

Norwegian School of Economics and Business Administration

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FIN501-TOPICS IN CORPORATE FINANCE

2010

Two-Page Memo on Capital Structure Theory

Readings:

Chapter 12, Frank, Murray and Vidhan Goyal, 2008, "Tradeoff and Pecking Order Theories of Debt", in Eckbo, B. Espen (ed.), 2008, *Handbook of Corporate Finance: Empirical Corporate Finance, Volume 2*, (Elsevier/North-Holland).

Questions:

- (1) Briefly characterize the "tradeoff theory" and list what you think are its empirical implications
- (2) Briefly characterize the "pecking order theory" and list what you think are its empirical implications
- (3) Which theory do you believe best characterizes actual corporate capital structure decisions? Explain.