

Overview and Learning Objectives

Overview

Capital structure refers to how a firm finances its assets and operations. Managers should finance with the mix of debt, preferred stock and common stock that maximizes firm value.

Chapter 15 in the assigned textbook reviews the basic components of capital structure – common stock, debt and preferred stock. This unit focuses on the characteristics of only one of these components, common stock, and the rights of shareholders. There is indication that students have troubles interpreting the balance sheet accounts related to common stock or have difficulty explaining the difference between book value and market value of common stock that they learned in the accounting prerequisite. A review of these topics is included here. (Please note that the words "common stock" and "common equity" or "stock" and "equity" or "stockholders" and "shareholders" are used synonymously in this course.)

Students are assigned to read the textbook sections on debt and preferred stock, as well as assigned supplemental readings. The designated discussion forum provides an opportunity to ask questions about the assigned readings.

We approach topics in this course from the perspective of the manager of a large public corporation. However, many of the basic principles are also relevant to a small private company.

Learning Objectives

Upon completion of this unit, students are expected to be able to:

- Explain equity accounts on balance sheet and perform related calculations.
- Explain the difference between market value of equity and book value of equity.
- Explain the cash flow and voting rights of common stockholders.
- Explain the difference between simple and cumulative voting and perform related calculations.
- Explain the basics of corporate governance and the challenges of dual-class common stock structure.
- Compare and contrast debt, preferred stock and common stock.

- Explain various types of debt and their features and provisions.
- Describe observed U.S. and international financing patterns in recent years.