits, Failure, and Reorganization. Later textbooks of the period include those by Cleveland [9, 1903], a lawyer on the faculty at Wharton; Coyington [13, 1906], the board chairman of Ronald Press; Lough [42, 1909], a professor at New York University; and Mead [49, 1905, 48, 1910], a professor at Wharton. The 1910 Mead book could be considered the first corporate finance book written as a text for college students. The book represented notes from Mead's lectures at Harvard between 1907 and 1908. It went through nine revisions, the last in 1941.

These early texts were descriptive and episodic. They were descriptive because the authors were codifying current practice. They were episodic and outsider–oriented because of the emphasis at the time. Internal financial management was undeveloped, and it did not attract public attention as did outside and episodic finance.

Of all the authors of texts between 1897 and 1940, two stand out for their scholarly approach and their lasting contribution to finance. They were Charles Gerstenberg (1882–1948) at New York University and Arthur Stone Dewing (1880–1969) at Harvard. Gerstenberg's first text, *Materials in Corporation Finance*, was published in 1915 and contained 1,023 pages. A companion 723–page text, *Financial Organization and Management of Business*, was published in 1924. By any standard, these are monumental works of encyclopedic detail. The latter work was to remain an important text until its last edition in 1960, and it influenced both form and content of other texts well into the 1970s.

Dewing's text, *The Financial Policy of Corporations*, was first published in 1919 and continued through five editions until 1953. The first edition has 1,281 pages, but that number grew with each edition until the final one of 1,538 pages. Dewing was also the first to offer a second 457–page abbreviated text, *Cor-*

[3]Danellis [14] argues that the first finance text was by Edward Carroll, Jr. [7, 1895]. His book was titled *Principles and Practice of Finance: A Practical Guide for Bankers, Merchants and Lawyers*. Although the book does cover financial instruments, its emphasis is on money and banking.

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pora'e Finance [17, 1922], specifically for undergraduate use. Dewing's seminal work still has an important place in a finance library. His scholarship was impressive and his footnotes legendary (roughly 50% of the text). Dewing cites a seemingly endless series of legal cases to document his positions, and his 1941 edition probably marked the pinnacle of the union of finance and law.

Texts of both Gerstenberg and Dewing (as well as certain subsequent texts) may appear to present-day faculty to lack theoretical underpinning and to be merely descriptive, because today's financial theory is cast in terms of economics and mathematics. Early texts developed legal theory applied to finance, which may be difficult for faculty trained in economics to appreciate; law has its own positive and normative aspects and its own structure of analysis. The important finance texts of the period were in reality as theoretical as any of our current basic texts.

The texts of Mead, Gerstenberg, and Dewing dominated the market from 1910 through 1940. From 1941 through 1960, the dominant text was Guthmann and Dougall [28], a text in the tradition of the earlier period. The Guthmann–Dougall text came at a critical time, at the end of the depression. Perhaps because it was distributed by Prentice-Hall, a company founded by Gerstenberg, it may have had an advantage over its competitors. Exhibit 1 compares the content of these four texts.

Guthmann, in explaining the organization of their text, noted that, 1) working capital became an issue after World War II; 2) books in demand as texts were descriptive, portraying current and past practices; and 3) interest in mathematics and the development of economic theory applied to finance started in the 1950s. Guthmann explains why the text, as well as most other texts of the period, had no questions or problems at the end of-chapters: "Teachers had the obligation to make up questions and problems; this was what instruction was about."[4]

Summary of Texts, 1897–1949

Early texts were the codification of conventional wisdom, representing the emerging educational philosophy on which finance departments would be based. The initial audience for finance texts was lawyers and accountants, because of their roles in corporate organization, promotion, securities offerings, investment banking, acquisitions, and reorganization. Since lawyers and accountants deal significantly with the determination or allocation of property rights, texts had a distinctive descriptive and episodic flavor.

