Capital structure pdf notes

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Õ Higher risk tends to lower a stock price, but a higher expected return raises it. Capital Structure — TheoryModigliani-Miller and the “Trade-Off Theory” Modigliani-Miller Theorem. “Neither a borrower nor a lender be” Someone who obviously hated this part of corporate finance Capital structure of a company is the composition of its long-term finance. — Intuition: ∗ Value Tags B Aswath Damodaran. Implications of Proposition II Capital Structure: The Choices and the Trade off. However, a higher debt ration generally leads to a higher expected rate of return. liabilities growth minus growth in. Financing deficit must be filled with (net) sales of new securities. Ø What D/E ratio should the firm aim for? Proposition II:The cost of equity, RE, is. Financing deficit = asset growth minus retained earnings. Ø What is the optimal amount of Financial Leverage. Proposition (): Capital structure irrelevance. Capital Structure Policy involves a trade-off between risk and return. A measure of the amount of debt used to finance the 10/2/Lecture Capital Structure Theory. It is the mix or proportion of a firm's debt and equity. Capital Structure: How a firm finan ce –i.e., equity (E) or debt (D) its assets Modigliani-Miller Theorem (MMT): Uses a simple I. Introduction. Specification A firm’s capital structure is irrelevant. StepEstimate a probability of bankruptcy at each debt level, and multiply by the cost of bankruptcy (including both direct and indirect costs) to estimate the expected bankruptcy cost Empirical Approach: Analyze what type of financing is used to fill the “financing deficit.”. It is related to the long-term financial requirements Financial Structure. A firm’s WACC is the same no matter what mix of debt and equity is used. Tax benefits = Dollar Debt * Tax Rate. RE = RA + (RARD)΄ D/E. where RA is the WACC, RD is the cost of debt, and D/E is the debt/equity ratio. Using more debt raises the riskiness of the firm’s earnings stream. Õ Therefore the The simplest assumption to make is that the savings are perpetual, in which case.

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Étape 1 -