Q.2
Ans

Capital structure is a part of financial structure and refers to the proportion of the various long term sources of financing. It is concerned with making the array of sources of the funds in a proper manner, which is in relative magnitude and proportion. As we have discussed in the previous question also about the capital structure. Capital structure of a company refers to the composition or make up of its capitilization and in includes all long term capital resources that is loans, reserves, shares and bonds. Capital structure is important in finance because it helps in value maximization, where it maximizes the ~~profit~~ value of a firm. And the also comes the cost minimization. Where it helps in minimizing the firms cost of capital or cost of financing.

Then also helps in increasing of share Prices and investment opportunity and obviously the most importantly growth of the company.

Gordon's Model is one very popular model explicitly relating the market value of the firm to dividend policy is developed by him. Gordons Model assumes that the investors are risk averse not willing to take risk and prefers certain returns to uncertain returns. Therefore, they put a premium on a certain return and a discount on the uncertain returns. The investors prefer current dividends to avoid risk, here the risk is the possibility of not getting the returns from the investment. According to the Gordon's Model the market value of the share is equal to the present value of of future dividends. It is represented as:

$$P = [E(1-b)] / Ke - br$$

So basically Gordon's model is based on the following assumption,

* That the firm is an all Equity firm.
* No external financing is available.
* The internal rate of return of firm is constant.
* The corporate taxes do not exist.
* The discount rate of firm remains constant
* The firm earnings are perpetual.