To an important degree, Mead, Gerstenberg, and Dewing by their initial texts defined the academic area of corporate finance. Because the areas of accounting and microeconomics were also struggling to establish their uniqueness and the boundaries of their knowledge, it is not surprising that finance pioneers (often trained in law) should choose law as the delineating force for the emerging area.

Other characteristics of early texts were:

1) Concentration on large corporations. While

[4]Interview with Harry Guthmann, October 1978.

Exhibit 1. A Comparison of the Content of Major Organization Finance Texts

Subject	Percent of Pages Devoted to Subject Mead	Gerstenberg	Guthmann and Dougall	Dewing
Introduction: Forms of Organization	3	17	10	3
Promotion	22	7	15	16
Investment Banking	11	9	14	10
Income Management	17	10	8	18
Working Capital Management	—	12	8	2
Securities	20	18	18	15
Mergers and Acquisitions	11	17	12	14
Bankruptcies	16	10	11	22
Social	—	—	4	—
	100	100	100	100

Edward S. Mead, *Corporation Finance*, Appleton, 1910, 468 pp.
Charles W. Gerstenberg, *Financial Organization and Management of Business*, Prentice-Hall, 1924, 723 pp.
Harry G. Guthmann and Herbert C. Dougall, *Corporate Financial Policy*, Prentice-Hall, 1940, 795 pp.
Arthur Stone Dewing, *The Financial Policy of Corporations*, Ronald, 1953 (5th ed.), 1538 pp.

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books of the period discussed all forms of organization, emphasis was on large corporations. Exceptions to this occurred late in the period (Dauten [15, 1948], Prather [57, 1955]).

2) Minimization of accounting. An important feature of the texts of the period was that they did not encroach on accounting. There was no suggestion of entries, and ratio analysis was minimal. Important exceptions were Jamison [36, 1927], McKinsey and Meech [43, 1923], and Stevens [63, 1934], all of whose books were not revised. These books, however, look relatively modern when viewed in terms of today's financial management texts. Stevens even uses an elementary approach to the average weighted cost of capital. (See Danellis [14, p. 85].) Several current writers of financial management texts have stated that these three texts served as models for the emerging texts of the 1950s and 1960s [*e.g.*, 31, 39, 68].

Various writers did make excursions into new material. Among the first were Hoaglund [30, 1933] and Burtchett [5, 1934], who examined the social aspects of corporations. The areas covered included corporation policy, regulation and control, taxes, stabilization, and extensions to other countries. This social emphasis was caused by the depression, and to some extent it has remained a part of finance texts.

Although it will be shown that a change in emphasis away from organization was under way by 1949, organization texts continued to dominate the market through 1960. Even texts of today contain substantial portions devoted to material originally included in Mead and Gerstenberg. In explaining why the organization phase lasted so long and continues even today to influence text material, Block suggests that a "by-product of codification of material through textbooks and the organization of curriculum structure along departmental lines was a degree of slowness in responding to change" [4, p. 8]. Also possible is that beginning students need to know the terminology, which in finance involves knowledge of instruments and episodes among other things.

The end of the organization phase was first anticipated by Pearson Hunt [32] in a significant review of Dewing [18, 1941]. However, dissatisfaction by business school faculty was not otherwise noted in the literature until 1949–1950. By this time, the effects of the decision-making requirements in postwar business made a change in the textbook form inevitable.

The Transitional Phase (1950–1959)

The second phase in the evolution of finance texts was made inevitable by the postwar economic surge with its emphasis on internal finance. This was reflected in two conferences reported in the *Journal of Finance* in September 1949 and 1950. The conferences brought about a desire on the part of some for a working capital approach. Of the five writers expressing views on the conference in the *Journal*, two, Upton and Hunt, would write texts during the 1950s using the new approach. They wanted emphasis placed on the emerging short-term financial problems and internal financial operations. Calkins said, "We have become too complex, too encyclopedic, too demanding of memory at the expense of intellect" [6, p. 277]. Hunt [33, p. 282] noted the need to relate economic theory to positive economic decisions made by individual firms.

