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Abstract

The article examines the model presented by R. L. Greenfield, M. R. Randall and J. C. Woods (GRW), in their article "Financial Leverage and Use of the Net Present Value Investment Criterion," designed to overcome the deficiencies of the textbook approach. The GRW model is based on the following three assumptions: (i) the firm publicly announces all projects before financing them, (ii) investors agree with management as to the net present value (NPV) of each project and (iii) prior to its announcement, the positive NPV project in question was not anticipated by investors.