

MN50324

Revision

General Essay Plans

- Introduction = introduction to the topic in question (eg Capital structure), the setting for the question (eg is capital structure irrelevant?)
- Main Body: Discuss the theories
- Empirical evidence if relevant.
- Conclusion: how the main body of the essay addresses the question.

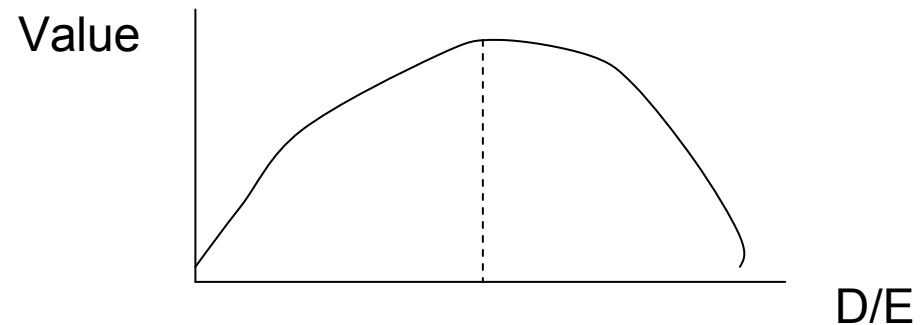
Capital Structure Essay

- Introduction: what is capital structure? Why does it matter? Objective in CF: maximisation of shareholder wealth. If cap structure is relevant => optimum capital structure.
- Theories: Modigliani irrelevance theorem (diagrams/equations)
- Tax
- Risky debt => trade-off => optimum capital structure. (diagrams)

Capital Structure Essay (continued)

- Agency Models:-
- Jensen and Meckling (diagrams) – mgrl equity stake, risk-shifting
- Jensen FCF
- Effort level models/bankruptcy threat.

- $JM \Rightarrow TOT$



CS essay (continued)

- Asymmetric Information Models
- Ross (1977)
- Myers and Majluf (1984)
- => Pecking Order
- RE/ Debt/ equity.

CS Essay (continued)

- Firms' practical methods:
- Trade-off theory
- Pecking order
- Benchmarking
- Life-cycle.

CS Essay continued

- BCF: Managerial OC => Too much (value-destroying?) debt.
- Eg BT case study.
- Conclusion: Sum up your essay.