Wallace Mors, in a review of Gerstenberg [23, 1951] indicated his dissatisfaction with the old organization and coverage even though he admired the reviewed work. He stated, "Perhaps a new format will emerge and take over in the future. If so, Gerstenberg's posthumous work is a fitting climax to a trend which he helped build and which had justification in building" [50, p. 94]. The new format Mors anticipated came one year later, but Gerstenberg was revised again in 1960. Interestingly, in the same *Journal of Finance* issue as the Gerstenberg review was Markowitz's article, "Portfolio Selection," a landmark theoretical paper whose ramifications are now being applied in nearly all basic texts.

The desire to restructure the basic finance course was held by a small but influential group of finance professors. Simultaneously, criticism of business training increased among non-business faculty, culminating in the mid 1950s with the initiation of two reports (published in 1959): the Pierson report [56] and the Gordon and Howell report on business education [26]. As a result, there was a general shift in the emphasis of business training. In finance, this translated into financial management. Also, certain schools revamped their curriculums to meet this emerging ideal.

Sedlak [59] classifies faculties into those following the managerial ideal and those following the technical ideal. The managerial ideal is to train generalists. Business curriculums become more theoretical, and knowledge from the social and behavioral sciences is included. Pedagogy stresses decision-making ability. The technical ideal is to train specialists for entry level jobs. It represents the type of programs common to business schools in the earlier periods.

Implementing the managerial ideal for some

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schools meant eliminating the undergraduate program (Chicago, Northwestern, and UCLA) or severely restricting it in favor of graduate education (Michigan, Minnesota, and Wharton). In the process, technical training was moved significantly into the college and junior college level.

The first text in the transition phase from organizational to managerial was Howard and Upton, *Introduction to Business Finance* [31, 1953]. In a review of it, John Clendenin said, "This book makes an effective departure in the direction in which most of us have wished to go in our business finance course" [8, p. 356]. Howard and Upton drastically reduced the space provided to episodic finance, *i.e.*, mergers, reorganization, promotion. In its place they put financial analysis, planning and budgeting, and short-term financing. The division between finance and accounting had narrowed perceptibly.

Organization-episodic finance did not die. The better-selling textbooks of the day still followed the patterns established by Gerstenberg. However, with the publication of Hunt, Williams, and Donaldson (HWD) [34, 1958] and Johnson [39, 1959], the organization period ended, and the managerial period began.

It should be noted that the new texts were influenced by a number of important theoretical books and articles. Examples are *Capital Budgeting* by Joel Dean [16], *The Management of Corporate Capital* by Ezra Solomon [60], and *Portfolio Selection* by Harry Markowitz [46]. By 1959, considerable strides had been made in understanding the theories of capital budgeting and cost of capital.

Thus it was logical that HWD [34, 1958] contained chapters on capital budgeting and cost of capital as well as the areas covered by Howard and Upton. Johnson [39, 1959], published at approximately the same time, was similar to HWD, although more managerial in scope. Both books approached finance from the viewpoint of the financial manager or chief financial officer. Both drastically reduced episodic material and placed the emphasis on working capital management. One difference between them was that HWD used cases to aid the student in applying the tools learned in the text, while Johnson was the first to use both questions and problems in a basic finance textbook.

One reviewer, Harold Krogh, liked HWD [34, 1961], but thought it was difficult because it neglected many of the descriptive matters that were in previous texts. Richard Ball, reviewing Johnson [39, 1959], found too much emphasis on working capital management and short-term finance. While these two reviewers may have been more progressive than many of their colleagues, still they found it hard to completely accept the managerial approach with its emphasis on cash flow. Both these texts captured significant portions of the market. In retrospect, the inclusion of mathematics of finance by these authors was a major innovation that has continued until today.

