# Module: Optimal Capital Structure

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### Topics

This module includes the following five topics:

Topic 1: Optimal Capital Structure Basics

Topic 2: Business and Financial Risk

Topic 3: Capital Structure Theories

Topic 4: Determining Optimal Capital Structure

Topic 5: Combining MM with Taxes and CAPM

## Topic 1: Optimal Capital Structure Basics

This topic examines the factors that influence a firm’s optimal capital structure.

### Readings

Introduction, Section 1.1

### Learning Problems

None

## Topic 2: Business Risk and Financial Risk

This topic discusses how a firm’s business risk impacts the financial risk it can undertake.

### Readings

Section 1.2

### Learning Problems

Access the Module Learning Problems and complete the problems listed to reinforce your learning of this topic. Use the Module Learning Problem Answer Keys to check your work.

#### **Module Learning Problems**

Business Risk at Acme

Operating Leverage at Acme

Financial Leverage at Acme

**Module Learning Problem Answer Keys**

Business Risk at Acme

Operating Leverage at Acme

Financial Leverage at Acme

## Topic 3: Capital Structure Theories

This topic investigates the different academic theories that explain a firm’s optimal capital structure.

### Readings

### Section 1.3

### Learning Problems

Access the Module Learning Problems and complete the problems listed to reinforce your learning of this topic. Use the Module Learning Problem Answer Keys to check your work.

#### **Module Learning Problems**

Capital Structure Theories

**Module Learning Problem Answer Keys**

Capital Structure Theories

## Topic 4: Determining Optimal Capital Structure

This topic considers the practical approaches used by firms to determine their optimal capital structure.

### Readings

Section 1.4

### Learning Problems

Access the Module Learning Problems and complete the problems listed to reinforce your learning of this topic. Use the Module Learning Problem Answer Keys to check your work.

#### **Module Learning Problems**

Optimal Capital Structure at Cuthbert

Analyzing Capital Structure at ABC

Analyzing Capital Structure at Delisle, Didsbury, Harmony

Analyzing Capital Structure at Deluxe

Analyzing Capital Structure at Jones

Analyzing Capital Structure at Amsterdam

Practical Capital Structure Considerations

**Module Learning Problem Answer Keys**

Optimal Capital Structure at Cuthbert

Analyzing Capital Structure at ABC

Analyzing Capital Structure at Delisle, Didsbury, Harmony

Analyzing Capital Structure at Deluxe

Analyzing Capital Structure at Jones

Analyzing Capital Structure at Amsterdam

Practical Capital Structure Considerations

## Topic 5: Combining MM with Taxes and CAPM

This topic analyzes the formula use to de-leverage and leverage a firm’s beta and how it is derived from MM with taxes and CAPM.

### Readings

Sections 1.5 and 1.6

### Learning Problems

Access the Module Learning Problems and complete the problems listed to reinforce your learning of this topic. Use the Module Learning Problem Answer Keys to check your work.

#### **Module Learning Problems**

Unleveraged and Leverage Beta

**Module Learning Problem Answer Keys**

Unleveraged and Leverage Beta

## Module Summary

In this module, you learned how to estimate a firm’s optimal capital structure using an array of academic theories and applied techniques.