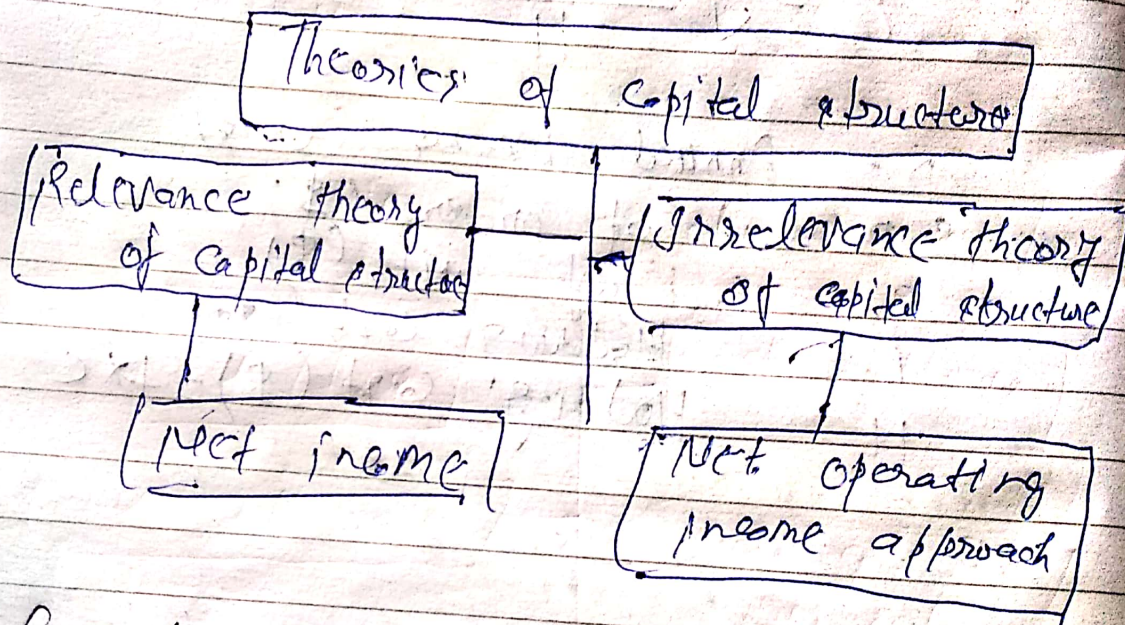


Q. 2-5 What is capital structure?
Explain the various theories of capital structure. What is Gordon model?

Ans → Capital structure :- Capital structure of a company refers to the composition or make-up of its capitalization and it includes all long-term capital resources viz: loans, reserves, shares and bonds.



Gordon model :- Dividend policy almost always affects the value of the firm. He showed how dividend policy can be used to maximize the wealth of the shareholders.

$$P = \frac{D(1-b)}{k-bn}$$