Managerial–Valuation Phase (1960 to the Present)

The managerial-valuation phase, which has lasted from 1960 to the present, began in an explosion of significant research, helped immeasurably by a strong base set in the 1950s. Consider, for example, that the *Journal of Finance* was first published in 1946, and the *Journal of Financial and Quantitative Analysis* was not to be published until 1966. Finance in the 1960s was developing its distinct identity, through research. This had a substantial effect on texts during the 1960s, but far less on texts in the 1970s.

The 1960s

Following Johnson, the next important financial management text was by Weston [68, 1962]. He established the pattern current texts follow. Weston assumed that students knew only high school algebra; therefore, he explained more techniques of analysis. He also incorporated relatively recent research into the text. Weston was the first to discuss Modigliani and Miller's contribution to the cost of capital and to use appendices to explain techniques of basic analysis. Although he adhered to the financial management view established by HWD and Johnson, he expanded the episodic areas, such as forms of organization, long-term finance, mergers and acquisitions, and bankruptcy.

Perhaps the most innovative text of the period was by William Beranek, *Analysis for Financial Decisions* [3, 1963], which took a quantitative approach. A reviewer, J. Russell Nelson, called it "the first of a new generation of finance textbooks" [51, p. 124]. Beranek completely omitted the episodic areas, substituting a basic framework for systematic analysis of problems. He developed an integrated approach through goal and sub-goal optimization. His text described the use of linear discriminant analysis for accounts receivable management and linear programming for production and finance. Its considerable influence on the field was not reflected in its disappointing sales.[5]

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Other books using extensive quantitative analysis followed. Notable among them were Mao [44, 1969], Peterson [54, 1969], and Jean [37, 1973]. No book of this type has been revised, perhaps, as Weston suggests, because most finance instructors reject management science as the appropriate model for finance theory and applications.[6] Another possibility is that these texts were affected by student opposition in the 1970s when quantitative approaches were anathema to anyone lacking mathematical background.

During the 1960s, it appeared that finance was in a millennium. Each year, authors brought forth innovative material. Examples are Lindsay and Sametz [41, 1963], who used a non-mathematical but analytic approach, and Friedland [22, 1966], who added flow of funds. In addition, two important monographs reflected advanced thinking: Solomon [61] and Weston [69].

Solomon's book, *The Theory of Finance*, includes a discussion of the nature of finance. He analyzes the trends of the past (starting with Mead), indicating how description has given way to analysis and how positive theory has been replaced with normative theory. Solomon states that the emerging view is that finance is an integral part of over-all management as opposed to a staff specialty which he calls the integrated view.

Questions to be asked under the integrated view would include: 1) What specific assets should an enterprise acquire? 2) What total volume of funds should an enterprise commit? 3) How should the required funds be obtained? To answer these questions, Solomon suggested the maximization of the present worth of owners' wealth, with financial episodes as special cases in the integrated approach. Ironically, the Beranek textbook [3, 1963] published in the same year was applying the concepts that Solomon suggested.

Weston, in *The Scope and Methodology of Finance*, catalogues the various dilemmas circumscribing the scope of the finance function, for example, economics vs. professional content; principles vs. institutions; stockholders vs. managers; social vs. managerial viewpoint; insider vs. outsider; small firm vs. large firm; cash flow vs. wealth maximization; specific finance function vs. generic management responsibilities.

Solomon and Weston described a major trend in finance — the movement from law to economics. This was not a trend from positive to normative (as they seem to think), but rather a shift in emphasis caused by the rapidly increasing influence of microeconomics. Further, the maturing of finance research created a new body of financial knowledge. This knowledge was based on economics and quantitative analysis as opposed to law.

Van Horne [64, 1968], one of the last books of the period, utilized this new knowledge. A reviewer of his book, E. Bruce Fredrikson [21], said that Van Horne incorporated a great deal of exciting recent literature. He points out that Van Horne indicated that theory has restricting assumptions, conflicts, contradictions, and compromises which graduate students can appreciate, but which undergraduates with a need for more direction may find disconcerting. In addition, Van Horne was the first to include uncertainty in capital budgeting and also to increase the space allotted to dividend theory.

