Capital structure is important for Fortune 500 companies. It's also key for small-business owners who are trying to figure out how much of their startup money should come from a bank loan. The higher debt level in capital structure increases the probability of bankruptcy and bankruptcy costs of the enterprises. In their study “The cost of capital, corporation finance and the theory of investment” (1958) laureates of Nobel Price Nobel Franco Modigliani and Merton Miller represent what could possibly be the most important theory for the structure of capital, through which they explain the effect of the capital structure for the value of companies. Best ways to describe the importance of Modigliani and Miller “The Cost of Capital, Corporation Finance and the Theory of Investment” (1958), is the fact that the theory of modern business finance starts with the capital structure irrelevance proposition (Eckbo, 2008, p. 140). Furthermore, the author describes their work crucial in laying down the doctrine of modern financial theory. Modigliani and Miller (1958) have tried in their paper to answer questions related to corporate finance.

As the basic assumption on creating their proposition, Modigliani and Miller started by assuming that there is, an exacting set of the estimated cash-flows firm has at disposal. Once the company decides to finance its assets, by selecting a certain proportion of debt and equity, the main reason of doing that is to split the cash flows between investors. Based on the assumption taken into consideration by Modigliani and Miller that access to financial markets is same for companies and investors equally, which enables for homemade advantage