Table of Contents

Introduction		
1	Theories of Debt	5
	1.1 Introduction	5
	1.2 The economic advantages of debt	6
	1.3 The economic disadvantages of debt	8
	1.4 Economic-financial convenience of debt and Trade-off Theory	10
	1.5 Hierarchy of funding choices and Pecking Order Theory	14
	1.6 Conflicts of interest between managers and shareholders and	
	Agency Theory	16
	1.7 Capital structure and Market Timing Theory	18
	1.8 Capital structure and functioning of the financial system	19
	1.9 Conclusions and implications for management	23
2	Measuring and Choosing Optimal Debt	25
	2.1 Introduction	25
	2.2 Definition and interpretation of cost of capital	26
	2.3 Calculation of cost of capital (application)	27
	2.4 Determination of optimal D/E ratio through WACC	34
	2.5 The financial plan and determination of the D/E goal	39
	2.6 Conclusions	46
3.	Debt Instruments	49
	3.1 Introduction	49
	3.2 The financing needs of companies	51
	3.3 Financing choices	51
	3.4 Short-term debt	55

3.5 Med	lium/long-term debt	66
3.6 Hyb	rid instruments	69
3.7 Conc	clusions	76
4 The Stra	tegic Management of Debt	79
4.1 Intro	oduction	79
4.2 Corp	porate debt strategies	80
4.3 Strat	tegic choices regarding debt	84
4.4 Cone	clusions	87
Bibliography		89