Exhibit 2 contrasts Johnson, Weston, and Van Horne, three best-selling texts. Although allocation of space to topics is somewhat similar, the degree of difficulty and the amount of theory have increased substantially, so Van Horne [64, 1968] is much more theoretical than Johnson [39, 1959]. This increase in theoretical content reflects the rapid changes occurring in finance research.

Until 1968, textbooks were written primarily for the undergraduate market because there were relatively few graduate-level business students, and the basic graduate-level course was often combined with the same course at the undergraduate level. In 1966, Weston and Brigham revised Weston's *Managerial Finance* [68, 1962] in a manner which made it more suitable for a graduate course, and in 1968 they brought out a simplified version called *Essentials of Managerial Finance* [70, 1968]. The latter book was geared exclusively to the undergraduate market. Van Horne [64, 1968], as suggested by Fredrikson, was designed primarily for the graduate market, while Johnson's revised book continued to be an undergraduate text.

Thus texts could now be categorized more clearly for the graduate or undergraduate market. A number of factors caused the market bifurcation. Among them was the emergence of substantial numbers of graduate schools with an accompanying large body of selected graduate students. These students needed text material beyond the basics.

The undergraduate schools were affected by the Viet Nam War and the perceived belief that instruc-

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[5] Several readings books have reproduced chapters of Beranek's text. One is V. L. Andrews and Pearson Hunt, *Financial Management*, Revised Edition, Homewood, Illinois, Richard D. Irwin, Inc., 1976, pp. 176–198.

[6] Interview with Fred Weston, October 1978.

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Exhibit 2. A Comparison of Three Major Basic Finance Texts

Subject Area	Percent of Pages Devoted to Subject Johnson	Weston	Van Horne
Financial Management	9.5	8.1	2.2
Financial Analysis and Control	4.6	7.0	4.0
Financial Planning	14.8	11.7	3.3
Capital Budgeting	5.1	5.2	17.3
Cost of Capital	—	5.5	12.7
Working Capital Management	10.6	5.6	15.8
Capital Markets	5.8	10.6	3.9
Sources of Short- and Intermediate-Term Funds	24.6	6.9	11.9
Sources of Long-Term Funds	15.6	12.8	14.5
Dividend Policy	.1	4.1	7.5
Valuation, Mergers, and Acquisitions	7.1	9.4	4.4
Bankruptcy	2.0	6.9	2.9
Integrated View	—	6.3	—
	99.8	100.1	99.9

Robert W. Johnson, *Financial Management*, Allyn and Bacon, 1959, 384 pp.
J. Fred Weston, *Managerial Finance*, Holt, Rinehart & Winston, 1962, 641 pp.
James C. Van Horne, *Financial Management and Policy*, Prentice-Hall, 1968, 565 pp.

tors who gave poor grades were sending a student to war. This resulted in simplification of the undergraduate course and in turn the undergraduate textbook. Another factor was the emergence and growth of business programs at the lower level four-year schools and community colleges where the demand was largely for simplified texts. Finally, some faculty undoubtedly perceived their students as not capable of understanding difficult material.

The 1970s

The emphasis in undergraduate texts during the 1970s was on simplification. Only one innovation occurred in texts in the 1970s — the continuous case, *i.e.*, the text discussion is illustrated by a case approach. Surprisingly, two texts using the same technique were both published in the same year, Cohen [10, 1972] and Committee [11, 1972]. These texts proved interesting to read, as they took an employee step-by-step through the problems of financial management. Tools of analysis were provided on a limited basis. The continuous case approach did not capture a significant share of the market, perhaps, as a publisher states, because the texts lacked flexibility for instructors.

One might assume that by 1970 the traditional approach would have no market; however, some undergraduate texts such as Husband and Dockeray [35, 1972] managed to achieve sales with little or no change in descriptive material. Others such as those by Donaldson, Pfahl, and Mullins [19, 1975] and by Wert and Prather [67, 1975] modified their approach sufficiently to satisfy those following either the traditional or the managerial approach. This was done by some rearrangement of material, and by the addition of managerial chapters, for example, on capital budgeting. Several financial management texts during the period increased their episodic material, which may have been in response to student demand for simplification of text material.

