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CAPITAL STRUCTURE: AN INTUITIVE APPROACH

Abstract:

An adequate understanding of the concept of the optimal capital structure choice of a company requires an intuitive understanding of that concept. The aim of this paper is to provide an intuitive explanation of the concept of the optimal capital structure of a company. It discusses two methods of arriving at the optimal capital structure of a company. The first one is based on the effect of capital structure on the company's share price; and the second one is based on the effect of capital structure on the weighted average cost of capital. The paper also notes that the two methods arrive at the same optimal capital structure for the company.

Keywords:

Capital Structure; Optimal; Intuitive