

Leverage,
Value
and Firm Scope

paper by

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a read by a non-expert

The Modigliani-Miller theorem (1958)

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Good stateS	Bad stateS
$X - b > 0$	$0 > X - b$

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Bad			...	

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$X_1 - b_1 > 0$ $X_2 - b_2 > 0$	$X_1 - b_1 > 0$ $X_2 - b_2 < 0$ <i>but</i> $X + X - b - b > 0$	$X_1 - b_1 > 0$ $X_2 - b_2 < 0$ <i>and</i> $X + X - b - b < 0$

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Stand alone

Good & Good	G & Bad-ish	G & B
$X + X - b - b$	$(X_1 - b_1) + 0$	
$b + b$	$b_1 + X_2$	

(S

(B

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Holding-Subs

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$X + X$	$X + X$	$X + X$	(Tot

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Good states	Bad states
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0	$X (1 - \lambda)$

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$b + b$	$b_1 + X_2 (1 - _)$...	(B
X + X	≠ X + X	≠ X + X	(Tot

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Good & Good	G & Bad-ish	G & B	
$(X + X - b - b)$ (1- $_$)	$[(X_1 - b_1) + (X_1 - b_1)]$ (1- $_$)		(S
$b + b$	$b + b$		(B
X + X	≠ X + X	≠ X + X	(Tot

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- How to AB-ize the model?