**CORPORATE FINANCE**

**Learning Outcome 1: ACTIVITY 7**

## **Perfect markets**

For Modigliani and Miller (1958) any capital structure is as good as another: the relative mix of debt and equity finance in a business’s capital structure is unimportant. Provided that markets are perfect, financing decisions and their effects on financial gearing do not matter. Certain conditions are needed to produce perfect markets. Many of these conditions are considered to be unrealistic.

#### Required: In small groups:

1. Identify the conditions that are needed to produce perfect markets.
2. Describe each of the conditions that you identified in (1).
3. Select a market: this could be the market in which the organisation that you considered earlier in the chapter operates, or a market with which you are familiar.
4. Apply the conditions that you identified in (1) and described in (2) to the market that you selected in (3). Evaluate the extent to which the conditions required for perfect markets exist in your chosen market. how the elements of a typical corporate governance framework have affected your chosen business.
5. Prepare a short presentation on your findings.