Demand for more basic material resulted in more descriptive texts by some authors. Reviewers, though, did not welcome the change. Books kept coming out that were roasted by reviewers. For example, Fredrikson states: "At issue is whether a text devoid of challenging analytical content can be considered acceptable for undergraduate education" [21, p. 216]. Nelson comments:

> It has become fashionable in finance textbooks to begin by asserting that the central theme of this book is the maximization of market value of the enterprise. Unfortunately it has yet to become equally fashionable to explain what this means, why it is a sensible goal, and how it helps reconcile the divergent interests of different groups within the firm. This book needs a unifying theme. Because it lacks a meaningful central theme, this book like so many others is simply a loosely structured collection of chapters [52, p. 211].

The problem of wealth maximization was again addressed by Hardin:

> Our primary responsibility to today's students is to prepare them for decision-making in a world of tomorrow when institutions and environmental factors may be different from those of today. . . . Our emphasis . . . should be on understanding how finance decisions affect value [29, p. 1164].

Reviewers' dissatisfaction with the descriptive nature of new and revised undergraduate texts was based in part on their perception of the finance text in light of the advances in finance theory achieved during the 1960s. The reviewers apparently failed to see the need and demand for a less rigorous text.

The increased power of undergraduate students to affect their curriculum caused competition among

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faculty to teach popular courses, those usually defined by how easy it was to get a good grade and by their perceived relevance to future life work. The result was that the technical ideal reachieved popularity it had lost during the 1950s and 1960s. The splitting of the Weston and Brigham text in 1968 now appears to have been ideally timed, for the undergraduate text followed the technical ideal, while the graduate text continued in the spirit of Weston [68, 1962].

Two other factors led to similarity among texts in the same market and to a loss of innovation in texts. The first factor was the new company spin-off by publishers. In order to handle growth, publishers created new companies staffed and financed initially by the parent company. The new companies needed titles, and the titles they wanted were like those that the parent had. This meant that popular books were imitated.

The second factor was the increasing amount of supplementary material offered with a specific text. A teaching package might include workbooks, sets of questions, slides, cases, and answer books as well as the text [12]. This helped students, while making a text more palatable to instructors, who not infrequently conspired with students to make the basic course more technical (easy) rather than analytical (demanding). Supplementary material increased both the cost of and difficulty of entry into the textbook market for aspiring authors.

The desire by students for less analytic material directly affected the mathematical content of texts. Mathematics of finance (present value), first introduced by HWD and Johnson, is now considered the most important part of the basic course [12]. Other mathematical applications are omitted, in spite of the fact that the mathematical training of students has steadily improved [65]. This occurred while the level of mathematical sophistication in finance research was also rapidly increasing. The result is that financial models are either avoided or discussed superficially in undergraduate texts.

Graduate texts generally followed the pattern of Van Horne [64, 1968] by continuing to include new research. A result was that graduate texts increased in size. For example, the 6th edition of Weston and Brigham [70, 1978] had 60% more pages than the original text. The vast expansion of theory in finance, and most especially in valuation, was handled at the basic graduate level by melding some material into the standard topics and by adding some additional material through new chapters and appendices. The format initiated at the beginning of the 1960s continued to be used through the 1970s.

Texts in 1979

In 1978, there were 36 finance texts available, all copyrighted between 1975 and 1978. Of these, 24 were designed primarily for the undergraduate market and 12 for the graduate market. Several authors (for example, Brigham, Philippatos, Van Horne, and Weston and Brigham) have texts for both graduate and undergraduate courses.

