

Assignment 5

Threshold Concept

Capital Structure and Cost of Capital

ChatGPT prompt

I am teaching Capital Structure and Cost of Capital.

My students already know that what are different sources of capital like equity and debt. They don't know different theories of capital structure,

use the following principles "Optimal Capital Structure, Trade-off Theory, Pecking Order Theory, Leverage Effect". Generate a case study that current generation students can connect to. Don't use technical jargon. Use Fink's Taxonomy.

Case Study: “GamerHub’s Big Expansion Decision”

Scenario (Foundational Knowledge)

GamerHub is a fast-growing startup run by three friends in Bengaluru. They sell custom-built gaming PCs and streaming setups online. Business is booming, and they now want to expand by opening experience zones in five cities.

To fund this ₹50 lakh expansion, they have three options:

1. **Use their own savings and profits** (equity).
2. **Take a bank loan** (debt).
3. **Do a mix of both.**

The founders are debating:

- Arjun says, “Let’s borrow more; interest is cheaper than giving away our ownership.”
 - Meera says, “Too much borrowing can trap us in repayments if sales slow down.”
 - Rohan says, “Why not first use our own money, then borrow if needed?”
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Key Principles Introduced in the Story

- **Optimal Capital Structure** – Best mix of debt and equity for maximum benefit.
- **Trade-off Theory** – Balancing the benefit of debt (lower tax, cheaper funds) with its risks (repayments, bankruptcy risk).

- **Pecking Order Theory** – Prefer using internal funds first, then debt, and equity last.
 - **Leverage Effect** – Borrowing can increase returns, but also increases risk if business performance drops.
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Application (Do the Math Without Jargon)

Ask students to imagine:

- If GamerHub uses only debt and business goes well, profits could **double**.
- If sales drop, they might **struggle to pay loans** and lose control.
- If they use only equity, there's no repayment stress, but **ownership is diluted**.

Students must decide which funding mix makes the most sense and why.

Integration (Connecting to Real Life)

Ask:

- “Have you ever seen a business or startup raise funds? How did they do it?”
 - “If you were starting your own venture, how would you decide between using your own money, borrowing, or getting investors?”
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Caring (Emotional Engagement)

Frame it personally:

- “Imagine GamerHub is YOUR company. How would you feel if you lost ownership because of too much equity funding?”
 - “How would you feel if you took a big loan and then had a slow sales month?”
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Human Dimension

- Group students into teams: One supports debt-heavy funding, one supports equity-heavy funding, and one supports a mix. Let them debate and defend their choice using the principles.
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Learning How to Learn

- Show them how to read basic financial news about companies raising capital.
 - Encourage them to track one startup's funding journey over time and relate it back to these theories.
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Questions from solo Taxonomy

● 1. Pre-structural (*No real understanding yet*)

- What is GamerHub trying to do in the case study?
 - What are the two main sources of capital mentioned?
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● 2. Uni-structural (*One relevant aspect understood*)

- What does “Optimal Capital Structure” mean in your own words?
 - What is one advantage of using debt for GamerHub's expansion?
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● 3. Multi-structural (*Several relevant aspects understood, but not connected*)

- List the four principles discussed in this case study.
 - Give one example of how each principle could apply to GamerHub's decision.
 - What are two risks of relying too much on debt?
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● 4. Relational (*Understanding how ideas connect*)

- How do the Trade-off Theory and Leverage Effect relate to each other in GamerHub's situation?
 - Based on the Pecking Order Theory, in what sequence should GamerHub choose its funding sources? Why?
 - Which option (debt, equity, or mix) gives GamerHub the most balance between risk and reward? Explain.
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● 5. Extended Abstract (*Applying to new situations*)

- Apply these four principles to a different business (e.g., a café, an ed-tech startup, or your own project idea) and suggest a funding strategy.
- Imagine GamerHub expands successfully — now they want to go global. Would your recommended capital structure change? Why?

- Create your own case study of a company facing a similar decision and use the principles to recommend a solution.

Comparison Table: Bloom vs. Fink vs. SOLO

Framework	Purpose	How It Frames Learning for This Case	Sample Questions
Bloom's Taxonomy	Focuses on cognitive levels from remembering to creating	Organizes tasks from basic recall to higher-order problem-solving	<p>Remembering: What is capital structure? Understanding: Explain Pecking Order Theory in your own words. Applying: Calculate potential returns if GamerHub borrows 60% of the funding at 8% interest. Analyzing: Compare the risks of debt-heavy vs equity-heavy strategies. Evaluating: Which funding mix is best for GamerHub? Justify. Creating: Design a capital structure plan for a different startup.</p> <p>Foundational Knowledge: Understand what Optimal Capital Structure means. Application: Recommend the best funding option for GamerHub. Integration: Link these theories to a company you know. Human Dimension: How would you feel if you lost ownership because of too much equity? Caring: Would you personally choose debt or equity if this was your business? Learning How to Learn: How could you track a company's funding choices in real life?</p> <p>Pre-structural: What sources of capital are mentioned? Uni-structural: State one advantage of using debt. Multi-structural: List the four principles used in GamerHub's decision. Relational: How does the Trade-off Theory connect with the Leverage Effect in this case? Extended Abstract: Apply these principles to a new business idea of your choice.</p>
Fink's Taxonomy	Emphasizes significant learning experiences that connect cognitive, emotional, and real-life aspects	Encourages students to connect the theory to their own lives and values	
SOLO Taxonomy	Measures depth of understanding , from surface to deep learning	Progresses from minimal knowledge to applying in new contexts	

