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## Great Moments in Financial Economics: Ii. Modigliani-Miller Theorem

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### Abstract

Franco Modigliani and Merton Miller are almost universally credited with the theorem that bears their name. In fact, the theorem was stated and proven 20 years earlier by John Burr Williams, to which he gave the name: the Law of the Conservation of Investment Value. However, Modigliani-Miller deserve credit for clearly laying out a formal arbitrage proof and popularizing the subsequent use of arbitrage arguments in financial economics. Even after their work (1958) and subsequent simplified proof (1969), there were still issues that needed to be clarified which lead finally to more modern proof of the theorem based on state-prices.

**Keywords:** Modigliani-Miller Theorem**JEL Classification:** G00[Suggested Citation](#) >[Show Contact Information](#) > Not Available for Download

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