Some, such as Solomon and Pringle [62, 1977], state their books are for undergraduates, while a few authors suggest their books can be used in both graduate and undergraduate core courses. For example, Gitman [25, p. xii] states his text is "designed primarily for the introductory course at the undergraduate level, but it may also be used with good results in the core MBA finance course." Schall and Haley [58, p. xi] indicate their book is "designed for undergraduate . . . courses. . . . Instructors using this text for an introductory course for M.B.A. students will find that the appendices . . . enable them to approach basic finance on a more advanced level." Interestingly, in 1978, Schall and Haley and Gitman did have a significant share of the market although it was small compared to the leader, Weston and Brigham.

What is happening in texts now, and what is perhaps going to happen through much of the 1980s, can be ascertained from a paragraph in the preface of Martin, Petty, Keown, and Scott.

> Recognizing the diversity available to the finance instructor, the personnel at Prentice-Hall, Inc., became involved in an extensive effort to determine if any general commonalities exist among financial management instructors in terms of their desires regarding the approach taken by a text. The results, which came from questionnaires and personal interviews of faculty members from across the nation, suggested that a common thread exists in terms of the instructors' desires. *Basic Financial Management* has been carefully developed to comply with these needs and preferences [47, p. xiv].

A review of all the texts available in 1979 shows a remarkable similarity in material. Except for Solomon and Pringle, who eschew episodic material, all others follow the pattern of Weston [68, 1962]. Of course, there are differences in presentation. Archer, Choate, and Racette [1, 1979] use a greatly modified Cohen [10] and Committee [11] approach (*i.e.*, the continuous case). Wert and Henderson [66, 1979] follow the modified traditional approach.

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Exhibit 3. Best Sellers* (Books Revised More Than Two Times)

Author(s)	Title	Publisher	Dates
Bonneville, J. H. (Dewey, L. E., and Kelly, H. M.)**	Organizing and Financing Business	Prentice-Hall, Inc.	1927, 1935, 1938, 1945, 1949, 1952, 1959
Bradley, J. F.	Administrative Financial Management	Holt, Rinehart & Winston	1964, 1969, 1974
Burtchett, F. F. (Hick, J.)	Corporate Finance	Harper & Row Johnson Publishing Co.	1934 1948, 1959, 1964
Dewing, Arthur Stone	The Financial Policy of Corporations	The Ronald Press	1919, 1920, 1926, 1934, 1941, 1953
Donaldson, Elvin F. (Pfahl, J., and Mullins, P.)	Corporate Finance	The Ronald Press	1957 1963, 1969, 1975
Gerstenberg, C. W.	Financial Organization and Management of Business	Prentice-Hall, Inc.	1924, 1932, 1939, 1951, 1960
Greene, T. L.	Corporation Finance	G. P. Putnam's Sons	1897, 1904, 1908
Guthmann, H. G., and Dougall, H. C.	Corporate Finance Policy	Prentice-Hall, Inc.	1940, 1948, 1955, 1962
Hunt, P., Williams, C., and Donaldson, G.	Basic Business Finance: Text and Cases	Richard D. Irwin	1958, 1961, 1966, 1971, 1974
Husband, W., and Dockeray, J. C.	Modern Corporate Finance	Richard D. Irwin	1942, 1948, 1952, 1957, 1962, 1966, 1972
Johnson, R. W.	Financial Management	Allyn & Bacon	1959, 1962, 1966, 1971, 1973
Kent, R. P.	Corporate Financial Management	Richard D. Irwin	1960, 1964, 1969
Mead, E. S.	Corporation Finance	D. Appleton & Co.	1910, 1912, 1915, 1920, 1923, 1925, 1928, 1933, 1941
Prather, C. L. (Wert, J.)	Business Finance	Richard D. Irwin	1955, 1961, 1966, 1971, 1975
Van Horne, J. C.	Financial Management and Policy	Prentice-Hall, Inc.	1968, 1971, 1974, 1980
Van Horne, J. C.	Fundamentals of Financial Management	Prentice-Hall, Inc.	1971, 1974, 1977
Weston, J. F. (Brigham, E. F.)	Managerial Finance	Holt, Rinehart & Winston	1962, 1966, 1969, 1972, 1975, 1977
Weston, J. F. Brigham, E. F.	Essentials of Managerial Finance	Dryden Press	1968, 1971, 1974, 1977

* A number of texts have been revised once, and a number of current texts will undoubtedly be revised more than once. Only texts already published are included.

