

OPTIMAL CAPITAL STRUCTURE IN THE PRESENCE OF COSTS OF FINANCIAL DISTRESS

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ABSTRACT

This paper presents the theory of capital structure from the perspective of imperfect financial markets. The main objective is to show through a case study how financial decisions can have a positive impact on the market value of a company. The exhibition begins by focusing on the fundamental assumptions of the capital structure theory developed by Franco Modigliani and Merton Miller, and then the document analyzes the main researches in this area that explain the importance of such decisions when capital markets have imperfections, operate under asymmetric information, with agency costs and bankruptcy cost. The application is focused on the evaluation of a private industrial company; the results allow verify that in the presence of cost of financial distress and based in the Static Trade-off Theory it is possible to determine an optimal level of financial leverage that maximizes the value of a company.

Keywords: Capital Structure, Cost of Financial Distress, Financial Decision, Asymmetric Information, Static Trade-Off Theory.