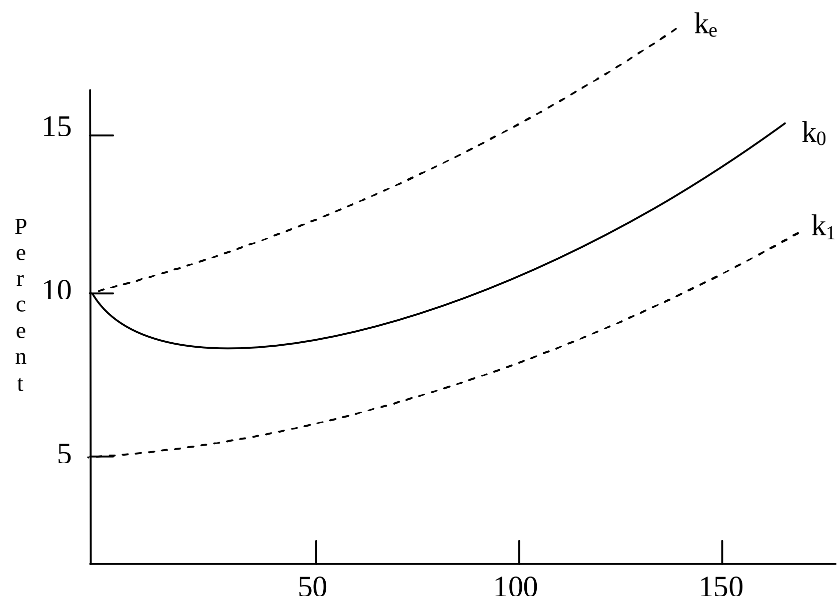
## Miller-Modigliani (MM) Position

Miller-Modigliani (MM) advocates that the relationship between leverage and valuation is explained by the NOI approach. More specifically, MM's propositions are summarized below.

1. The market value of the firm and its cost of capital are independent of its capital structure.
2. $k_2$ increases so as to exactly offset the use of cheaper debt money.
3. The cutoff rate of capital budgeting decisions is completely independent of the way in which an investment is financed.




Leverage B/S

## Efforts Affecting Capital Structure.

Many financial managers believe, in practice, that the following factors influence financial structure:

1. Growth rate of future sales
2. Stability of future sales
3. Competitive structures in the industry
4. Asset makeup of the individual firm
5. Attitude of owners and management toward risk
6. Control position of owners and management
7. Lenders' attitude toward the industry and a particular firm