$MV \equiv P \cdot Q \rightarrow$ full employ & capacity

$M \uparrow \Rightarrow P \uparrow$

V - constant

Corporate Income Tax

35% - Apple 9%

Abolish CIT & unify with PIT

corp. earnings → distributed
- shareholders
- bond holders

- dividends, capital gains & interest

Against → using CIT → incentives to invest, R&D .. etc

- tax expenditure - nominal tax (x%)
& lower through incentive
- not budget item

CIT - tax on π

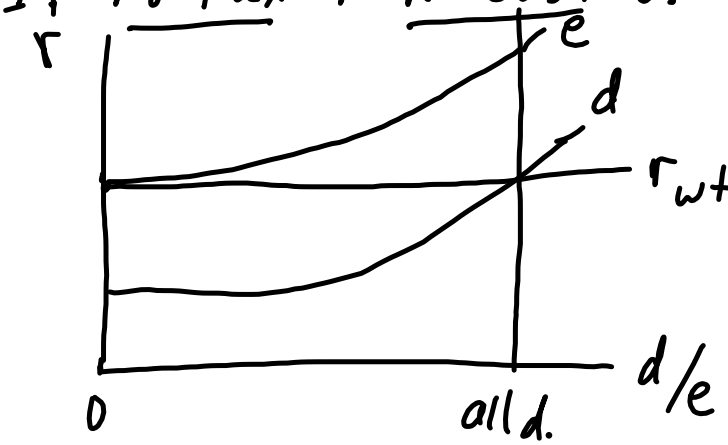
$TR - TC = \pi$ ~ tax base

- real (allocative) → stock of capital
- financial → capital structure ↓

Modigliani - Miller Theorem

weighted cost of capital (Debt or Equity)

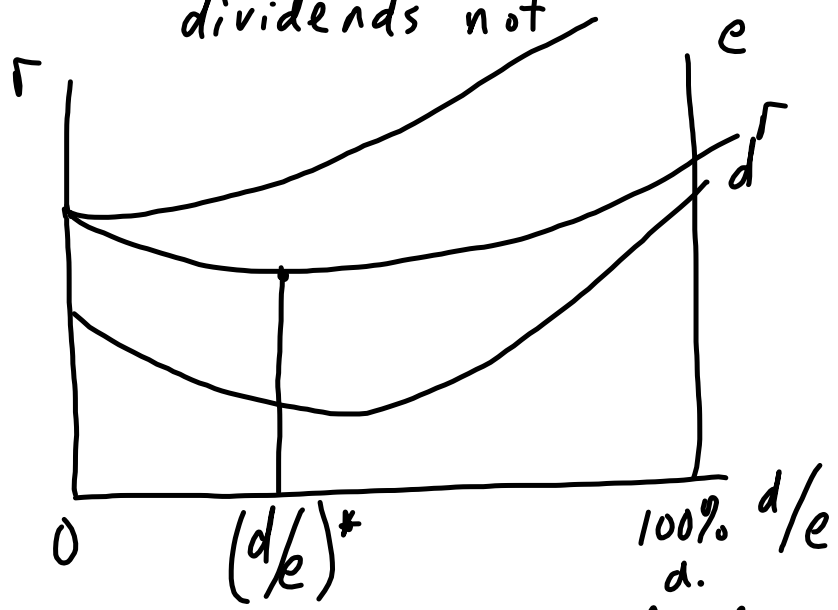
If no tax & no cost of bankruptcy



each risk class has own r

r_{wtd} but within class r constant

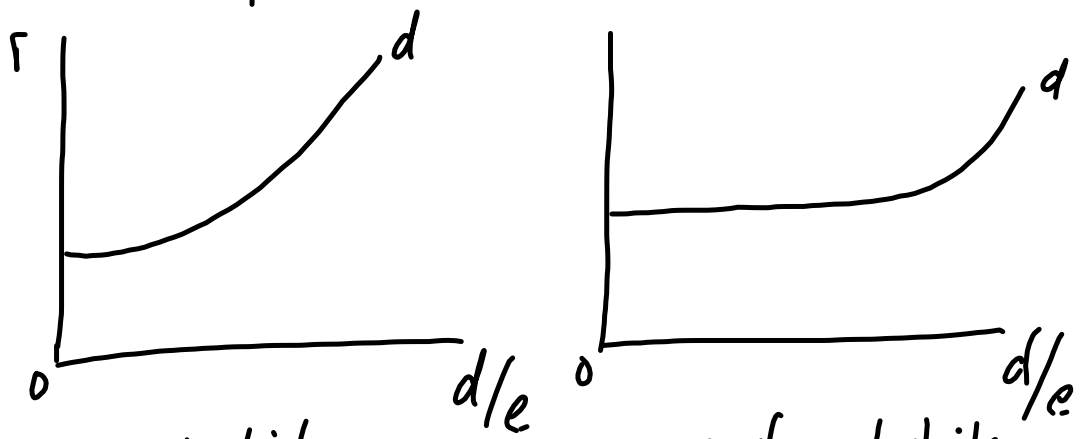
CIT → interest on bonds tax deductible
dividends not



aggregate d ↑ - corp bond use ↑
increase cost of capital for non-corp sector

*

$$yield = \beta_0 + \beta_1 \cdots \beta_r(\sigma^2)$$



volatile
.com

not volatile
ex utility

CAPM $P_A = \sum_{t=0}^{T} \frac{e_t}{(1+r)^T}$ DfE

tax effect on real structure of capital
(vintage)
depreciation $\begin{cases} \text{tax} \\ \text{real depreceation} \end{cases}$

tax depr. > real
accelerate replacement rate

$r = r_g(1-t)$

$r < r_g$

Issues

(i) tax treatment on retained earnings

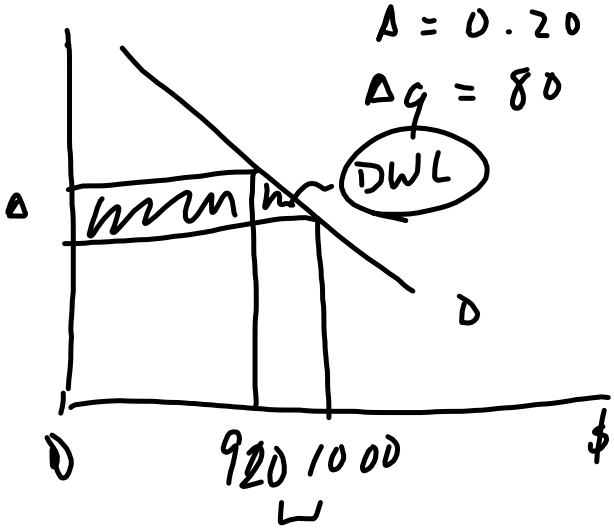
π = Bond Int. + Dividends + R.E.

↳ risk

tax on R.E. -

- insurance industry - disasters correlated

- sinking fund - not taxable



$0.20 \cdot 920 = 184$

$0.20 \cdot 40 = 8$

192 - total cost to drivers

$400 - Bon.

Voting A, B, C

No vote trading