** Subsequently added authors listed below initial author in parentheses.

Still, the material assumed to be a part of the basic course has been agreed upon. In such a market, innovative texts are unlikely to survive. One professor attributes this to the review process used by publishers to evaluate new texts. The tendency is to choose reviews from professors at a broad spectrum of schools, which results in an average product. Further, the use of market analysis tends to reinforce the belief that professors want what is now popular. As a result, publishers try to duplicate best sellers. The ultimate, the basic finance "managed book," is in process in at least two publishing houses at this writing; this technique, if successful, should further homogenize the basic course.

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Exhibit 4. Basic Finance Textbooks

Year	New Texts* Undergraduate	New Texts* Graduate	Revised Texts Undergraduate	Revised Texts Graduate	Total
1978–1970	31	12	13	9	65
1969–1960	15	13	16	5	49
1959–1950	11	0	5	6	22
1949–1940	6	3	3	4	16
1939–1930	4	6	2	5	17
1929–1920	9	6	4	5	24
1919–1910	5	0	3	0	8
1909–1900	1	2	1	0	4

*The division between graduate and undergraduate texts is necessarily arbitrary. In most cases, the choice was made on the basis of statements made by the author in the preface.

In the "managed book," a publisher hires an "intelligence source" (a faculty member who combines various sources on topics to be included in a basic text) for a fixed fee. This material is then turned over to writers who write the text. The type of text and what is included is determined through a market survey. Time from initiation to completion of text is about eight months. Innovation is not a consideration, but style, format, and ease of reading are.

A review of topics in the undergraduate text shows that integration of research material into the basic course proceeds very slowly. For example: the Capital Asset Pricing Model is almost never discussed, and forecasting is treated on the most elementary level. This lack of theory at the undergraduate level is not reflected at the graduate level. Van Horne [64, 1977] has extensive treatment of utility along with an example of linear discriminant analysis. Weston and Brigham [71, 1979] treat newer research such as the Black and Scholes model in their appendices. Weston was the first to use appendices for more difficult material, and the technique is now established.

Current undergraduates taking basic finance at any school generally will have covered the same text material, with about the same emphasis. Although graduate texts are too long for a semester course, regardless of how motivated the students are, they too offer only narrow differences in material.

Forecast

If the significance of a text is measured by its influence on subsequent texts or its uniqueness of approach to the presentation of material, then most current texts are not significant. It would be highly unfair to fault current writers for this or even to infer that the high degree of similarity in texts is necessarily bad; after all, textbooks are written for profit. The current approach guarantees a certain style and clarity of writing; it guarantees a certain level of coverage desired by most instructors. Further, the proliferation of supplementary materials for basic courses provides instructors with a large teaching package of materials. Books now are more a product of teams of workers. The managed text is only a logical extension of this, and one that should command ever larger percentages of the market.

One possibility for the future is that undergraduate and graduate textbooks will continue to diverge in coverage and difficulty. The basic undergraduate text will be a survey whose purpose will be to attract students and to provide the essential core material. The managed text with its large accompanying package of materials will surely prevail in this market. At the graduate level, texts will continue to bring the students closer to current research and will better explain past research. The content of these texts will be sufficiently broad to support a full year course rather than a semester one.[7]

Division of the graduate and undergraduate texts has the virtue of recognizing the vast expansion of knowledge that has occurred in finance in recent years. Undergraduate and graduate students interested in knowing more of finance theory may take advantage of second and third level courses, using more sophisticated material. The intermediate text, generally ignored up to now, may finally come into its own.

If so, innovation is likely to come at the intermediate and advanced level in a rapidly developing textbook market.

[7]New York University and Stanford University currently offer a required semester and non-required second semester of materials from the basic course for the M.B.A.

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