**Module 4 – Reading Background Material**

**LEVERAGE, CAPITAL STRUCTURE, AND DIVIDEND POLICY**

**Required Reading**

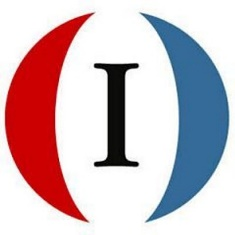
***Capital Structure***

Start with this interactive tutorial from Pearson that will give you a short overview of the main topics from this module:



[*Capital Structure and Dividend Policy Interactive Tutorial*](http://www.pearsoncustom.com/mct-comprehensive/asset.php?isbn=1269879944&id=12091). (2014). Pearson Learning Solutions, New York, NY.

Now go through the following tutorials from Investopedia which include some videos. Start out with the tutorial on degree of operating leverage, then scroll down to the sections on earnings before interest and taxes and degree of financial leverage:



Degree of operating leverage. (n.d.). Investopedia. Retrieved from: [*http://www.investopedia.com/terms/d/degreeofoperatingleverage.asp*](http://www.investopedia.com/terms/d/degreeofoperatingleverage.asp)

Now dive deeper into the concepts of capital structure with the following two book chapters. Pay special attention to the concepts of operating leverage, financial leverage, business vs. financial risks, and the major theories of capital structure choices. While the tutorials above will give you a broad overview of the main topics, the following readings have worked out problems and solutions that will be essential for completing the Case Assignment:

Gitman, L. (2005). Chapter 11: Leverage and capital structure. *Principles of Managerial Finance*. Pearson Education. Retrieved from: [*wps.aw.com/wps/media/objects/222/227412/ebook/ch11/chapter11.pdf*](http://wps.aw.com/wps/media/objects/222/227412/ebook/ch11/chapter11.pdf) If the link is down, click [*Leverage and Capital Structure*](http://wps.aw.com/wps/media/objects/338/347080/ebook/ch12/chapter12.pdf) or [*Managerial Finance*](https://mbagroup12.files.wordpress.com/2012/03/gitman_12_prnc-mgt-fin13e_password_downloadslide_10.pdf) for an alternative link]



Brigham, E. & Houston, J. (n.d.). Chapter 13: [*Capital structure and leverage*](http://cfa.goldenglobal.org.cn/uploadfile/append_file/%E8%B5%84%E6%96%99%E4%B8%8B%E8%BD%BD/CFA%E5%AD%A6%E4%B9%A0%E8%B5%84%E6%96%99/13%20-%20Capital%20Structure%20and%20Leverage.pdf). *Fundamentals of Financial Management.* Cengage Learning.

Finally, take a look at the following book chapter on dividend policy. Take a close look at the concepts of regular dividend policy and low-regular-and-extra dividend policy, as well as stock splits and stock repurchases:

Gitman, L. (2005). Chapter 12: Dividend policy. *Principles of Managerial Finance*. Pearson Education. Retrieved from: [*wps.aw.com/wps/media/objects/222/227412/ebook/ch12/chapter12.pdf*](http://wps.aw.com/wps/media/objects/222/227412/ebook/ch11/chapter11.pdf)[If the link is down click [*Dividend Policy*](http://wps.aw.com/wps/media/objects/338/347080/ebook/ch13/chapter13.pdf) or [*Managerial Finance*](https://mbagroup12.files.wordpress.com/2012/03/gitman_12_prnc-mgt-fin13e_password_downloadslide_10.pdf) for an alternative link]

**Optional Reading**

Obi, P. (2014). Capital structure and financial leverage. Purdue University. Retrieved from: [*https://www.youtube.com/watch?v=xKBdJX-rHMg*](https://www.youtube.com/watch?v=xKBdJX-rHMg)

Ahmad, A. (n.d.) Firm debt part 1: Calculating how much to borrow. Coursera. Retrieved from: [*https://www.coursera.org/learn/finance-debt/lecture/0P8l0/firm-debt-part-1-calculating-how-much-to-borrow*](https://www.coursera.org/learn/finance-debt/lecture/0P8l0/firm-debt-part-1-calculating-how-much-to-borrow)

Sexton, N. (2010). Introduction to dividend policy. LSBF Global MBA. Retrieved from: [*https://www.youtube.com/watch?v=wPVdxCJ2iCI*](https://www.youtube.com/watch?v=wPVdxCJ2iCI)

Boundless. (n.d.). Chapter 13: Capital Structure. *Boundless Finance*. Retrieved from: [*https://www.boundless.com/finance/textbooks/boundless-finance-textbook/*](https://www.boundless.com/finance/textbooks/boundless-finance-textbook/)

Boundless. (n.d.). Chapter 15: Dividends. *Boundless Finance*. Retrieved from: [*https://www.boundless.com/finance/textbooks/boundless-finance-textbook/dividends-15/*](https://www.boundless.com/finance/textbooks/boundless-finance-textbook/dividends-15/)